



STRONG FOR ENTREPRENEURS

INTERIM REPORT

as of 30 June 2013

KEY FIGURES

INCOME STATEMENT

(€ m)

	January – June 2013	January – June 2012
Net income before restructuring	249	195
Net income before taxes	98	19
Group net income	90	54

BALANCE SHEET

(€ bn)

	31.06.2013	31.12.2012
Equity	5.4	5.3
Total assets	120.9	130.6
Business volume	128.9	138.5

CAPITAL RATIOS¹⁾

(%)

	31.06.2013	31.12.2012
Tier 1 capital ratio	15.9	12.3
Core Tier 1 capital ratio	12.0	9.9
Regulatory capital ratio	25.3	19.1

EMPLOYEES

(computed on full-time equivalent basis)

	31.06.2013	31.12.2012
Total	2,938	3,123
Germany	2,684	2,821
Abroad	254	302

LONG-TERM RATINGS

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

¹⁾ Including market risk positions; taking into account the financial statements as at 30 June 2013 and the adoption of the financial statements 2012 of HSH Nordbank AG.

²⁾ Obligations covered by "Gewährträgerhaftung" (guarantee obligation).

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.

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UNDERLYING CONDITIONS AND BUSINESS OVERVIEW

as of 30 June 2013

UNDERLYING CONDITIONS

Slow economic recovery

The overall weak growth in the **global economy** in 2012 continued in the first half of 2013. Over the past months the persistent low level of economic activity in the eurozone in particular hindered any tangible recovery in global growth. The signs that growth in China is cooling down further have also increased over the past months, whereas the US economy was able to recover somewhat more strongly following the slump at the year-end despite the dampening effect of the reduction in government expenditure.

Even the **German economy** could not avoid the weak environment during the first months of the year. In addition, the long winter had a dampening effect on construction activity in the first quarter. The German economy grew more strongly again in the second quarter as a result of catch-up effects, increased exports and a robust consumer demand. However, the strong reluctance of companies to invest, which is mainly attributable to the uncertain outlook in the eurozone and the upcoming federal elections, is continuing to have an adverse impact.

The **shipping markets** were stable during the first half of the year but are still at a very low level. The demand situation for container transport and the transport of bulk products has improved. However, a relatively high level of ship deliveries in the market has caused the global transport capacity to increase further over the past months. Freight and charter rates as well as ship values thus remain under pressure in view of the continuing overcapacity.

Tensions ease in the financial markets

The tensions in the financial markets initially eased in the first half of 2013. The decrease in concerns regarding a mounting crisis in the eurozone was reflected in a fall in the risk premiums charged on bonds issued by the periphery countries. However, the announcement by the US Federal Reserve Bank of a gradual exit from its very expansive

monetary policy, if the economy recovers further, has resulted in a general increase in longer-term **yields on government bonds** in the US and Europe. As a result, the yield on 10-year German government bonds, which had fallen in the meantime to below 1.2 %, increased for a period of time by more than half a percentage point to over 1.8 %.

Short-term interest rates remained at a very low level.

At the beginning of May, the European Central Bank (ECB) again reduced its base rate from 0.75 % to a record low of 0.5 % in order to support the economy in the eurozone. At the beginning of July the ECB also explicitly announced for the first time that it wanted to keep interest rates at a very low level for a longer period of time.

Against the backdrop of the developments described above, the euro fluctuated against the **US dollar** in a range between 1.28 and 1.36 and closed the first half of the year at EUR/USD 1.30.

Restrained loan demand of companies

In view of the moderate growth and limited willingness to invest, the demand for corporate loans was restrained in Germany during the first half of the year. According to information provided by the Deutsche Bundesbank the total volume of loans granted to companies in the first quarter only remained at the level of the previous year. The general **demand for credit** continued to be modest in the second quarter.

With a view to the tightened equity capital guidelines under **Basel III**, which are to be implemented step-by-step starting in 2014, German banks have continued to wind down risk positions and have strengthened their Tier 1 capital base and are thereby on a better footing to resist crises. According to the Federal Financial Supervisory Authority (BaFin) the total capital still required by larger German banks for the full implementation of Basel III has already decreased significantly.

BUSINESS OVERVIEW

Sustainable solid capital ratios as a result of the increase in the guarantee facility

The federal states of Hamburg and Schleswig-Holstein, main shareholders of HSH Nordbank, re-increased the second loss guarantee for the Bank from € 7 billion to the original facility of € 10 billion at the end of June 2013.

The capital ratios have been strengthened by the increase in the guarantee facility through the reduction in risk-weighted assets. The core Tier I capital ratio (Basel II) of the Bank increased significantly to 12.0% as at 30 June 2013. Besides the increase in the guarantee the accelerated winding down of positions has made a considerable contribution to this. By improving the capital base we are taking the increased requirements of the capital markets and banking supervisory authorities into account and are complying with the **capital requirements** under Basel III in good time. At the same time we are ensuring a high flexibility to drive forward the realignment of the Bank. The guarantee increase is therefore an important step for a stable, long-term development of HSH Nordbank.

The guarantee increase was provisionally approved by the **European Commission** (EU Commission) in June after the consent of the parliaments of the federal states of Hamburg and Schleswig-Holstein had been given. At the same time the EU Commission initiated a formal investigation to determine whether the measure is in accordance with EU rules on state aid and within the framework of the measures already approved in 2011. The investigation by the EU Commission will probably not be concluded prior to 2014. As things stand today, we are confident that our business model of a “bank for entrepreneurs” will be confirmed by the results of the investigation and we can bring the restructuring of HSH Nordbank to a successful conclusion.

In order to ensure 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 interim reduction in the guarantee facility to € 7 billion had not occurred. This involves a special payment for the replenishment in the amount of about € 275 million for the years 2011 and 2012 and the first half of 2013, which is payable to the guarantors for the risk shield in addition to the current **guarantee fee**. The special payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. About € 69 million of this expense is attributable to 2013. The remaining expense will be recognised in 2014, 2015 and 2016 on a scheduled basis. A review taking into account the progress made in reducing the high risk legacy portfolios will be carried out periodically in the future to determine to what extent the guarantee can be gradually reduced.

Continued focus on core sectors

In the first half of the year we have pushed forward with the restructuring of HSH Nordbank as scheduled. Within the context of its realignment the Bank focusses among other things on the business areas of the Core Bank that conform to the strategy. This also concerns the requirements stipulated by the EU Commission in 2011, under which we had to discontinue or restrict certain activities.

After focussing over the past years on various business areas in the Core Bank (namely discontinuation of aircraft financing and international real estate financing), the classical **private clients business** – a comparatively small business field at HSH Nordbank – will also be discontinued with effect from 2014 and transferred to partner banks within the German Savings Banks Finance Group. Appropriate agreements were concluded with Hamburger Sparkasse and Förde Sparkasse. In future, our private clients business will concentrate solely on wealth management together with the providing of advice to wealthy individuals, foundations and non-profit organisations. We have been a sought-after provider for many years in this business field in the North German market.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

as of 30 June 2013

OVERVIEW OF BUSINESS PERFORMANCE

Positive half year results in a weak market and economic environment

Despite a continued high level of loan loss provisions we were able to increase **net income before taxes** for the first half of the year to € 98 million compared to € 19 million for the first half of the previous year. The future-oriented Core Bank generated net income before taxes of € 131 million. The Restructuring Unit, which is focussed on reducing the legacy assets, recorded a loss of € – 33 million. Net income (excluding restructuring expenses and expenses for government guarantees) increased at the Group level to € 249 million compared to € 195 million in the previous year.

This positive result is attributable to the strong increase of **total income**, which almost doubled to € 809 million in the first half of the year from € 438 million in the previous year. It was possible to increase net interest income slightly despite the constant reduction in interest-bearing risk positions. In this context, the margin trend on new commitments and loan prolongations also had a positive effect. Net trading income and net income from financial investments, which benefited, amongst other things, from appreciations in value and sales of debt instruments, sales of individual equity holdings as well as lower charges on interest rate/currency derivatives (basis swaps), made a significant contribution to the increased total income.

New business has picked up again over the past months following a sluggish start to the year, which was also due to market conditions. The volume of new business of about € 1.6 billion transacted in the second quarter was significantly above the volume of € 1.1 billion for the first three months. New business of € 2.7 billion for the entire first half of the year was still somewhat below the previous year level (€ 2.9 billion). Besides market-specific factors the volume trend reflected the generally restrained demand for loans against the backdrop of weak investment activity on the part of companies.

In the first half of 2013 we increased the **loan loss provisions**, taking the continued tense situation in the international shipping industry and related deterioration in the risk parameters in our shipping portfolios into account.

As the loan loss provisions required related primarily to existing transactions covered by the second loss guarantee of the federal states of Hamburg and Schleswig-Holstein, the loan loss provisions were reduced by the compensation effect of the guarantee. Taking the relieving effect of the guarantee into account, we disclose a loan loss provision expense of € – 224 million compared to € – 111 million for the first half of the previous year.

In addition to the increase in total income, the continued reduction in personnel and operating expenses had a positive impact on the net income of the Bank. Overall, **administrative expenses** decreased further to € – 370 million as a result of the reduction in the number of employees and planned savings in operating expenses. The number of employees – calculated on an FTE basis – declined to 2,938. This represents a reduction of 185 compared to the 2012 year-end and means that the headcount reduction plan, which runs until 2014, has been implemented for the most part.

In the first half of 2013 the **capital ratios** of the Bank benefited from the replenishment of the guarantee facility by the federal states of Hamburg and Schleswig-Holstein, which resulted in a clear decrease in counterparty default risk. The Bank's core Tier I capital ratio (Basel II) of 12.0 % as at 30 June 2013 is significantly above the requirements of the financial supervisory authorities. The on-going and accelerated reduction of risk in the non-strategic portfolio in the Restructuring Unit, which is reflected in the significant decline in risk-weighted assets before taking the guarantee effect into account, also had a noticeable positive impact. This positive effect was partly offset by the reinstatement of the claim arising from the additional premium for the guarantee in accordance with the EU requirements. The risk parameters in the Shipping division also continued to have a negative impact.

Total assets of the Bank decreased significantly by € 9.7 billion from € 130.6 billion to € 120.9 billion compared to the year-end as a result of the continued winding down of portfolios in compliance with EU requirements.

Details on the developments and events underlying the business developments are discussed below in the chapters "Earnings Situation", "Net Assets and Financial Position" and "Segment Reporting".

EARNINGS SITUATION

INCOME STATEMENT

(€ m)

	January – June 2013	Following adjustment ¹⁾ January – June 2012	Change in %
Interest income	2,988	5,021	-40
Interest expense	-2,427	-4,486	-46
Net income from hybrid financial instruments	-76	-82	7
Net interest income	485	453	7
Net commission income	52	44	18
Result from hedging	10	9	11
Net trading income	109	-210	> 100
Net income from financial investments	167	152	10
Net income from financial investments accounted for under the equity method	-14	-10	-40
Total income	809	438	85
Loan loss provisions	-224	-111	> 100
Administrative expenses	-370	-385	-4
Other operating income	34	253	-87
Net income before restructuring	249	195	28
Result from restructuring	-8	-19	58
Expenses for government guarantees	-143	-157	-9
Net income before taxes	98	19	> 100
Income taxes	-8	35	> -100
Group net income	90	54	67
Group net income attributable to non-controlling interests	-1	-	-
Group net income attributable to HSH Nordbank shareholders	91	54	69

¹⁾ Details are set out in Note 3.

Earnings increased

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

Net interest income increased in the first half of the year to € 485 million compared to € 453 million in the same period in the previous year. Net interest income benefited from higher interest margins obtained on new business and loan prolongations. The increase in net interest income was dampened by the progressive reduction in non-strategic lending transactions, equity holdings and high risk debt instruments, whereby the interest income generated on these positions in previous periods was eliminated.

Net commission income increased to € 52 million compared to € 44 million in the previous year. It was possible to receive higher loan fees on new business transacted in the customer departments which contributed to the positive development. Overall, income generated by the cross-selling business with its range of services extending across the entire lending business was still below the previous year amount. A pronounced restraint on the part of customers with regard to interest rate derivatives was noticeable in the risk management product business against the backdrop of the current interest rate environment.

Net trading income improved clearly to € 109 million (previous year: € – 210 million). The burden resulting from the measurement of interest rate/currency derivatives (EUR/USD basis swaps) used to refinance foreign currency transactions was reduced. This had a significant effect on increased income. A further positive effect resulted from the reduction in counterparty risk in the derivatives area. Lower expenses from own issues measured at fair value than in the previous year also had a positive effect. Furthermore, high risk securities held in the portfolio benefited from the easing of tensions in the market. A decline in the risk premiums as at the reporting date was accordingly accompanied by positive measurement effects, especially in our 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. HSH Nordbank does not engage in proprietary trading but exclusively provides services for customers in the area of foreign exchange, derivatives and bonds.

Net income from financial investments increased slightly to € 167 million compared to € 152 million in the previous year. The positive change in the fair value of debt instruments is reflected in the results. Reversals of impairment losses in the CIP due to the recovery of the US residential housing market had a significant influence. The positive income effect was diluted by the second loss guarantee in the case of reversals of impairment losses on positions covered by the guarantee, which had been written down in previous periods (disclosure under the compensation item in loan loss provisions). On the other hand, net income from financial investments again benefited from sales of securities and equity holdings, but to a lesser degree than in the previous year.

Total income from the CIP (which is allocated to the Restructuring Unit) amounted to € 98 million after taking compensation into account.

Overall, **total income** almost doubled in the first half of 2013 from € 438 million in the previous year to € 809 million.

In the first half of 2013 **other operating income** was € 34 million (previous year: € 253 million). Income arising on the sale of assets of a consolidated company contributed to this result. In addition, the sale of land and buildings according to plan as part of the reduction of total assets made a positive contribution. On the other hand, amortisation of the goodwill on a new company included in the scope of consolidation had a negative effect. The results also include the write down of assets of the HSH Real Estate Group, which is to be sold in the third quarter of this year. The previous year income includes one-off income arising from the repurchase of publicly placed subordinated bonds (€ +261 million).

Loan loss provisions reflect the weak market environment

We report an amount of € – 224 million in the **loan loss provisions** item for the first half of 2013, compared to € – 111 million for the same period of the previous year. This mainly reflects the on-going crisis in the shipping sector and the associated deterioration in the risk parameters in this area. We have taken this development into account by increasing the valuation allowances on affected legacy commitments in the shipping portfolios. The loan loss provisions in the legacy European real estate and corporates loan portfolios in the Restructuring Unit also had to be increased, although key markets are stabilising gradually. The foreign currency translation of the loan loss provisions had a negative impact of € 23 million. The loan loss provision expense was offset by recoveries on previously written down/impaired receivables in the amount of € 63 million.

**LOAN LOSS PROVISIONS BEFORE AND AFTER
COMPENSATION EFFECT OF THE GUARANTEE**
(€ m)

	30.06.2013	30.06.2012
Loan loss provisions before compensation	-495	-457
of which: Core Bank	-158	-157
Restructuring Unit	-337	-300
Loan loss provisions after compensation	-224	-111
of which: Core Bank	-108	-95
Restructuring Unit	-116	-16

The loan loss provisions created in the first half of the year in the amount of € -495 million were reduced by the **second loss guarantee** provided by the federal states of Hamburg and Schleswig-Holstein, as the impairment losses had to be recognised in the **legacy portfolios** that are covered by the guarantee. Loan loss provisions recognised on positions not covered by the guarantee (including new business since 2009) are not compensated.

The **compensation effect** of the guarantee on the loan loss provisions was reduced as at 30 June 2013 by the additional premium (€ -120 million) incurred by the Bank for the reporting period, which was imposed by the EU Commission as part of the state aid proceedings concluded in 2011. In addition, compensation was reduced by € -57 million due to the reversal of impairment losses related to hedged securities positions, that were value-adjusted in previous periods. Income arising from the measurement of these securities positions for the first half of the year is recognised in net income from financial investments and net trading income. After deducting these effects the guarantee effect is € 271 million, which resulted in the reduction in the loan loss provision expense to the disclosed amount of € -224 million as at the reporting date.

The claim of the guarantors, Hamburg and Schleswig-Holstein, in respect of the additional premium that was deferred in previous periods in return for a debtor warrant (**capital protection clause**) was again revived in full in the first half of 2013 in accordance with the EU requirements regarding the core Tier 1 capital ratio. Since at the same time the debtor warrant no longer exists, this did not have a material impact on income.

The compensation effect of the guarantee did not result in a **cash draw down** as at 30 June 2013. The amount retained by the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 625 million as at the end of the second quarter.

Cost-cutting measures take effect

The measures taken to reduce the cost base had an appreciable effect in the first half of the year. **Personnel expenses** decreased from € 184 million to € 166 million. This is attributable to the further decrease in the number of employees as a result of the advanced stage of the headcount reduction process. Compared to the end of 2012, headcount within the Group declined by another 185 to 2,938 (computed on a full-time equivalent (FTE) basis).

The lower building expense and IT costs resulting from the downsizing of the Bank are reflected, amongst other things, in the trend of **operating expenses**, which declined by € 12 million to € 154 million.

Depreciation of property, plant and equipment and amortisation of intangible assets increased to € 50 million (previous year: € 35 million). This includes an unscheduled depreciation on an aircraft of a consolidated company. Despite increased depreciation, we were able to reduce **administrative expenses** (personnel and operating expenses including depreciation/amortisation) by an additional € 15 million to € -370 million (previous year: € -385 million).

The **result from restructuring** of € – 8 million (previous year: € – 19 million) includes costs for the implementation of various projects as part of the on-going restructuring of HSH Nordbank.

Guarantee expense reduced in the first half of 2013

Expenses for government guarantees amounted to € – 143 million for the first six months (previous year: € – 157 million) and are solely attributable to the second loss guarantee provided by the federal states of Hamburg and Schleswig-Holstein. Additional expenses for guarantees issued by the Financial Market Stabilisation Fund (SoFFin) were recorded in the same period in the previous year. In July 2012, the Bank repaid its last SoFFin guaranteed bond of € 3 billion as scheduled, which means that no fees for SoFFin guarantees have to be paid since then.

Net income before taxes increases to € 98 million

As a result of the operating developments, the measurement effects as well as the restructuring and guarantee costs, a **net income before taxes** of € 98 million was recorded in the first half of 2013 compared to € 19 million in the same period of the previous year. After taking into account income tax effects in the amount of € – 8 million (previous year: € 35 million), **Group net income** of € 90 million (previous year: € 54 million) remains.

Expenses for the second loss guarantee to date

Since April 2009 the Bank has recorded **premium expenses** totalling approximately € 3.0 billion for the provision of the second loss guarantee, of which approximately € 1.5 billion is attributable to the base premiums paid to the guarantors, approximately € 0.5 billion to an additional one-off payment made in 2011, which was re-injected into the Bank as part of a capital increase, and approximately € 1.0 billion to non-cash base and additional premiums recognised through profit or loss.

Overall satisfactory earnings for the half year

The earnings of the Bank reflect the tangible **progress** made in the customer business in the core areas, in winding down balance sheet and risk positions in the Restructuring Unit and reducing administrative expenses. Furthermore, we were able to take advantage of the positive trend in the capital markets in the first half year through significant reversals of impairment losses. At the same time, the deep crisis in the **shipping** industry and difficult market conditions in other sectors continued to have an adverse impact. The replenishment of the guarantee facility to € 10 billion further stabilised the **capital ratio** of the Bank and created greater flexibility for dealing with our legacy portfolios and for increasing business with our customers. At the same time this has enabled the Bank to fully focus on the future Basel III requirements regarding the core capital adequacy.

Overall, the results of the Bank show that we have made good progress up to the middle of 2013 in restructuring the Group, but, at the same time, **the environment for the Bank still remains very challenging.**

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS OF THE STATEMENT OF FINANCIAL POSITION (€ m)

	30.06.2013	Following adjustment ¹⁾ 31.12.2012	Change in %
Assets			
Cash reserve	8,742	6,745	30
Loans and advances to banks	6,384	8,353	-24
Loans and advances to customers	75,092	80,570	-7
Loan loss provisions	-3,404	-3,581	-5
Trading assets	8,805	11,817	-25
Financial investments	21,318	22,067	-3
Other assets	3,915	4,635	-16
Total assets	120,852	130,606	-7
Liabilities			
Liabilities to banks	21,724	29,934	-27
Liabilities to customers	45,058	41,308	9
Securitised liabilities	29,865	31,459	-5
Trading liabilities	8,672	11,450	-24
Subordinated capital	5,338	5,391	-1
Equity capital	5,402	5,272	2
Other liabilities	4,793	5,792	-17
Total equity and liabilities	120,852	130,606	-7

¹⁾ Details are set out in Note 3.

Significant reduction in total assets

Total assets decreased significantly in the first half of the year to € 120,852 million (31 December 2012: € 130,606 million). This reflects in particular the increased reduction in risk positions.

On the asset side **Loans and advances to customers** decreased in particular to € 75,092 million from € 80,570 million as at 31 December 2012. A high level of principal repayments and active winding down efforts in loan portfolios of the Restructuring Unit was partly offset by the increase in new business in the Core Bank. **Loans and advances to banks** have decreased to € 6,384 million compared to the 2012 year-end (31 December 2012: 8,353 million). In particular, secured money market transactions, but also deposits at banks, decreased. This was offset by a substantial increase in the **cash reserve** from € 6,745 million as at the year-end to € 8,742 million. This is attributable inter alia to the increase in deposits placed at the ECB as part of the management of the liquidity position of the Bank.

Total loan loss provisions decreased slightly to € -3,404 million (31 December 2012: € -3,581 million). This reduction is attributable to a higher compensation item based on the hedging effect of the second loss guarantee. In addition to the compensation effect, utilisation was also a significant factor behind the reduction in the loan loss provisions. Loan loss provisions would have increased to € -5,633 million without taking these two effects into account (31 December 2012: € -5,505 million).

Trading assets decreased clearly to € 8,805 million (31 December 2012: € 11,817 million). Whereas interest-bearing securities held in the trading portfolio increased slightly, derivatives decreased significantly; this is largely attributable to portfolio changes and partially to interest rate increases at the medium- and long-term end.

Financial assets decreased slightly to € 21,318 million (31 December 2012: € 22,067 million). The further reduction of the securities and equity holding portfolio was a main factor behind this.

Liabilities to banks decreased significantly in the first six months of the year to € 21,724 million (31 December 2012: € 29,934 million). This was mainly attributable to a lower refinancing volume with central banks and fewer repo transactions. In contrast, **Liabilities to customers** increased from € 41,308 million as at 31 December 2012 to € 45,058 million. This is attributable, amongst others, to higher call and term deposits placed by corporate and private clients of the Bank. **Trading liabilities** have decreased significantly in line with trading assets.

Subordinated capital was almost unchanged compared to the previous year-end and amounted to € 5,338 million (31 December 2012: € 5,391 million). **Equity capital** increased to € 5,402 million (31 December 2012: € 5,272 million). In addition to the Group net income generated in the first half of the year, particularly the increase in the revaluation reserve resulting from the positive change in the fair value of securities classified as AFS has contributed to this.

Decrease in business volume

Business volume decreased significantly to € 128,871 million compared to the previous year-end (31 December 2012: € 138,515 million) due to the reduction of major balance sheet items. Off-balance sheet business recorded a slight increase. Irrevocable loan commitments increased to € 5,019 million (31 December 2012: € 4,992 million) and sureties and guarantees to € 3,000 million (31 December 2012: € 2,917 million).

Core Tier 1 capital ratio rises considerably to 12.0%

REGULATORY CAPITAL RATIOS (AFTER TAKING INTO ACCOUNT THE FINANCIAL STATEMENTS AS AT 30 JUNE 2013 AND THE ADOPTION OF THE 2012 ANNUAL FINANCIAL STATEMENTS OF HSH NORDBANK AG)

	30.06.2013	31.12.2012
Equity ratio (solvency coefficient)	27.5	20.1
Total ratio/Regulatory capital ratio	25.3	19.1
Tier 1 capital ratio	17.6	13.2
Tier 1 capital ratio (including market risk positions)	15.9	12.3
Core Tier 1 capital ratio (including market risk positions)	12.0	9.9

REGULATORY CAPITAL RATIOS¹⁾

	30.06.2013	31.12.2012
Equity ratio (solvency coefficient)	26.3	18.6
Total ratio/Regulatory capital ratio	24.2	17.8
Tier 1 capital ratio	17.3	12.2
Tier 1 capital ratio (including market risk positions)	15.6	11.4
Core Tier 1 capital ratio (including market risk positions)	11.7	8.8

REGULATORY CAPITAL IN ACCORDANCE WITH THE GERMAN BANKING ACT (KWG) FOR SOLVENCY PURPOSES AND REGULATORY CAPITAL REQUIREMENTS PURSUANT TO THE GERMAN SOLVENCY REGULATION (SOLVV)¹⁾

	30.06.2013	31.12.2012
Regulatory capital pursuant to SolvV	9.3	10.8
of which: Tier 1 capital for solvency purposes	6.0	7.0
Total risk assets (including market risks and operational risk)	38.3	61.0
of which: Risk assets counterparty default risk	31.7	53.1

¹⁾ Report pursuant to the German Solvency Regulation (without taking into account the financial statements as at 30 June 2013).

In the first half of 2013, the **capital ratios** of the Bank benefited from the replenishment of the guarantee facility by the federal states of Hamburg and Schleswig-Holstein, which resulted in a clear decrease in counterparty default risk. The continuing reduction of risk positions, which is reflected in the significant decrease in risk assets before taking the guarantee effect into account, also had a positive impact. Additional relief resulted from a reduced backing for operational risk.

The reinstatement of the claim relating to the additional premium for the guarantee in accordance with the EU requirements, which led to a decrease in the Tier I capital and regulatory capital under regulatory requirements, had an opposite effect on the ratio. The risk parameters in the Shipping division also continued to have a negative impact. The slight appreciation in the US dollar exchange rate during the first half of the year had a very small negative effect.

Including the guarantee effect, total risk assets decreased to € 38 billion (31 December 2012: € 61 billion). For the senior tranche of the second loss guarantee the regulatory minimum **risk weight** of 20 % is applied. Arithmetically, the risk weight of the senior tranche is only 0.6 % as at 30 June 2013 due to the guarantee increase (31 December 2012: 43.1 %). This creates a considerable stabilising buffer for the capital ratios, as an increase in the risk content in the portfolio hedged by the guarantee does not affect the capital ratios until the minimum threshold of 20 % is reached.

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 comply with the stricter requirements concerning capital ratios in good time.

The **core Tier I capital ratio** increased significantly as at 30 June 2013 to 12.0 % compared to a ratio of 9.9 % as at the 2012 year-end. It is therefore clearly above the minimum regulatory requirements of the financial supervisory authorities. The Tier 1 capital ratio (including market risk positions) amounted to 15.9 % (31 December 2012: 12.3 %), the regulatory capital ratio reached 25.3 % (31 December 2012: 19.1 %). The figures incorporate the interim financial statements as at 30 June 2013 and the adoption of the 2012 annual financial statements of HSH Nordbank AG.

Refinancing in the first six months of the year

We have continued to implement our funding strategy in the first half of the year. Here, a focus was placed on the **issuing of Pfandbriefe** (covered bonds). In March, we were able to exploit the favourable market conditions and issued a public Pfandbrief in the capital markets in the amount of € 500 million, which was increased to € 750 million due to the high demand in Germany and abroad. We have issued further Pfandbriefe in the form of private placements. We want to utilise the public capital markets again during the course of the year provided market conditions are attractive.

The sale of bond products within the Sparkassenverbund (**Savings Banks Association**) remained a priority. At the same time, the sale of products to other financial institutions and institutional investors and deposit business with corporate customers was expanded.

Furthermore, in the first half of the year, we were able to execute securities-based **USD repo transactions** with longer maturities and thereby expand our refinancing of US dollar transactions via primary transactions. The derivative foreign currency funding through EUR/USD basis swaps was further reduced by these transactions. Further repo transactions denominated in foreign currencies as well as the first asset-based issues are planned for the second half of the year under a newly established funding platform, through which we are able to execute different types of transaction in the future in a quick and flexible manner.

Detailed information on the liquidity and risk situation is set out in the Risk Report section of this Interim Management Report.

SEGMENT REPORTING

SEGMENT OVERVIEW JANUARY TO JUNE (€ m)

		Shipping, Project & Real Estate Clients	Corporates & Markets	Corporate Center	Consoli- dation Core Bank	Total Core Bank	Restructuring Unit	Consoli- dation Restructuring Unit	Total Restructuring Unit
Total income	2013	347	198	-28	-53	464	366	-21	345
	2012	320	207	-113	-283	131	475	-168	307
Loan loss provisions	2013	-154	-6	4	48	-108	-337	221	-116
	2012	-142	-4	-9	60	-95	-300	284	-16
Net income before restructuring	2013	72	78	28	-2	176	-127	200	73
	2012	62	79	139	-236	44	35	116	151

Net income of the Core Bank increased

The positive trend in our core business continued in the first half of the year. We are disclosing a clearly positive net income before restructuring of € 176 million for the **Core Bank** (including consolidation effects) as at 30 June 2013. This corresponds to an increase of € 132 million compared to net income before restructuring of € 44 million in the previous year. Net income was positively affected by the new business concluded with customers in past quarters as well as measurement and realisation results from securities positions. However, higher loan loss provision expense for shipping portfolios as well as losses on the measurement of own issues and basis swaps, which, however, were lower than the amounts recognised in the previous year, had a negative impact on the net income of the Core Bank.

We explain the trends in the individual segments of the Bank below.

SHIPPING, PROJECT & REAL ESTATE CLIENTS SEGMENT

The **Shipping, Project & Real Estate Clients** segment covered the business conducted with shipping clients, real estate clients and clients in the energy & infrastructure industry as at 30 June 2013.

SHIPPING, PROJECT & REAL ESTATE CLIENTS SEGMENT

(€ m)

		Shipping, Project & Real Estate Clients	Shipping	Energy & Infrastructure	Real Estate Clients
Total income	H1-2013	347	191	71	85
	H1-2012	320	176	63	81
Loan loss provisions	H1-2013	-154	-158	-	4
	H1-2012	-142	-153	6	5
Administrative expenses	H1-2013	-126	-59	-34	-33
	H1-2012	-123	-64	-24	-35
Other operating income	H1-2013	5	2	4	-1
	H1-2012	7	2	4	1
Net income before restructuring	H1-2013	72	-24	41	55
	H1-2012	62	-39	49	52
Segment assets (€ bn)	30.06.2013	30	16	5	9
	31.12.2012	32	17	5	10

Following a sluggish start to the year, business in the **Shipping, Project & Real Estate Clients** segment has picked up over the past months. The volume of new business transacted in the second quarter amounted to approximately € 0.8 billion, which was above the volume of the first three months of € 0.5 billion. New business in this segment amounted to € 1.3 billion for the entire first half of the year which is still somewhat below the previous year level (€ 2.0 billion). The generally restrained loan demand against the backdrop of moderate investments by companies was

reflected in the volume trend. In addition, business opportunities were restricted over the past months by market-specific factors such as the crisis in the shipping industry as well as a low transaction volume in the German real estate market at the start of the year. We expect new business to increase markedly in the second half of the year, which is in line with the seasonal trend in previous years. In addition, our positive expectations are based on the significant increase in customer interest observed over recent months.

Income from the Shipping, Project & Real Estate Clients segment benefited from higher margins realised on new loan business transacted over the past months. A further positive effect resulted from the sale of a non-strategic equity holding in the Energy division. The reluctance of customers to enter into interest rate derivatives in particular in the current low interest rate environment had a dampening effect on the cross-selling business, whereas loan fees increased. The positive effects were partly offset by transfers of interest-bearing receivables in the amount of € 0.7 billion from the Shipping division to the Restructuring Unit which we made as part of the streamlining of the Core Bank portfolios in 2012. Total income of the Shipping, Project & Real Estate Clients segment increased to € 347 million compared to € 320 million in the same period in the previous year.

By focussing on high-value commitments in future-oriented market areas we were also able to further improve the risk structure of the Core Bank portfolio. Nevertheless, higher **loan loss provisions** had to be determined for shipping commitments in order to take the on-going crisis in the shipping industry into account. The growth in demand was still unable to keep pace with the increase in shipping transport capacity in the global shipping industry. The increase in order levels was also noticeable, which was attributable to favourable newbuild prices at shipyards and the trend towards more fuel-efficient vessels. Freight and charter rates as well as ship values remained under pressure in the first half of 2013 against this backdrop. The situation of many companies in the sector deteriorated further as a result.

It was possible to partially reverse loan loss provisions in previous periods recognised for real estate clients in the Core Bank. The trend in the German real estate markets was generally positive in the first half of the year despite the weaker economy. The markets benefited from an increase in the construction of housing and a high demand for office and retail space in central locations. In the Energy & Infrastructure division, no additional loan loss provisions had to be recognised in total. The expansion of wind power and photovoltaic capacity continues, even though growth in Europe has slowed down markedly in light of the subsidy cutbacks, as in Spain. The volume of newly concluded project financings showed a positive trend in the European transport infrastructure market. Due to valuation allowances in the shipping portfolio loan loss provision expense in the Shipping, Project & Real Estate Clients segment increased to € – 154 million compared to € – 142 million in the same period in the previous year.

Despite the higher loan loss provisions in the Shipping division it was possible to increase **net income of the Shipping, Project & Real Estate Clients segment** to € 72 million in the first half of 2013 (previous year: € 62 million).

CORPORATES & MARKETS SEGMENT

The **Corporates & Markets** division includes, on the one hand, business transacted with corporates and wealthy private clients, foundations and non-profit organisations (Private Banking, Wealth Management since 1 July 2013). On the other hand, this segment is responsible for the development, sale and trading of financial products (Capital Markets) and special financing solutions (Products) as well as the servicing of savings banks, banks and insurance companies, which has been bundled into the newly formed Savings Banks & Institutional Clients division.

CORPORATES & MARKETS SEGMENT

(€ m)

		Corporates & Markets	Capital Markets, Products, Savings Banks & Institutional Clients	Corporate and Private Clients
Total income	H1-2013	198	70	128
	H1-2012	207	83	124
Loan loss provisions	H1-2013	-6	-	-6
	H1-2012	-4	2	-6
Administrative expenses	H1-2013	-118	-53	-65
	H1-2012	-131	-73	-58
Other operating income	H1-2013	4	1	3
	H1-2012	7	3	4
Net income before restructuring	H1-2013	78	18	60
	H1-2012	79	15	64
Segment assets (€ bn)	30.06.2013	18	10	8
	31.12.2012	23	15	8

The **Corporate Clients** division was able to increase its new business with medium-sized and large clients in the first half of the year and thereby underline its leading position in the core region. Despite a generally restrained demand for loans in the market attractive new transactions were concluded in North Germany and beyond. The volume of new business increased in the first half of the year to € 1.3 billion compared to € 0.9 billion in the same period in the previous year. The division was able to make a significant contribution to segment income through the new business volume disbursed, the positive margin trend and

cross-selling transactions. The loan loss provision requirement remained low in this division in view of the relatively stable performance of the sectors relevant for our corporate clients business. **Private Banking** focussed on obtaining additional entrepreneurial customers in order to provide them with services relating to business and private financing questions. The activities also increasingly covered locations outside the core region. The business as a whole suffered from the low level of interest rates in the first half of the year.

The business of the **Capital Markets** division including business conducted with savings banks and institutional clients (until 31 May) was marked by the sale of the capital market-based product range, especially in the savings banks sector. In so doing, we were able to continue to establish the Bank as the preferred partner for interest rate and risk management. However, a restrained customer demand caused by the low level of interest rates was apparent in the interest derivative business in the first half of the year. Especially the management of the liquidity position and measurement and realisation results of fixed-income securities portfolios had a positive effect.

The **Products** division was able to successfully enhance its range of financing solutions in the first half of the year and further improve its position in the market. Several loan note transactions were placed for customers, syndication activities strengthened and the sale of products increased in the area of forfeiting. In contrast, restrained customer activity in the market was felt in the area of structured financing.

The new **Savings Banks & Institutional Clients** division formed on 1 June 2013 is focussing on strengthening business relationships and securing funding within the Savings Banks Association as well as with further institutional (especially insurance companies) and public-sector clients. The placement of bond products, structured issues and Pfandbriefe was successfully continued in the first half of the year and thereby made a significant contribution to the refinancing of the Bank's business.

In the **Corporates & Markets** segment, business with corporates and private clients as well as capital market activities and product sales generated income of € 198 million (previous year: € 207 million). **Net income of the segment** amounted to € 78 million (previous year: € 79 million).

CORPORATE CENTER SEGMENT

The Corporate Center includes positions of the overall Bank and equity holdings not allocated to the business areas. Net income for the **Corporate Center** segment amounted to € 28 million for the first half of 2013 and was boosted by income realised on the sale of securities held in central portfolios. The higher result of the previous year (€ 139 million) reflected the repurchase of publicly placed subordinated bonds generating income of € 261 million.

Net income for the Core Bank taking consolidation effects into account

The consolidation position of the **Core Bank** includes reduced losses compared to the previous year on EUR/USD basis swaps as well as a positive effect resulting from the compensation effect of the second loss guarantee. Including **consolidation effects**, Core Bank net income before restructuring reached € 176 million (previous year: € 44 million).

RESTRUCTURING UNIT SEGMENT

Portfolio reduced further

The Restructuring Unit bundles legacy portfolios from the lending and capital market business that are not continued as core business of HSH Nordbank.

RESTRUCTURING UNIT SEGMENT

(€ m)

Total income	H1-2013	366
	H1-2012	475
Loan loss provisions	H1-2013	-337
	H1-2012	-300
Administrative expenses	H1-2013	-158
	H1-2012	-146
Other operating income	H1-2013	2
	H1-2012	6
Net income before restructuring	H1-2013	-127
	H1-2012	35
Segment assets (€ bn)	30.06.2013	44
	31.12.2012	50

The risk positions in the Restructuring Unit were further reduced during the first half of 2013. Segment assets (excluding the consolidation effects such as the compensation item from the second loss guarantee) decreased compared to the 2012 year-end to € 44 billion (31 December 2012: € 50 billion). The lending business of the Restructuring Unit accounted for a volume of € 27 billion as at June 30 2013, the capital markets portfolio amounted to € 17 billion.

Increases in loan loss provisions

In the first half of the year, the following developments were key for the material loan portfolios of the Restructuring Unit:

The European **real estate markets** as a whole stabilised further over the past months. There was a somewhat positive trend in the London office market, even the Danish market, which had fallen sharply in previous years, showed a slightly upwards trend. In contrast, the situation in the Dutch real estate market is still characterised by high vacancy rates and a sharp decrease in willingness on the part of banks to provide financing and must therefore still be regarded as difficult. We have again increased the total loan loss provisions for European real estate loans in view of the existing risks in the individual regional markets and property-specific criteria. In contrast, we were able to reduce the loan loss provision expense for North American real estate loans. The continued recovery of the North American real estate markets was largely responsible for this.

The trend in the shipping portfolio of the Restructuring Unit is characterised by the extremely difficult situation in the **shipping market**. The market situation resulted in additional restructuring and workout cases in the shipping loan portfolio in the first half of 2013. Loan loss provisions were accordingly increased in the portfolio concerned.

We will use a new **financing model** for the purposes of stabilising problematic shipping business, by means of which insolvent commitments and those on the brink of insolvency are bundled together and acquired by a strategic partner. HSH Nordbank will be partially replaced as the lender. Non-performing commitments are stabilised financially by the structure and the loan volume of HSH Nordbank is significantly reduced at the same time.

In a first transaction, ten ships are to be transferred into such a structure in the second half of 2013. Further transactions of this type are planned.

The credit environment for the **foreign corporates clients/leveraged buy-out (LBO) business** with structured financings remained difficult in the first half of the year. The credit quality of the portfolio decreased as a result of the high pressure on prices and persistent refinancing problems of customers. We have taken this trend into account by recognising appropriate loan loss provisions. In the domestic corporate client business in the field of leasing/retail, repayments continued on schedule.

The **aircraft loan portfolio** was significantly reduced in the reporting period. Loan loss provisions were increased in this portfolio compared to the previous year.

Total additions to loan loss provisions for the Restructuring Unit segment amounted to € – 337 million compared to € – 300 million in the same period in the previous year.

Positive fair value trend in capital markets portfolios

The capital markets positions were further reduced by principal repayments and selective winding down measures. The improved market sentiment at the end of the first half of the year resulted in reductions in risk premiums on high-risk debt instruments held in portfolio.

The **credit investment portfolio** in particular benefited from this and declined further to € 7 billion during the first half of the year (2008: € 22 billion). We recorded 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. The positive income effect was diluted by the compensation effect of the second loss guarantee in the case of reversals of impairment losses on positions covered by the guarantee, which had been written down in previous periods (disclosure under the compensation item in loan loss provisions). European government and bank securities also recovered at the end of the first half of the year.

The commitments in the public sector **financing portfolio** were stable as a whole during the first half of the year.

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 first half of the year, but to a lesser extent than in the previous year. A further positive effect resulted from income from the disposal of assets in a consolidated company. On the other hand, the on-going winding down of interest-bearing positions, which, at € 6 billion, was relatively high in the Restructuring Unit in the first half of 2013, as well as the amortisation of goodwill relating to a newly consolidated company had a negative impact. Overall, **segment income** of € 366 million remained below the previous year level of € 475 million. Administrative expenses include unscheduled depreciation on an aircraft of a consolidated company. Against this backdrop, **segment net income of the Restructuring Unit** decreased to € - 127 million (previous year: € 35 million).

Including positive **consolidation effects** in the first half of 2013, net income before restructuring of € 73 million (previous year: € 151 million) remained for the Restructuring Unit, in particular as a result of the compensation effect of the second loss guarantee.

Events after the balance sheet date

In July the **rating agencies Moody's and Fitch** issued statements on the long- and short-term ratings of the Bank. Both agencies recognise the replenishment of the guarantee and confirm the status of HSH Nordbank as investment grade with a stable outlook. Whereas Fitch confirms the long-term rating of the Bank at A- with a stable outlook, 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 and has also given the ratings a stable outlook.

Moody's justified the downgrading with, amongst other things, the fact that the final approval from the European Commission on the increase in the guarantee by the federal states is still outstanding. Moody's is also expecting further losses to be incurred on the legacy assets held in the shipping area in view of current developments. Moody's continues to regard the sustained support provided by its owners, Hamburg and Schleswig-Holstein, and its close ties with the German Savings Banks Finance Group, as key factors behind the issuing of the stable investment grade rating. **Fitch** also emphasises in the confirmation of our rating the importance of the support provided by the federal state owners and our strong base in the Sparkassenverbund (Savings Banks Association) and the regional economy.

Material impacts of the rating decisions of Moody's and Fitch on the financial position of HSH Nordbank have not been observed to date and are not expected at the present time for the second half of the year and beyond.

OUTLOOK

The following section should be read in conjunction with the other chapters in this Management Report and the Outlook in the Group Management Report 2012 of HSH Nordbank. The forward-looking statements contained in this Outlook 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 planning. The occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are outside our control. Actual results may therefore differ materially from the following forward-looking statements. There is still significant uncertainty particularly in relation to the estimate of loan loss provisions over the long-term.

ANTICIPATED UNDERLYING CONDITIONS

Gradual recovery in the economic environment expected

We expect global growth to pick up somewhat more strongly in the second half of the year despite the continuing uncertainty, for example in China. A gradual recovery in the euro-zone **economy** should contribute to this. German exports in particular should benefit from the improved environment. The reluctance of German companies to invest as a result of the crisis should be gradually overcome on a further stabilisation in the euro area.

As announced, the US Federal Reserve Bank is likely to start to gradually reduce its bond purchases if the economic recovery is on-going. In view of the problems in the euro area and moderate inflation assumptions, the ECB is not likely to change course for the moment and should maintain its expansive **monetary policy**. Longer-term yields should not increase any further over the coming months following the sharp increase in the second quarter. We expect a sideways trend for the EUR/USD exchange rate in the second half of the year.

Overall, the situation remains difficult for **banks**. Although the institutions should benefit from the current easing of tensions in the financial markets and an expected slight upswing in the economy and the banks are also on a better footing to withstand persistent difficult market conditions as a result of the winding down of risk positions and improvements in capital adequacy, high-risk loan portfolios on the balance sheets and intense competition in the lending and deposit business will continue to have a negative effect.

At the same time the banks are confronted with an increasingly **more challenging regulatory environment**. In addition to the progressing implementation of the future Basel III rules on capital and liquidity, the focus will be increasingly on additional challenges such as the plan to establish a uniform regulatory standard in the EU (European Banking Union) with expanded disclosure requirements. The expected institutional changes include the transfer of the task of supervising larger banks to the ECB (Single Supervisory Mechanism, SSM), which is planned for the second half of 2014. This is accompanied in the preliminary phase by an extensive review of the banks' resilience, for example by means of an "asset quality review" as part of a so-called balance sheet assessment by the ECB as well as a joint ECB and EBA stress test planned for 2014. Furthermore, uniform European restructuring and resolution mechanisms are planned for banks, which are also likely to include tighter rules regarding the involvement of creditors in future bank restructurings.

In our opinion, the situation in the **international shipping industry** will not appreciably improve for the time being against the backdrop of the existing overcapacity. Despite individual positive signals we do not expect the container ship and bulker markets to recover on a sustained basis before 2015 in view of the marked increase in new orders. In the case of crude oil tankers we see for 2014 a sideways movement in freight and charter rates at the current low level and a recovery from 2015.

The economic situation of many companies in the industry will remain strained due to the sustained low level of freight and charter rates. The **loan loss provision requirement for shipping commitments** will therefore remain high for the lending banks for the time being. Accordingly, HSH Nordbank as one of the largest financiers of shipping companies will also continue to be negatively affected to a considerable extent by the crisis.

ANTICIPATED BUSINESS SITUATION

Replenishment of the guarantee facility ensures flexibility for the further restructuring of the Group

In the second half of the year we will vigorously continue the **restructuring** of HSH Nordbank. The significant improvement in capital adequacy resulting from the increase in the guarantee facility as at 30 June 2013 and the progress made to date in adjusting the business model will provide a good basis for this.

The strengthening of our capital ratios have allowed us to comply with the **increased capital requirements** under Basel III in good time and on a sustainable basis. At the same time we are ensuring that we have the flexibility necessary to increase business as planned and to continue to realign the Bank. The guarantee increase is therefore an important step for ensuring the stable, long-term development of HSH Nordbank.

The preliminary **approval of the guarantee increase** issued in June is valid until the final decision of the EU Commission is adopted. The formal investigation that the EU Commission has initiated to determine whether the measure is in accordance with EU rules on state aid will probably not be concluded prior to 2014. As things stand today, we are confident that our business model of a “Bank for Entrepreneurs” will be confirmed by the results of the investigation and we can successfully progress the realignment of HSH Nordbank to the future-oriented business fields of the Core Bank.

Over the coming months we will continue to focus on further strengthening the Core Bank, which has been profitable since 2012 and on the successful positioning of the strategic business fields in the target markets. In order to further improve the earnings and risk profile in the core business, we will concentrate on acquiring high-quality **new business** in forward-looking sectors and promoting the sale of products and services. We expect new business to increase markedly in the second half of the year, which is in line with the seasonal trend in previous years. Our positive expectations are based on the significant increase in customer interest observed over recent months.

In addition, we are continuing to consistently implement the **cost savings** as part of the headcount reduction plan and all necessary steps to create an efficient and robust organisation.

Nonetheless, we will continue to be faced with a challenging environment in individual markets over the coming months. In particular, the persistent and deep **crisis in the shipping industry**, which has lasted for years, will continue to be a heavy burden. The effective management of the loan portfolios concerned is therefore the highest priority. We want to constantly further reduce the risk potential for the Bank and the guarantors. This includes, above all, the **winding down of the legacy portfolios of the Restructuring Unit** as swiftly as possible whilst minimising losses at the same time.

The **progress** made in restructuring the Bank and the improved capital ratio create an important base for our planned business and refinancing activities in the second half of the year and beyond. At the same time the persistent shipping crisis and the increasing regulatory requirements clearly show that **further significant efforts** are necessary to deal with the legacy assets, to master the challenges ahead and thus make HSH Nordbank a sustainably successful bank commensurate with its regional importance for the economy of North Germany.

Despite the positive Group net result in the first half of 2013 we are still assuming that a **loss will be recorded at the Group level for the full year 2013**. This is primarily attributable to the further loan loss provisions for the high-risk legacy portfolios in the Restructuring Unit. Furthermore, the additional guarantee expense for the increased guarantee facility in the middle of the year, and the agreed special payment for 2011, 2012 and the first half of 2013, will have an effect in the second half of the year. For the **Core Bank** we also expect to record positive operating income (before restructuring and guarantee costs as well as tax effects) for the whole of 2013 in view of the on-going realignment of the strategic business areas. These (conservative) assumptions are reflected in our financial planning.

Going concern

Accounting and measurement are carried out on the **basis of the assumption of a going concern**. This 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 planning. 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.

RISK REPORT

Among the material risks of the Bank are default risks, market risks, operational risks, liquidity risks, strategic risks and reputation risks. The methods, instruments and processes used in the risk management are explained in detail in the Risk Report contained in our 2012 Annual Report. In addition, the “Outlook” contained in this Interim Report provides information on the anticipated business situation with a current assessment of material risks and rewards for HSH Nordbank for the remainder of the year.

RISK-BEARING CAPACITY

As part of the monitoring of our risk-bearing capacity we regularly compare the total economic capital required to cover unexpected losses (overall risk) for all major quantifiable types of risk to the available amount of risk coverage potential. The primary management process for our calculation of risk-bearing capacity is a liquidation approach which focusses 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, including the associated guarantee premiums. 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 30 June 2013, risk coverage potential amounted to € 9.4 billion (31 December 2012: € 10.1 billion). This reduction is mainly attributable to a methodological adjustment agreed with the supervisory authorities that was made to the risk-bearing capacity calculation. Excluding this adjustment the risk coverage potential would have increased slightly.

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 a measure 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.

Institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the risk of valuation adjustments of 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 risks as at the reporting date taking the relieving effect of the second loss guarantee into account amounted to € 1.7 billion (31 December 2012: € 2.6 billion). The replenishment of the second loss guarantee from € 7 billion to € 10 billion concluded with effect from 30 June 2013 is the main reason for the decrease.

As part of the risk-bearing capacity concept, market risk (value-at-risk, VaR), which is determined on a daily basis at the confidence level chosen by the Bank 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 risk horizon of one year. The economic capital required for market risk as at the reporting date 30 June 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 position. The liquidity value-at-risk (LVaR) as a measurement of economic capital required for liquidity risk amounted to € 0.5 billion as at 30 June 2013 (31 December 2012: € 0.3 billion). The increase was caused by a methodological enhancement made to the LVaR calculation. 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, amongst other things, is included in the section “Liquidity Risk”.

Operational risks are determined in accordance with the Standardised Approach as defined in the German Solvency Regulation (SolvV). The corresponding economic capital required amounted to € 0.2 billion as at 30 June 2013 (31 December 2012: € 0.3 billion). The decrease in the capital required is attributable to the decline in the gross income of the Bank.

The overall economic risk as at the reporting date amounted to € 3.1 billion (31 December 2012: € 4.2 billion). The utilisation of risk coverage potential amounted to 33 % (normal case). 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)

	30.06.2013	31.12.2012
Economic risk coverage potential¹⁾	9.4	10.1
Economic capital required	3.1	4.2
of which: for default risks ²⁾	1.7	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	6.3	5.9
Utilisation of risk coverage potential (%)	33	42

¹⁾ After deduction of the amount retained under 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 macro-economic 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. Furthermore, HSH Nordbank has met its obligation to prepare by 30 June 2013 a restructuring plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) issued by the Federal Financial Supervisory Authority. As part of this plan different stress scenarios are calculated across risk types and their impact on the steering groups relevant for the Bank analysed. The particular purpose of both processes is to ensure that the Bank is able to comply with the regulatory minimum requirements even under stress conditions. 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 assessments 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 interim actual/plan analysis and to consider and decide upon any action required to ensure the risk-bearing capacity of the Bank.

DEFAULT RISK

Default risk exposure

The loan amount outstanding represents the sum of loan receivables, securities, equity holdings, derivative financial instruments and other off-balance sheet transactions such as irrevocable, undrawn loan commitments that are at risk. The total loan amount outstanding was € 130,588 million as at 30 June 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) accounts for € 71,841 million or 55 % of the total exposure (31 December 2012: € 74,208 million or 54 %). The loan amount outstanding for investment grade exposures amounts to € 52,149 million or 66 % (31 December 2012: € 51,516 million or 64 %) for the Core Bank and € 19,692 million or 38 % (31 December 2012: € 22,692 million or 40 %) for the Restructuring Unit. Transactions, for which there is no internal or external rating available, are reflected in the "Other" line item. These mainly relate to loans and advances of our consolidated equity holdings to third parties.

DEFAULT RISK STRUCTURE BY RATING CATEGORY

(€ m)

	30.06.2013			31.12.2012		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
1 (AAAA) to 1 (AA+)	21,210	9,268	30,478	18,559	10,539	29,098
1 (AA) to 1 (A-)	12,540	3,943	16,483	13,741	5,137	18,878
2 to 5	18,399	6,481	24,880	19,216	7,016	26,232
6 to 9	13,758	6,688	20,446	15,697	8,069	23,766
10 to 12	3,605	3,344	6,949	3,839	3,107	6,946
13 to 15	4,031	6,045	10,076	3,385	6,686	10,071
16 to 18	5,047	14,810	19,857	4,494	15,909	20,403
Other	725	694	1,419	1,226	384	1,610
Total	79,315	51,273	130,588	80,157	56,847	137,004

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

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)

	30.06.2013			31.12.2012		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
Industry	9,283	2,913	12,196	9,296	3,486	12,782
Shipping	16,195	10,611	26,806	17,722	10,909	28,631
Trade and transportation	5,760	3,174	8,934	5,637	3,746	9,383
Credit institutions	10,773	3,888	14,661	11,026	4,306	15,332
Other financial institutions	2,532	8,693	11,225	2,528	9,761	12,289
Land and buildings	8,179	9,710	17,889	8,639	11,379	20,018
Other services	6,592	4,038	10,630	8,082	4,510	12,592
Public sector	18,132	7,167	25,299	15,537	7,572	23,109
Private households	1,860	1,078	2,938	1,648	1,175	2,823
Other	9	1	10	42	3	45
Total	79,315	51,273	130,588	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)

	30.06.2013			31.12.2012		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
Up to 3 months	14,473	4,298	18,771	12,620	5,273	17,893
> 3 months to 6 months	3,121	1,460	4,581	3,434	1,214	4,648
> 6 months to 1 year	4,582	3,377	7,959	5,154	3,207	8,361
> 1 year to 5 years	30,861	22,045	52,906	32,453	24,878	57,331
> 5 years to 10 years	17,587	9,424	27,011	16,684	10,929	27,613
> 10 years	8,691	10,669	19,360	9,812	11,346	21,158
Total	79,315	51,273	130,588	80,157	56,847	137,004

Country risk

The “Foreign exposure by region” table provides an overview of the breakdown of foreign exposure by region, which reached € 65,021 million as at 30 June 2013 compared to € 70,147 million in the previous year. Foreign exposure is defined as the nominal exposure on lending and trading

transactions taking into account collateral relevant to transfer risk. The item “Other” includes, for example, asset-backed securities (ABS) and funds that cannot be clearly allocated to a country or region.

FOREIGN EXPOSURE BY REGION

Loan amount outstanding (€ m)

	30.06.2013			31.12.2012		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
Western Europe	19,898	19,305	39,203	19,767	21,215	40,982
of which: Eurozone countries	12,016	10,614	22,630	12,294	11,431	23,725
Central and Eastern Europe	1,284	742	2,026	1,467	840	2,307
of which: Eurozone countries	72	160	232	91	161	252
Africa	875	370	1,245	918	406	1,324
North America	5,427	7,675	13,102	6,594	8,768	15,362
Latin America	765	787	1,552	901	935	1,836
Middle East	69	965	1,034	83	1,119	1,202
Asia-Pacific region	3,070	2,792	5,862	3,095	3,206	6,301
International organisations	957	23	980	784	23	807
Other	1	16	17	3	23	26
Total	32,346	32,675	65,021	33,612	36,535	70,147

Due to their unfavourable fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular the **members of the eurozone** Portugal, Ireland, Italy, Greece, Spain, Slovenia and Cyprus. The **EU Member State** of Hungary is also being closely monitored against the backdrop of a high level of national debt as well as poor economic growth.

The following table shows the loan amounts outstanding of the exposures in the individual countries listed. The values include the volume of loan receivables, securities, derivative financial instruments and guarantees at risk before valuation allowances, not determined at fair value and not taking into account pro-rata interest. The loan amounts outstanding for these countries totalled € 8,470 million as at 30 June 2013.

LOAN AMOUNT OUTSTANDING IN SELECTED EUROPEAN COUNTRIES

(€ m)

	Country		Banks		Corporates/Other		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Greece	6	7	0	0	1,622	1,780	1,628	1,787
Ireland	0	0	66	158	352	411	418	569
Italy	547	565	123	122	776	821	1,446	1,508
Portugal	280	280	5	5	63	68	348	353
Spain	222	228	1,059	1,332	1,283	1,394	2,564	2,954
Slovenia	90	90	0	0	21	23	111	113
Hungary	37	37	4	5	86	86	127	128
Cyprus	0	0	0	0	1,828	1,671	1,828	1,671
Total	1,182	1,207	1,257	1,622	6,031	6,254	8,470	9,083

The following table shows the IFRS carrying amounts of our exposure in selected European countries. In accordance with their IAS 39 category, the values were determined at fair value, including pro-rata interest, taking into account

any impairments and/or measurements. The IFRS carrying amount for these countries totalled € 7,526 million as at the reporting date.

IFRS CARRYING AMOUNT IN SELECTED EUROPEAN COUNTRIES

(€ m)

	Country		Banks		Corporates/Other		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Greece	5	2	0	0	1,226	1,351	1,231	1,353
Ireland	0	0	62	156	279	319	341	475
Italy	584	602	127	125	696	737	1,407	1,464
Portugal	262	257	3	3	48	52	313	312
Spain	167	173	1,079	1,333	1,198	1,296	2,444	2,802
Slovenia	90	90	0	0	21	23	111	113
Hungary	37	35	4	5	81	82	122	122
Cyprus	0	0	0	0	1,557	1,469	1,557	1,469
Total	1,145	1,159	1,275	1,622	5,106	5,329	7,526	8,110

Note 45 includes more information on the selected European countries.

Loan loss provisions

The total loan loss provisions item amounted to € – 224 million in the first half of the year 2013 compared to € – 111 million in the corresponding period of the previous year. This development mainly reflects the on-going tense situation in the shipping sector and the associated deterioration in the risk parameters in this sector. We have taken this development into account through increasing the valuation allowances on affected legacy shipping portfolios. The loan loss provisions in the legacy European real estate and corporates portfolios in the Restructuring Unit also had to be increased, although there are signs of a gradual stabilisation in key markets. If valuation allowances had to be recognised in legacy portfolios covered by the second loss guarantee, the loan loss provision expense was reduced by the hedging effect of the guarantee (compensation item).

The following table provides an overview by segments. For reasons of comparability, the values for the first half of 2012 have been adjusted in accordance with the changes in the segment structure implemented in the beginning of 2013.

CHANGES IN LOAN LOSS PROVISIONS

(€ m)

January – June 2013	Individual valuation allowances/Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation by second loss guarantee	Total
Shipping, Project & Real Estate Clients	-81	-78	5	0	-154
Corporates & Markets	-3	-3	0	0	-6
Corporate Center	0	0	4	0	4
Consolidation Core Bank	2	0	-4	50	48
Total Core Bank	-82	-81	5	50	-108
Restructuring Unit	-405	50	18	0	-337
Consolidation Restructuring Unit	0	0	0	221	221
Total Restructuring Unit	-405	50	18	221	-116
Group	-487	-31	23	271	-224

CHANGES IN LOAN LOSS PROVISIONS

(€ m)

January – June 2012	Individual valuation allowances/Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation by second loss guarantee	Total
Shipping, Project & Real Estate Clients	-116	-19	-7	0	-142
Corporates & Markets	-6	2	0	0	-4
Corporate Center	-11	0	2	0	-9
Consolidation Core Bank	6	-3	-5	62	60
Total Core Bank	-127	-20	-10	62	-95
Restructuring Unit	-301	39	-38	0	-300
Consolidation Restructuring Unit	0	0	0	284	284
Total Restructuring Unit	-301	39	-38	284	-16
Group	-428	19	-48	346	-111

Detailed information on changes in loan loss provisions of the individual divisions is set out in the chapter “Segment Reporting” of this Interim Management Report. Details regarding the total loan loss provisions are presented in Notes 11 and 20.

MARKET RISK

For purposes of measuring and managing market risk, HSH Nordbank employs a value-at-risk approach (99.0 % confidence level, holding period of one day, and historical observation period of 250 days). As at 30 June 2013, the market risk related to our trading book positions amounted to € 1.1 million and that to our banking book positions amounted to € 28.2 million. The aggregated market risk, which cannot be derived from the total VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 27.8 million of which € 40.3 million relate to the Core Bank and € 28.0 million to the Restructuring Unit. The higher amounts for the Core Bank and Restructuring Unit compared to the aggregated

market risk are also attributable to the risk-reducing correlation effects. As part of the risk-bearing capacity management, the VaR of € 27.8 million is scaled up to the amount of € 0.7 billion in the framework of aggregating the individual risk types to the overall risk. Developments with respect to the individual risk types during the first six months of 2013 are presented in the table set out below.

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⁾	
	Jan.– June 2013	Jan.– Dec. 2012	Jan.– June 2013	Jan.– Dec. 2012	Jan.– June 2013	Jan.– Dec. 2012	Jan.– June 2013	Jan.– Dec. 2012	Jan.– June 2013	Jan.– Dec. 2012	Jan.– June 2013	Jan.– Dec. 2012
Average	33.6	33.2	40.0	53.0	6.0	18.2	2.5	2.0	0.2	0.5	31.3	51.9
Maximum	47.3	46.9	45.4	71.3	9.1	27.6	3.8	3.9	0.6	1.5	40.8	65.0
Minimum	28.3	5.7	25.3	37.6	2.2	1.4	1.3	0.8	0.1	0.2	27.8	35.1
Period end amount	32.3	38.0	25.3	44.6	6.4	1.4	2.6	3.4	0.2	0.3	27.8	37.6
of which: Core Bank	35.2	35.8	6.0	8.3	9.8	4.9	0.6	0.5	0.2	0.3	40.3	34.3
of which: Restructuring Unit	8.3	9.3	26.5	39.7	2.8	4.5	2.6	3.1	0.0	0.0	28.0	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 overall VaR decreased compared to the 2012 year-end from € 37.6 million to € 27.8 million. The decrease could be observed primarily in relation to interest rate and credit spread risk. The principal reasons for this are the normal elimination of volatile trading days in 2012 from the historical simulation and methodological enhancements made to the market risk measurement.

The integration of the credit spread risk on third party issues held in certain valuation units into the daily market risk measurement was progressed in the first half of 2013 according to plan and finalised for the most part. This involves valuation units with structured products, in which the underlying is hedged by a hedging transaction. However, the credit spread risk on these hedged items is not hedged and has been additionally taken into account in the risk measurement to date based on a monthly estimate. The risks from the small residual portfolio not yet transferred to the regular market price risk measurement decreased to under € 0.1 million as at the reporting date (end of 2012 still at € 3.7 million). The integration led to a reduction in the overall risk at the Group level of about € 5 million as a result of portfolio diversification effects.

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into insolvency risk and liquidity maturity transformation risk. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept and is discussed in the section “Risk-Bearing Capacity”. The insolvency risk refers to the danger of the Bank not being able to meet its own payment obligations or refinancing requirements as they fall due, or not to the extent required.

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 purpose of measuring insolvency risk. The difference between inflows and outflows serves as a measure for the insolvency risk. These so-called gaps 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.

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 liquidity situation of HSH Nordbank remained stable in the area of **short- and medium-term maturities**. All funding channels actively maintained by the Bank contributed to this. The focus was placed on increasing the acquisition of funding, in part in the public capital markets. A public sector Pfandbrief of € 500 million was issued in March 2013, which was increased by a further € 250 million in April 2013 (term of 3 years). Furthermore, the liquidity potential was maintained at a stable level by the sales of bonds and promissory notes and an increase in deposits.

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 30 June 2013 as well as at 31 December 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	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012
1st day	34	7	37	11
7th day	35	0	45	2
14th day	43	1	51	10
3rd week	48	11	59	23
4th week	53	15	66	30
2nd month	62	46	80	68
3rd month	68	71	90	95
6th month	76	76	108	111
9th month	83	79	125	125
12th month	86	81	135	134

The Bank's risk tolerance 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 below 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 86 % in the twelfth month as at the reporting date. All limits within the 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 not exceeded within the minimum survival period of one month established taking the Minimum Requirements for Risk Management (MaRisk) into account. In fact, the liquidity potential as at the reporting date is even maintained for a period of four months. Compared to the 2012 year-end the utilisation level decreased slightly in the third month, which is especially relevant for risk of insolvency, on account of the business activities carried out. 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 regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.69 and 2.09, our liquidity ratio remained well above the regulatory minimum value of 1.0 at all times throughout the reporting period. The average value for the first six months of 2013 was 1.91 (2012: 1.79).

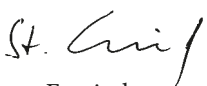
Long-term funding in the first six months of 2013 was slightly below plan on a pro-rata temporis basis, while deposits displayed a positive trend. Despite this success, access to unsecured long-term capital markets remains limited so that the future funding and the Bank's rating continue to represent some of the significant challenges.

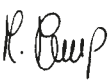
The chapter of this Interim Report entitled "Net Assets and Financial Position" provides additional detailed information regarding funding activities.

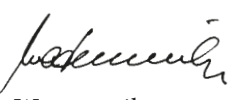
Potential tax risks mainly result from the fact that the binding interpretation of rules that are open to interpretation may only, in certain cases, be known after several years due to the long period of tax audits still pending. The tax audits have not yet been finalised for the years 2003 to 2012. The Bank is currently working on a number of tax issues that have arisen in these years. Although we are not aware of any effects on the financial position of the Bank based on the current findings these cannot be completely ruled out for the future until the investigations have been completed.

Hamburg/Kiel, 22 August 2013


von Gesterreich


Ermisch


Temp


Wartenweiler


Wittenburg

GROUP INCOME STATEMENT

for the period 1 January to 30 June 2013

INCOME STATEMENT

(€ m)

	Note	January – June 2013	Following adjustment (see Note 3) January – June 2012	Change in %
Interest income		2,988	5,021	-40
Interest expenses		-2,427	-4,486	-46
Net income from hybrid financial instruments		-76	-82	7
Net interest income	5	485	453	7
Net commission income	6	52	44	18
Result from hedging	7	10	9	11
Net trading income	8	109	-210	>100
Net income from financial investments	9	167	152	10
Net income from financial investments accounted for under the equity method	10	-14	-10	-40
Total income		809	438	85
Loan loss provisions	11	-224	-111	>100
Administrative expenses	12	-370	-385	-4
Other operating income	13	34	253	-87
Net income before restructuring		249	195	28
Result from restructuring	14	-8	-19	58
Expenses for government guarantees	15	-143	-157	-9
Net income before taxes		98	19	>100
Income tax expenses (-)/income (+)		-8	35	>-100
Group net income		90	54	67
Group net income attributable to non-controlling interests		-1	-	-
Group net income attributable to HSH Nordbank shareholders		91	54	69

EARNINGS PER SHARE

(€)

	Note	January – June 2013	Following adjustment (see Note 3) January – June 2012
Undiluted	16	0.30	0.19
Diluted	16	0.30	0.19
Number of shares (millions)		302	291

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 30 June 2013

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS

(€ m)

	January – June 2013	Following adjustment (see Note 3) January – June 2012
Group net income	90	54
Income and expenses that will be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	64	110
of which: from exchange rate effects	-1	4
Income taxes not recognised in the income statement	-7	-36
of which: from exchange rate effects	1	-
	57	74
Currency conversion reserve	6	14
	6	14
Change in other net income from financial investments accounted for under the equity method	2	-
	2	-
Income and expenses that will not be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	-33	10
Income taxes not recognised in the income statement	11	2
	-22	12
Actuarial gains/losses (before taxes)	-15	-114
Income taxes not recognised in the income statement	5	36
	-10	-78
Other comprehensive income for the period	33	22
Total comprehensive income	123	76
Total comprehensive income attributable to non-controlling interests	-1	-
Total comprehensive income attributable to HSH Nordbank shareholders	124	76

GROUP STATEMENT OF FINANCIAL POSITION

as at 30 June 2013

ASSETS

(€ m)

	Note	30.06.2013	31.12.2012	Change in %
Cash reserve	17	8,742	6,745	30
Loans and advances to banks	18	6,384	8,353	-24
Loans and advances to customers	19	75,092	80,570	-7
Loan loss provisions	20	-3,404	-3,581	-5
Positive fair value of hedging derivatives	21	1,658	2,170	-24
Positive adjustment item from portfolio fair value hedges		174	403	-57
Trading assets	22	8,805	11,817	-25
Financial investments	23	21,318	22,067	-3
Financial investments accounted for under the equity method	24	7	-	-
Intangible assets	25	55	65	-15
Property, plant and equipment	26	203	260	-22
Investment property	26	73	39	87
Non-current assets held for sale and disposal groups	27	226	186	22
Current tax assets		57	105	-46
Deferred tax assets	28	1,312	1,267	4
Other assets	29	150	140	7
Total assets		120,852	130,606	-7

LIABILITIES

(€ m)

	Note	30.06.2013	31.12.2012	Change in %
Liabilities to banks	30	21,724	29,934	-27
Liabilities to customers	31	45,058	41,308	9
Securitised liabilities	32	29,865	31,459	-5
Negative fair values of hedging derivatives	33	812	943	-14
Negative adjustment item from portfolio fair value hedge		1,086	1,545	-30
Trading liabilities	34	8,672	11,450	-24
Provisions	35	1,453	1,664	-13
Liabilities relating to disposal groups	36	170	183	-7
Current tax liabilities		17	108	-84
Deferred tax liabilities		52	14	>100
Other liabilities	37	1,203	1,335	-10
Subordinated capital	38	5,338	5,391	-1
Equity	39	5,402	5,272	2
Share capital		3,018	3,018	0
Capital reserve		594	594	0
Retained earnings		1,754	1,876	-7
Revaluation reserve		3	-31	>100
Currency conversion reserve		-53	-59	-10
Other net income from financial investments accounted for under the equity method		2	-	>100
Group net profit/loss		91	-120	>100
Total before non-controlling interests		5,409	5,278	2
Non-controlling interests		-7	-6	17
Total equity and liabilities		120,852	130,606	-7

GROUP STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY (€ m)

	Note	Share capital	Capital reserve	Retained earnings	
				of which actuarial gains/losses as per IAS 19	
As at 1 January 2012		2,635	809	1,911	104
Changes due to restatements	3	-	-	-7	-
Adjusted as at 1 January 2012		2,635	809	1,904	104
Group net income		-	-	-	-
Changes due to restatements	3	-	-	-	-
Changes not recognised in the income statement		-	-	-78	-78
Changes recognised in the income statement		-	-	-	-
Exchange rate changes		-	-	-	-
Comprehensive income as at 30 June 2012		-	-	-78	-78
Dividend payments and distributions		-	-	-	-
Capital increases ¹⁾		383	116	-	-
Changes due to restatements	3	-	-	-	-
Changes in retained earnings		-	-	2	-
Group net loss for the previous year		-	-	-264	-
Adjusted as at 30 June 2012		3,018	925	1,564	26
As at 1 January 2013		3,018	594	1,876	-1
Changes in the scope of consolidation		-	-	-2	-
Adjusted as at 1 January 2013		3,018	594	1,874	-1
Group net income		-	-	-	-
Changes not recognised in the income statement		-	-	-9	-10
Changes recognised in the income statement		-	-	-	-
Exchange rate changes		-	-	-	-
Comprehensive income 30 June 2013		-	-	-9	-10
Changes in retained earnings		-	-	9	-
Group net loss for the previous year		-	-	-120	-
As at 30 June 2013	39	3,018	594	1,754	-11

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

Other changes in equity not recognised in the income statement								
Currency conversion reserve	Revaluation reserve	Financial investments accounted for under the equity method	Accumulated other comprehensive income	Group net profit/loss	Total before non-controlling interests	Non-controlling interests	Total	
-57	-210	-	-163	-257	4,831	-6	4,825	
-	2	-	2	-7	-12	3	-9	
-57	-208	-	-161	-264	4,819	-3	4,816	
-	-	-	-	61	61	9	70	
-	-2	-	-2	-7	-9	-9	-18	
-	70	-	-8	-	-8	-	-8	
-	19	-	19	-	19	-	19	
14	-1	-	13	-	13	-	13	
14	86	-	22	54	76	-	76	
-	-	-	-	-	-	-1	-1	
-	-	-	-	-	499	1	500	
-	-	-	-	-	-	-2	-2	
-	-	-	-	-	2	2	4	
-	-	-	-	264	-	-	-	
-43	-122	-	-139	54	5,396	-3	5,393	
-59	-31	-	-91	-120	5,278	-6	5,272	
-	-	-	-	-	-2	-	-2	
-59	-31	-	-91	-120	5,276	-6	5,270	
-	-	-	-	91	91	-1	90	
-	60	2	52	-	53	-	53	
-	-26	-	-26	-	-26	-	-26	
6	-	-	6	-	6	-	6	
6	34	2	32	91	124	-1	123	
-	-	-	-	-	9	-	9	
-	-	-	-	120	-	-	-	
-53	3	2	-59	91	5,409	-7	5,402	

GROUP CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT

(€ m)

	January – June 2013	January – June 2012
Cash and cash equivalents as at 1 January	6,745	1,866
Cash flow from operating activities	1,346	919
Cash flow from investing activities	808	–852
Cash flow from financing activities	–155	–225
Changes in cash and cash equivalents due to exchange rate fluctuations	–2	–13
Cash and cash equivalents as at 30 June	8,742	1,695

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.

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Nordbank AG 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 half-year financial report consists of condensed Interim Group Financial Statements and a condensed Group Management Report taking into account the requirements stipulated in IAS 34. The condensed Interim Group Financial Statements consist of an Income Statement, a Statement of Comprehensive Income, a Statement of Financial Position, a Statement of Changes in Equity, a condensed Statement of Cash Flows and selected Explanatory Notes.

The Interim Group Financial Statements as at 30 June 2013 are prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). In doing so, particular attention has been paid to IAS 34 (Interim financial reporting).

In the Interim Group Financial Statements, the same accounting policies have basically been applied as in the Consolidated Financial Statements of HSH Nordbank AG as at 31 December 2012.

In accordance with IAS 34.C4, HSH Nordbank AG does not prepare any pension obligation reviews in the course of the current fiscal year and bases its figures on the data from the last expert opinion made as of 31 December 2012. Each quarter it is assessed whether essential parameters related to pension provisions have changed. If this is the case, these are adjusted accordingly and are taken into account in accounting (in particular changes in the discount factor).

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 changes 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 (“recycling”) must in future be presented separately from the items of Other comprehensive income which are never reclassified. To the extent the item is stated as a gross figure, that is without netting with effects of deferred taxes, deferred taxes must no longer be stated in total but rather are to be allocated to both groups of items.

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.

Amendments to IAS 32 and IFRS 7 – 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 rules regarding explanatory notes in IFRS 7 were expanded as part of these clarifications.

IAS 19 – Employee Benefits (revised 2011)

In addition to more comprehensive disclosure obligations related to employee benefits in the annual financial statements, the revised standard results in the following changes in particular:

Up to now there has been an option regarding the manner in which unexpected fluctuations in pension obligations, so-called actuarial gains and losses, can be presented. 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 removed in favour of a more transparent and comparable presentation so that only immediate and full recognition in OCI is permitted. Furthermore, the past service cost is now directly recognised through profit or loss in the year in which it is incurred.

Furthermore, the expected rate of return on plan assets up to now has been determined 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.

The expected amount of administrative costs charged for the plan assets had previously been recognised in

Net interest income. In accordance with the amendments administrative costs charged for the plan assets are to be recognised as a component of the revaluation items in OCI, whereas other administrative costs are to be allocated to operating income at the time they are incurred.

IAS 19 (revised 2011) does not entail any changes to the accounting treatment applied by HSH Nordbank to pension obligations with regard to 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 will have no material impact on the consolidated financial statements.

The changed definition of benefits triggered by the termination of the employment contract (termination benefits) has affected 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 generally accrued rateably over the period from the origination of the claim until the end of the active phase.

This also did not have any material impact on the Consolidated Financial Statements of HSH Nordbank.

IFRS 13 – Fair Value Measurement

This standard imposes uniform rules on fair value measurement in IFRS financial statements. In future, all fair value measurements required under other standards must comply with the uniform guidelines of IFRS 13; additional, specific rules are only provided in the case of IAS 17 and IFRS 2.

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 is currently the case with respect to the fair value measurement of financial instruments, IFRS introduces a three level hierarchy based on the dependence on observable market prices. The new fair value measurement may lead to values that differ from those calculated under the previously applicable rules.

This also results in expanded note disclosures, which are met by HSH Nordbank in Note 43.

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.

In addition to the IFRS HSH Nordbank has also observed the German Accounting Standard GAS 16 Interim Financial Reporting for its Interim Management Report.

Accounting and measurement are based on the assumption that the enterprise is a going concern. This 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.

These Interim Consolidated Financial Statements were reviewed by an auditor.

All facts up to 22 August 2013 were taken into account.

2. PROVISION OF A GUARANTEE FACILITY

The basic hedging effect of the guarantee is described in the Annual Report as at 31 December 2012.

In 2011 the guarantee was reduced by a total of € 3 billion to € 7 billion. The Sunrise 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 re-increased guarantee remain essentially unchanged. A special payment of € 275 million becomes payable 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 amendment agreement also includes a new regulation relating to the so-called capital protection clause that comes into force as at 1 January 2014. This new regulation has no effect on the balance sheet until 1 January 2014.

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. This means that future expected fees (base and additional premium) for the second loss guarantee need to be recognised in loan loss provisions. These amounted to € 438 million as at 30 June 2013 and are taken into account in the compensation. € 272 million is attributable to the future additional premium (ex-ante additional premium) and € 166 million to the future basic premium (ex-ante base premium).

The special payment of € 275 million payable for the replenishment of the guarantee represents a fee for a period-related service and will be amortised in accordance with IAS 18 over the period of the expected benefit as determined from the Bank's valid overall plan. Accordingly, it is recognised through profit or loss on a pro-rata temporis basis in the Expenses for government guarantees line item. In the first half of 2013 € 2 million was recognised through profit or loss for the guarantee increase up to 30 June 2013.

As a result of the guarantee increase the common equity ratio exceeded the 10 % level as at 30 June 2013 with the effect that the receivables (ex-post and ex-ante) waiver granted by the guarantors, Hamburg and Schleswig-Holstein, via HSH Finanzfonds AöR could be reduced in full. At the same time the existing liability due to HSH Finanzfonds AöR was derecognised from the debtor warrant.

For this the Bank initially recognised an expense of € 718 million arising on the withdrawal of the receivables waiver that was offset by income of € 713 million arising on the derecognition of the debtor warrant. Both amounts are included in the compensation.

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 € 3,203 million as at 30 June 2013 (31 December 2012: € 2,807 million).

In a first step, this amount of € 3,203 million was included in the loan loss provisions as the hedging effect of the guarantee as at 30 June 2013. An additional premium in the amount of 3.85 % was computed with respect to this amount from 1 April 2009 through 30 June 2013 and recognised in the amount of € 532 million in loan loss provisions, of which € 120 million relate to the first half of 2013.

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 € 2,229 million. The corresponding compensation effect in the income statement amounts to € 271 million.

HEDGING EFFECT OF THE GUARANTEE

(€ m)

	Carrying amounts		P&L effect	
	30.06.2013	31.12.2012	January - June 2013	January - June 2012
Hedging effect before guarantee costs	3,203	2,807	396	430
Additional premium ex-post	-532	-412	-120	-84
Debt waiver	-	718	-718	249
Debtor warrant	-	-713	713	-249
Base and additional premium ex-ante	-438	-473	- ¹⁾	-
Claim for compensation of interest	-4	-3	- ¹⁾	-
Compensation under the second loss guarantee	2,229	1,924	271	346

¹⁾ The changes are disclosed in Net interest income.

The hedging effect of the partial guarantee 2 amounted to € 4 million as at 30 June 2013. An additional premium in the amount of € 0.7 million was allocated to this amount.

3. ADJUSTMENTS TO PREVIOUS YEAR COMPARATIVE FIGURES

These financial statements contain various adjustments to the comparative figures.

The adjustments made were reviewed in accordance with the requirements of IAS 8 and classified as a change in accordance with IAS 8.41 et seq.

I. CORRECTIONS IN ACCORDANCE WITH IAS 8.41 ET SEQ.

Changed disclosure and measurement of non-controlling interests in German partnerships.

Minority interests in German partnerships had been previously accounted for under IAS 27 in the same way as for non-controlling interests in public limited liability companies. Due to the special company law features of German partnerships a different accounting treatment has to be applied to non-controlling interests in these entities. The corrections have already been reported in the consolidated financial statements as at 31 December 2012.

The unwaivable statutory termination rights of partners in German partnerships (Sections 131 et seq. of the German Commercial Code (HGB) in conjunction with Section 723 (1) and (2) of the German Civil Code (BGB)) are settlement claims against the partnership and the other partners. In the IFRS consolidated financial statements the amount of the claim of the non-controlling partner constitutes a debt instrument under IAS 32 AG 29A.

This is accounted for using the so-called anticipated purchase method. It is assumed that, on initial recognition, the Group acquires control by means of a 100% equity holding. The non-controlling interest is not subject to disclosure under IAS 27 but a financial liability in the amount of the fair value of the settlement obligation is recorded and recognised through profit or loss over time.

If the present value of the settlement claim of the non-controlling partner is positive, the settlement obligation is disclosed in the other liabilities line item from a Group perspective. In the event that there is in exceptional cases a contractual settlement obligation on the part of the non-controlling partners in respect of negative own funds of a group company, a receivable from the partner is recognised in the Other assets line item. The amounts recognised from the updating of the settlement obligation or settlement receivable due to/from the partners are recognised in Other operating income.

As a result of the implementation of these changes the comparative figures for the same period of the previous year for the Other operating income, Group net income attributable to non-controlling interests as well as Group net income attributable to HSH Nordbank shareholders have changed.

Associates consolidated under the equity method

Under IAS 28.21 the consolidated financial statements form the basis for the application of the equity method for an associate which itself prepares consolidated financial statements.

Only amounts in the single-entity financial statements of associates or joint ventures to be consolidated were previously used for the application of the equity method in the consolidated financial statements of HSH Nordbank.

This accounting treatment, which did not conform to the Standard, was retroactively corrected in the Consolidated Financial Statements as at 31 December 2012. As a result of the adjustments made as at 30 June 2013 net income from financial investments accounted for under the equity method in the comparative figures changes as does the Group net result attributable to HSH Nordbank shareholders in the same amount.

Disclosures for the previous year period were adjusted. The following tables show the effects of the adjustments on the income statement and the earnings per share:

**ADJUSTMENTS
INCOME STATEMENT**
(€ m)

January – June 2012	Before adjustment	Adjustment	Following adjustment
Other items (without adjustment)	448	–	448
Net income from financial investments accounted for under the equity method	–6	–4	–10
Total income	442	–4	438
Loan loss provisions	–111	–	–111
Administrative expenses	–385	–	–385
Other operating income	265	–12	253
Net income before restructuring	211	–16	195
Result from restructuring	–19	–	–19
Expenses for government guarantees	–157	–	–157
Net income before taxes	35	–16	19
Income tax expenses (-)/income (+)	35	–	35
Net income or loss after taxes/Group net income or loss	70	–16	54
Group net income attributable to non-controlling interests	9	–9	–
Group net income attributable to HSH Nordbank shareholders	61	–7	54

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS
(€ m)

January – June 2012	Before adjustment	Adjustment	Following adjustment
Group net income	70	–16	54
Income and expense that will be reclassified to the income statement at a later date			
Changes in:			
Revaluation reserve (before taxes)	112	–2	110
of which: from exchange rate effects	4	–	4
Income tax expense recognised in other comprehensive income	–36	–	–36
of which: from exchange rate effects	–	–	–
	76	–2	74
Currency conversion reserve	14	–	14
	14	–	14
Change in other net income from financial investments accounted for under the equity method	–	–	–
	–	–	–
Income and expense that will not be reclassified to the income statement at a later date			
Changes in:			
Revaluation reserve (before taxes)	10	–	10
Income taxes not recognised in the income statement	2	–	2
	12	–	12
Actuarial gains/losses (before taxes)	–114	–	–114
Income taxes not recognised in the income statement	36	–	36
	–78	–	–78
Other comprehensive income for the period	24	–2	22
Total comprehensive income	94	–18	76
Total comprehensive income attributable to non-controlling interests	9	–9	–
Total comprehensive income attributable to HSH Nordbank shareholders	85	–9	76

EARNINGS PER SHARE

(€)

January - June 2012	Before adjustment	Adjustment	Following adjustment
Undiluted	0.21	-0.02	0.19
Diluted	0.21	-0.02	0.19
Number of shares (millions)	291	-	291

4. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, 76 companies (31 December 2012: 75) have been consolidated. This includes seven (31 December 2012: six) special purpose entities which need only 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	Share of equity capital as at 30.06.2013 in %	Share of equity capital as at 31.12.2012 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. Amentum Lux S.à.r.l.	Luxembourg	100.0	100.0
5. Anthracite Balanced Company Limited	George Town	100.0	100.0
6. AVUS Fondsbesitz und Management GmbH ⁸⁾	Berlin	100.0	100.0
7. AVUS Grundstücksverwaltungs-GmbH ⁸⁾	Berlin	100.0	100.0
8. Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
9. Capcellence Private Equity Beteiligungen GmbH & Co. KG ⁷⁾	Hamburg	100.0	100.0
10. Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	83.3
11. Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	83.3
12. Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	83.3
13. Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	83.3
14. Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	83.3
15. Capcellence Vintage Year 12 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	83.3
16. Capcellence Vintage Year 13 Beteiligungen GmbH & Co. KG ³⁾	Hamburg	83.3	0.0
17. CHIOS GmbH	Hamburg	100.0	100.0
18. CPM Luxembourg S.A. ⁶⁾	Luxembourg	3.2	3.2
19. CPM Securitisation Fonds S.A. ⁶⁾	Luxembourg	3.2	3.2
20. DEERS Green Power Development Company S.L. ¹²⁾	Zaragoza	99.0	99.0
21. DMS Beteiligungs GmbH ²⁾	Radolfzell	100.0	100.0
22. DMS Dynamic Micro Systems Semiconductor Equipment GmbH ⁴⁾	Radolfzell	100.0	100.0
23. Einkaufs-Center Plovdiv G.m.b.H. & Co. KG ¹³⁾	Hamburg	75.0	75.0
24. Enders Holdings LLC	Dover	100.0	100.0
25. Endor 9. Beteiligungs GmbH & Co. KG ⁸⁾	Hamburg	100.0	100.0
26. Feronia GmbH	Hamburg	100.0	100.0
27. GBVI Gesellschaft zur Beteiligungsverwaltung von Immobilien mbH & Co. KG	Hamburg	100.0	100.0
28. GODAN GmbH	Hamburg	100.0	100.0
29. Grundstücksgesellschaft Barstraße GbR (GEHAG-Fonds 18) ¹⁾	Berlin	72.5	72.5
30. Grundstücksgesellschaft Rudow-Süd/Straße 633 GbR (GEHAG-Fonds 20) ¹⁾	Berlin	67.0	67.0
31. HGA Capital Grundbesitz und Anlage GmbH ⁸⁾	Hamburg	100.0	100.0
32. HGA Fondsbeteiligung GmbH ⁸⁾	Hamburg	100.0	100.0
33. HGA Objekte Hamburg und Hannover GmbH & Co. KG ⁹⁾	Hamburg	71.9	71.9
34. HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
35. HSH Care+Clean GmbH ⁵⁾	Hamburg	51.0	51.0
36. HSH Corporate Finance GmbH	Hamburg	100.0	100.0
37. HSH Debt Advisory ApS	Copenhagen	100.0	100.0
38. HSH Facility Management GmbH	Hamburg	100.0	100.0
39. HSH Gastro+Event GmbH ⁵⁾	Hamburg	100.0	100.0
40. HSH Kunden- und Kontenservice GmbH	Hamburg	100.0	100.0
41. HSH Move+More GmbH ⁵⁾	Kiel	51.0	51.0
42. HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
43. HSH N Financial Securities LLC	Wilmington	100.0	100.0
44. HSH N Funding I	George Town	66.3	66.3
45. HSH N Funding II	George Town	56.3	56.3
46. HSH N Residual Value Ltd.	Hamilton	100.0	100.0
47. HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0

FULLY CONSOLIDATED COMPANIES

	Registered office	Share of equity capital as at 30.06.2013 in %	Share of equity capital as at 31.12.2012 in %	
48.	HSH Private Equity GmbH	Hamburg	100.0	100.0
49.	HSH Real Estate GmbH	Hamburg	100.0	100.0
50.	HSH Real Estate US Invest, LLC ⁸⁾	Wilmington	100.0	100.0
51.	HSH Restructuring Advisory ApS	Copenhagen	100.0	100.0
52.	HSH Security GmbH	Kiel	100.0	100.0
53.	International Fund Services & Asset Management S.A. ⁶⁾	Munsbach	51.5	51.5
54.	ISM Agency LLC ¹¹⁾	New York	100.0	0.0
55.	KAPLON GmbH & Co. KG ⁸⁾	Hamburg	100.0	100.0
56.	Kipper Corporation	Wilmington	100.0	100.0
57.	Kontora Family Office GmbH	Hamburg	75.0	75.0
58.	K/S Angered	Copenhagen	100.0	0.0
59.	Life Insurance Fund Elite LLC	New York	0.0	0.0
60.	Life Insurance Fund Elite LLC Trust	New York	0.0	0.0
61.	Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
62.	Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0
63.	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0	100.0
64.	Next Generation Aircraft Finance 3 S.à.r.l.	Munsbach	49.0	49.0
65.	RESPARCS Funding Limited Partnership I	Hong Kong	0.0	0.0
66.	RESPARCS Funding II Limited Partnership	St. Helier	0.0	0.0
67.	SBF II, LLC ¹⁰⁾	Wilmington	100.0	100.0
68.	Senior Assured Investment S.A.	Luxembourg	0.0	0.0
69.	Senior Preferred Investments S.A.	Luxembourg	0.0	0.0
70.	Solar Holding S.à.r.l.	Luxembourg	100.0	100.0
71.	Sotis S.à.r.l. ⁶⁾	Luxembourg	100.0	100.0
72.	TERRANUM "die Zweite" GmbH & Co. KG ⁸⁾	Hamburg	100.0	100.0
73.	Teukros GmbH	Hamburg	100.0	100.0
74.	Turis 1. Beteiligungs GmbH & Co. KG ⁸⁾	Hamburg	100.0	100.0
75.	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
76.	2200 Victory LLC	Dover	100.0	100.0

¹⁾ Subsidiaries of AVUS Fondsbesitz und Management GmbH

²⁾ Subsidiary of Bu Wi Beteiligungsholding GmbH

³⁾ Subsidiaries of Capcellence Private Equity Beteiligungen GmbH & Co. KG

⁴⁾ Subsidiary of DMS Beteiligungs GmbH

⁵⁾ Subsidiaries of HSH Facility Management GmbH

⁶⁾ Subsidiaries of HSH Nordbank Securities S.A.

⁷⁾ Subsidiary of HSH Private Equity GmbH

⁸⁾ Subsidiaries of HSH Real Estate AG

⁹⁾ Subsidiary of KAPLON GmbH & Co. KG

¹⁰⁾ Subsidiary of Kipper Corporation

¹¹⁾ Subsidiary of Life Insurance Fund Elite LLC

¹²⁾ Subsidiary of Solar Holding S.à.r.l.

¹³⁾ Subsidiary of Turis 1. Beteiligungs GmbH & Co. KG

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.

The following companies were 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, Copenhagen
- Life Insurance Fund Elite LLC, New York
- Life Insurance Fund Elite LLC Trust, New York
- 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:

- Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg
- EALING INVESTMENTS LIMITED, London
- JANTAR GmbH, Hamburg
- Löddeköpinge Handel AB, Stockholm
- Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG, Hamburg

All shares in Löddeköpinge Handel AB were sold effective as at 15 April 2013. A loss of € 19,000 resulted from the deconsolidation due to the loss of control, which is disclosed under Other operating income.

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.

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.

EALING INVESTMENTS LIMITED was no longer consolidated following its dissolution on 29 January 2013.

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). 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 attributed to KfW IPEX-Bank GmbH (silo 2). The silo relating to KfW IPEX-Bank GmbH was therefore deconsolidated in the Interim Group Financial Statements as at 30 June 2013. A loss of € 19 million resulted from the deconsolidation, which is included in Other operating income.

As at the 30 June 2013 reporting date, the following shares in associates are included in the consolidated financial statements under the equity method:

COMPANIES CONSOLIDATED AT EQUITY

	Registered office	Share of equity capital as at 30.06.2013 in %	Share of equity capital as at 31.12.2012 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. Belgravia Shipping Ltd.	London	33.3	33.3
5. GARDEUR Beteiligungs GmbH	Mönchengladbach	100.0	100.0
6. NOBIS Asset Management S.A.	Luxembourg	40.0	40.0
7. PRIME 2006-1 Funding Limited Partnership	St. Helier	47.5	47.5
8. Railpool Holding GmbH & Co. KG	Munich	50.0	50.0
9. Relacom Management AB	Stockholm	21.2	19.3
10. SITUS NORDIC SERVICES ApS	Copenhagen	40.0	40.0

Despite HSH Nordbank holding the majority of equity shares in GARDEUR Beteiligungs GmbH, Mönchengladbach, the voting rights interest is limited to 40% resulting merely in a significant influence within the meaning of IAS 28. Accordingly, the company is included in the consolidated financial statements using the equity method.

Even though HSH Nordbank holds no voting rights in PRIME 2006-1 Funding Limited Partnership, St. Helier, the Bank has a significant influence in the present case as it is represented by one employee on the five member board of directors in addition to its 47.5% equity interest.

Additional information on companies to be consolidated under the equity method may be found under Notes 10 and 24.

Through the realisation of collateral HSH Nordbank AG, Luxembourg Branch, acquired in the first half of 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 LLC Trust (hereinafter: Life Insurance Group).

The Life Insurance Group holds a portfolio of US life insurance policies, which was financed by HSH Nordbank. The group had no longer been able to meet its financial obligations since November 2012 because of a lack of liquidity with the effect that HSH Nordbank acquired full control over the portfolio provided as collateral in January 2013.

As certain valuation questions are still outstanding, no audited financial statements of the company were available for the financial year 2012 for the inclusion of the Life Insurance Group in the present Interim Group Financial Statements. Therefore the presentation of the business combination is based on provisional financial figures and is subject to a special estimation uncertainty within the meaning of IAS 1.125 et seq. All circumstances that became known until the time of the preparation of the Interim Group Financial Statements as at 30 June 2013 have been taken into account.

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	15.7	-	15.7
	15.7	-	15.7
Liabilities			
Liabilities to banks	41.8	-41.8	-
	41.8	-41.8	0.0
Net assets at the date of acquisition	-26.1	41.8	15.7
Total consideration			17.1
Balance			-1.4

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 € 1.4 million arising from the purchase price allocation of the shares acquired as defined under IFRS 3 is recognised as goodwill and assigned to the cash-generating Restructuring Unit.

The business relationship, which was ended prior to the business combination, was 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 the previous business relationship.

The cumulative gains and losses of the company that are shown in the consolidated financial statements as of 30 June 2013 amount to € 2.1 million. The company contributed € 2.1 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. The purpose of K/S Angered is to hold and manage a property.

Due to certain open measurement issues no audited 2012 annual financial statements of the K/S Angered were available for inclusion into the Interim Group Financial Statements. Therefore the presentation of the business combination is based on provisional financial figures and is subject to a special estimation uncertainty within the meaning of IAS 1.125 et seq. All circumstances that became known until the time of the preparation of the Interim Group Financial Statements as at 30 June 2013 have been taken into account.

An impairment loss of € 9.8 million was recognised on the property and an impairment loss of € 1.3 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 € 6.4 million to fair value.

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	52.2	–	–9.8	42.4
Financial investments	1.3	–	–1.3	–
Loans and advances to banks	3.6	–	–	3.6
Other assets	0.2	–	–	0.2
	57.3	–	–11.1	46.2
Liabilities				
Liabilities to banks	48.8	–42.4	–6.4	–
Other liabilities	33.3	–	–	33.3
	82.1	–42.4	–6.4	33.3
Net assets at the date of acquisition	–24.8	42.4	–4.7	12.9
Total consideration				41.8
Balance				–28.9

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 € 28.9 million arising on the purchase price allocation of the shares acquired as defined under IFRS 3 is recognised as goodwill and is also assigned to the cash-generating Restructuring Unit.

The business relationship, which was ended prior to the business combination, was 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 the previous business relationship.

The cumulative gains and losses of the company that are shown in the consolidated financial statements as of 30 June 2013 amount to € – 2.7 million.

On account of the assignment of the goodwill arising from both business combinations together with the above-mentioned non-performing loan commitment to the cash-generating Restructuring Unit in the consolidated financial statements as at 30 June 2013, 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. As a result of this impairment test the allocated goodwill (€ 30.3 million) is fully written off and the amortisation is disclosed under Other operating income.

NOTES ON THE GROUP INCOME STATEMENT

5. NET INTEREST INCOME

NET INTEREST INCOME

(€ m)

	January – June 2013	January – June 2012
Interest income from		
Lending and money market transactions	1,064	1,287
Fixed-interest securities	244	314
Trading transactions	5	10
Derivative financial instruments	1,553	3,255
Unwinding	109	119
Disposal of receivables	–	10
Current income from		
Equities and other non-fixed-interest securities	5	8
Associated companies	1	9
Equity holdings	4	5
Other holdings	3	4
Interest income	2,988	5,021
of which attributable to financial instruments not classified as HFT or DFV	1,269	1,687
Interest expenses for		
Liabilities to banks	221	270
Liabilities to customers	424	572
Securitised liabilities	337	468
Subordinated capital	47	120
Other liabilities	2	2
Disposal of receivables	7	3
Derivative financial instruments	1,389	3,051
Interest expenses	2,427	4,486
of which attributable to financial instruments not classified as HFT or DFV	657	1,226
Net income from re-estimating interest and repayment cash flows	–18	–
Net income from discounting and compounding	–58	–82
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	–76	–82
of which attributable to financial instruments not classified as HFT or DFV	–76	–82
Total	485	453

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.

Net income or loss from hybrid financial instruments includes both the effects on profit/loss resulting from the application of IAS 39.A8 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 € 635 million (previous year: € 161 million). € 1,403 million are attributable to the result from re-estimating interest and repayment cash flows (previous year: € 790 million) and € –768 million are attributable to the income/loss from discounting and compounding (previous year: € –629 million).

The difference between the valuation for tax purposes of financial instruments and the measurement of such instruments under IAS 39.A8 result in deferred tax assets of € 11 million (previous year: € 9 million of deferred tax assets).

6. NET COMMISSION INCOME

NET COMMISSION INCOME (€ m)

	January – June 2013	January – June 2012
Commission income from		
Lending business	37	28
Securities business	33	37
Guarantee business	9	10
Payments and account transactions as well as documentary business	11	11
Other commission income	7	7
Commission income	97	93
Commission expenses from		
Lending business	7	6
Securities business	29	32
Guarantee business	4	–
Payments and account transactions as well as documentary business	2	2
Other commission expenses	3	9
Commission expenses	45	49
Total	52	44

Financial instruments not classified as HfT or DFV accounted for € 54 million (previous year: € 46 million) of Net commission income.

7. 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)

	January – June 2013	January – June 2012
Fair value changes from hedging transactions	–104	194
Micro fair value hedge	–39	–27
Portfolio fair value hedge	–65	221
Fair value changes from underlyings	114	–185
Micro fair value hedge	39	22
Portfolio fair value hedge	75	–207
Total	10	9

8. 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	
	January – June 2013	January – June 2012	January – June 2013	January – June 2012	January – June 2013	January – June 2012	January – June 2013	January – June 2012
Realised net income								
Held for Trading	79	161	-10	-3	-	-36	69	122
Designated at Fair Value	-	-145	1	1	-	-	1	-144
Subtotal	79	16	-9	-2	-	-36	70	-22
Valuation result								
Held for Trading	10	-154	24	30	-5	19	29	-105
Designated at Fair Value	32	-55	-22	-28	-	-	10	-83
Subtotal	42	-209	2	2	-5	19	39	-188
Total	121	-193	-7	-	-5	-17	109	-210

Net trading income includes net income from foreign currency of € -8 million (previous year: € -22 million).

During the reporting period € 63 million (previous year: € 34 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 € -108 million (previous year: € -782 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 € -62 million (previous year: € -63 million). In cumulative terms, a total of € 45 million (previous year: € 171 million) is attributable to changes in the credit spread.

9. 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.

NET INCOME FROM FINANCIAL INVESTMENTS (€ m)

	January – June 2013	January – June 2012
Classified as AfS		
+ Realised gains/losses (-)	62	154
- Write-downs	1	5
+ Write-ups	9	1
Subtotal	70	150
Classified as LaR		
+ Realised gains/losses (-)	27	13
- Write-downs	13	13
+ Write-ups	82	45
Subtotal	96	45
- Additions to portfolio valuation allowances (LaR portfolios)	-	43
+ Reversal of portfolio valuation allowances (LaR portfolios)	1	-
Subtotal	1	-43
Total	167	152

10. NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

As at the 30 June 2013 reporting date, the HSH Nordbank Group owns shares in ten associates (30 June 2012: seven) 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 30 June 2013 is summed up below:

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD (€ m)

	January – June 2013	January – June 2012
Pro-rata net income for the period	1	-4
Other income/expenses from addition/disposal of financial investments accounted for under the equity method	-	-2
Impairments	-15	-4
Total	-14	-10

The total net income from financial investments accounted for under the equity method amounted to € -14 million (previous year: € -10 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 present Interim Report (see Note 24).

A review of the value of the remaining shares measured using the equity method under IAS 36 as at 30 June 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 € -15 million, was no longer recorded in the current period. The accumulated non-recognised pro-rata share in the losses of these companies amounts to € -49 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.

11. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS (€ m)

	January – June 2013	January – June 2012
– Expenses from additions to valuation allowances	868	1,065
+ Income from the reversal of valuation allowances	219	617
Result from changes in valuation allowances	-649	-448
– Expenses from allocations to provisions in the lending business	28	114
+ Income from reversal of provisions in the lending business	143	96
Result from changes in loan loss provisions	115	-18
– Direct write-downs	47	15
+ Payments received on loans and advances previously written down	63	71
+ Foreign currency income from loan loss provisions denominated in foreign currency	23	-48
+ Income from the disposal of receivables	–	1
Result from other changes in loan loss provisions	39	9
Result from changes in loan loss provisions before compensation	-495	-457
Compensation under the second loss guarantee	271	346
Total loan loss provisions	-224	-111

With regard to the compensation by the second loss guarantee please refer to Note 2.

Direct write-downs of € 47 million (previous year: € 15 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 net changes in provisions in the lending business during the period under review are presented below:

NET CHANGES IN LOAN LOSS PROVISIONS (€ m)

	January – June 2013	January – June 2012
Individual valuation allowances	-617	-463
Portfolio valuation allowances	-32	15
Net change in valuation allowances	-649	-448
Provisions for specific risks	114	-22
Provisions for portfolio risks	1	4
Net change in provisions in the lending business	115	-18

12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES (€ m)

	January – June 2013	January – June 2012
Personnel expenses	166	184
Operating expenses	154	166
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	50	35
Total	370	385

Depreciation includes unscheduled depreciation on investment properties in the amount of € 3 million (previous year: € 10 million) as well as on technical equipment and machinery in the amount of € 26 million (previous year: € 0 million).

Unscheduled depreciation relates to the Restructuring Unit segment.

13. OTHER OPERATING INCOME

OTHER OPERATING INCOME (€ m)

	January – June 2013	January – June 2012
Other operating income	157	348
Other operating expenses	123	95
Total	34	253

Other operating expenses include amortisation of goodwill to the amount of € 30 million. They are assigned in full to the cash-generating Restructuring Unit.

Income of € 19 million arising on the economic separation of the assets and liabilities attributable to KfW IPEX-Bank GmbH (silo 2) of the fully consolidated AGV Irish Equipment Leasing No. 4 Limited is included under Other operating income (see Note 4).

Other operating income of the previous year includes repayment gains of € 261 million on the repurchase of two subordinated issues.

14. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING (€ m)

	January – June 2013	January – June 2012
Personnel expenses	–	1
Operating expenses	17	21
Income from reversal of provisions and the release of liabilities	9	3
Total	-8	-19

Income from the reversal of provisions and the release of liabilities in the period under review mainly results from an excess amount in the plans for the use of buildings.

15. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES (€ m)

	January – June 2013	January – June 2012
Financial Market Stabilisation Fund (SoFFin)	–	16
HSH Finanzfonds AöR	143	141
Total	143	157

The increase in the expense payable to HSH Finanzfonds AöR results from the increase in the second loss guarantee to € 10 billion as at 30 June 2013 (see Note 2).

The issues hedged by the guarantee facility granted by the bank rescue fund SoFFin were redeemed in 2012 according to plan.

16. 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 period under review. The calculation was based on non-rounded values.

EARNINGS PER SHARE

	January – June 2013	January – June 2012
Attributable Group net result (€ m) – undiluted/diluted	91	54
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	291
Earnings per share (€)		
Undiluted	0.30	0.19
Diluted	0.30	0.19

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

17. CASH RESERVE

CASH RESERVE

(€ m)

	30.06.2013	31.12.2012
Cash on hand	13	14
Balances at central banks	8,350	6,349
of which: at the Deutsche Bundesbank	7,368	6,043
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	379	382
of which: eligible for refinancing at the Deutsche Bundesbank	372	375
Total	8,742	6,745

18. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)

	30.06.2013	31.12.2012
Payable on demand	3,801	4,192
Other loans and advances	2,583	4,161
Total	6,384	8,353

19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)

	30.06.2013	31.12.2012
Retail customers	913	1,056
Corporate clients	68,336	73,239
Public authorities	5,843	6,275
Total	75,092	80,570

20. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)

	30.06.2013	31.12.2012
Valuation allowances for loans and advances to banks	132	134
Valuation allowances for loans and advances to customers	5,501	5,371
Valuation allowances in the lending business	5,633	5,505
Compensation under the second loss guarantee	-2,229	-1,924
Loan loss provisions for items in the Statement of Financial Position	3,404	3,581
Provisions in the lending business	338	455
Loan loss provisions for items in the Statement of Financial Position and off-balance sheet risks in the lending business	3,742	4,036

We refer to Note 2 with regard to the compensation under the second loss guarantee.

The change in loss provisions for loans and advances to banks during the period under review was as follows:

CHANGE IN LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS BEFORE COMPENSATION

(€ m)

	Individual valuation allowances		Portfolio valuation allowances		30.06.2013	31.12.2012
	30.06.2013	31.12.2012	30.06.2013	31.12.2012		
As at 1 January	133	187	1	1	134	188
Additions	2	11	-	2	2	13
Reversals	1	15	-	2	1	17
Utilisation	3	62	-	-	3	62
Reclassifications	-	14	-	-	-	14
Unwinding	-	-1	-	-	-	-1
Exchange rate changes	-	-1	-	-	-	-1
As at 30 June 2013/31 December 2012	131	133	1	1	132	134

The change in loan loss provisions for loans and advances to customers during the period under review was as follows:

CHANGE IN LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS BEFORE COMPENSATION
(€ m)

	Individual valuation allowances		Portfolio valuation allowances		Total	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
As at 1 January	4,867	4,212	504	564	5,371	4,776
Additions	834	2,376	32	–	866	2,376
Reversals	218	996	–	48	218	1,044
Utilisation	386	435	–	–	386	435
Reclassifications	–	–15	–	–	–	–15
Unwinding	–109	–232	–	–	–109	–232
Changes in the scope of consolidation	–	–3	–	–	–	–3
Exchange rate changes	–18	–40	–5	–12	–23	–52
As at 30 June 2013/31 December 2012	4,970	4,867	531	504	5,501	5,371

In the previous year € 1 million of the individual valuation allowances were transferred to Non-current assets held for sale.

The valuation allowances relate exclusively to items classified as Loans and Receivables (LaR).

21. 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.

Changes in this item are directly related to changes in the item Negative fair value of hedging derivatives (see Note 33). 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.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES
(€ m)

	30.06.2013	31.12.2012
Positive fair value of derivatives used in micro fair value hedges	206	271
Positive fair value of derivatives used in portfolio fair value hedges	1,452	1,899
Total	1,658	2,170

22. 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 (€ m)

	30.06.2013	31.12.2012
Debentures and other fixed-interest securities	881	598
Shares and other non-fixed-interest securities	5	5
Positive fair value of financial derivatives	7,844	11,109
Other, including promissory notes Held for Trading	75	34
Receivables from syndicated transactions	-	71
Total	8,805	11,817

23. 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)

	30.06.2013	31.12.2012
Debentures and other fixed-interest securities	20,787	21,483
Shares and other non-fixed-interest securities	365	387
Equity holdings	153	183
Interests in affiliated companies	13	14
Total	21,318	22,067

24. 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, 30 June 2013, HSH Nordbank Group owns shares in ten associates that are included in the Interim Group Financial Statements under the equity method (31 December 2012: eight associates). The carrying amount of these equity holdings was € 7 million as at 30 June 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 10.

In contrast to 31 December 2012 the shares in Relacom Management AB, Stockholm are again accounted for under the equity method. Through the partial sale of shares in the first quarter of 2012 HSH Nordbank lost significant influence over the company as defined under IAS 28. With effect from 27 May 2013 HSH Nordbank increased its shareholding in the company by 1.87 % to 21.17 % as part of a restructuring measure undertaken by the participating financing banks, whereby we again have a significant influence over the company. The purpose of the joint capital measure with the other syndicate members is to safeguard the existing loan commitment and to restructure the company. 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. This impairment test identified 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 as at 30 June 2013.

In addition, NOBIS Asset Management S.A., Luxembourg will be included for the first time in the consolidated financial statements as at 30 June 2013 using the equity method for reasons of materiality.

A summary of the financial information as to the associates included in the consolidated financial statements under the equity method is presented here.¹⁾ 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)

	30.06.2013	31.12.2012
Total assets	1,120	962
Total liabilities	-1,342	-1,015
Sales revenue	264	97
Net income/loss for the year	-5	-33

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.

Financial statements of Belgravia Shipping Ltd. prepared as at 31 March 2013 were used to consolidate Belgravia Shipping Ltd. as at 30 June 2013. There were no material transactions or other events between this financial statement reporting date and the reporting date of HSH Nordbank.

The financial years for each of GARDEUR Beteiligungs GmbH and PRIME 2006-1 Funding Limited Partnership do not match the financial year of HSH Nordbank. Both end three months earlier. The financial statements for the first half of the financial year with the 31 March 2013 reporting date were used for inclusion of both companies in the present Interim Financial Statements. There were no material transactions or other events that would have required an adjustment to the Group reporting date.

As at 30 June 2013, eight associates and one joint venture 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 23 with regard to the condensed financial information related to financial investments not accounted for under the equity method.

¹⁾ The condensed financial information of the associates consolidated under the equity method as at the balance sheet date 31 December 2012 were adjusted in the present Interim Report due to a mistake in the course of data collection.

25. INTANGIBLE ASSETS

The Intangible assets item comprises software developed in-house or acquired.

INTANGIBLE ASSETS (€ m)

	30.06.2013	31.12.2012
Software	51	61
Developed in-house	33	39
Acquired	18	22
Software in development	4	4
Developed in-house	2	2
Acquired	2	2
Total	55	65

26. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT (€ m)

	30.06.2013	31.12.2012
Land and buildings	81	82
Plant and equipment	61	59
Lease assets	33	12
Assets under construction	1	1
Technical equipment and machinery	27	106
Total	203	260

INVESTMENT PROPERTY (€ m)

	30.06.2013	31.12.2012
Investment property	73	39
Total	73	39

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.

27. NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS (€ m)

	30.06.2013	31.12.2012
Loans and advances to banks	170	141
Loans and advances to customers	27	-
Financial investments	29	32
Investment property	-	1
Other assets	-	12
Total	226	186

This item mainly contains equity holdings, loans and advances to banks and loans and advances from the credit business. It is highly likely that these will be sold within the next twelve months in the course of the strategic realignment.

This mainly relates to the planned sale of the HSH Real Estate Group, which is assigned to the Restructuring Unit segment. The planned sale is a consequence of the implementation of the conditions imposed by the EU proceedings.

28. DEFERRED TAX ASSETS

Of the deferred tax assets amounting to € 1,312 million (31 December 2012: € 1,267 million), € 258 million (31 December 2012: € 258 million) are attributable to tax loss carry-forwards. The HSH Nordbank business model, strategic adjustments and the future taxable income derived from these ensure that the tax claims carried as assets will meet expectations.

29. OTHER ASSETS

OTHER ASSETS (€ m)

	30.06.2013	31.12.2012
Tenant loans	21	20
Receivables from insurance contracts	18	–
Prepaid expenses	14	10
Receivables from fund transactions	4	4
Receivables from other taxes	3	3
Receivables from participations and affiliated companies	3	3
Other assets	87	100
Total	150	140

€ 80 million of the assets reported here relate to financial instruments (previous year: € 140 million).

30. LIABILITIES TO BANKS

LIABILITIES TO BANKS (€ m)

	30.06.2013	31.12.2012
Payable on demand	1,015	1,072
Other term liabilities	20,709	28,862
Total	21,724	29,934

31. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS

(€ m)

	30.06.2013	31.12.2012
Savings deposits	58	61
Other liabilities		
Payable on demand	11,876	8,858
Other term liabilities	33,124	32,389
Total	45,058	41,308

32. SECURITISED LIABILITIES

SECURITISED LIABILITIES

(€ m)

	30.06.2013	31.12.2012
Debentures issued	29,533	30,938
Money market securities issued	332	521
Total	29,865	31,459

Debentures issued include € 548 million of hybrid financial instruments (31 December 2012: € 527 million). The carrying amount of these hybrid financial instruments was determined based on assumptions relating to future income of HSH Nordbank (IAS 39A8 measurement).

In the item Debentures issued repurchased own debentures in the amount of € 3,784 million (31 December 2012: € 4,471 million) were deducted.

33. 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)

	30.06.2013	31.12.2012
Negative fair value of derivatives used in micro fair value hedges	144	191
Negative fair value of derivatives used in portfolio fair value hedges	668	752
Total	812	943

Changes in this item are directly related to changes in the item Positive fair value of hedging derivatives (see Note 21). 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.

34. 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 a hedging derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

TRADING LIABILITIES

(€ m)

	30.06.2013	31.12.2012
Negative fair values from derivative financial instruments		
Interest rate-related business	7,905	10,627
Currency-related business	158	159
Other business	609	664
Total	8,672	11,450

35. PROVISIONS

PROVISIONS

(€ m)

	30.06.2013	31.12.2012
Provisions for pension obligations and similar obligations	873	854
Other provisions		
Provisions for personnel expenses	44	61
Provisions in the lending business	338	455
Provisions for restructuring	118	149
Provisions for litigation risks and costs	33	80
Miscellaneous	47	65
Total	1,453	1,664

The reduction in provisions for litigation risks and costs results primarily from a payment made by the Bank to the plaintiff in the course of a legal dispute.

The net change in pension obligations of € 19 million comprises the payments for pension obligations in the amount of € 20 million and additions in the amount of € 39 million. The increase in pension obligations is mainly attributable to the decline in market interest rates.

Provisions in the lending business are composed of the following items:

PROVISIONS IN THE LENDING BUSINESS

(€ m)

	30.06.2013	31.12.2012
Specific loan loss provisions for		
Contingent liabilities	40	38
Irrevocable loan commitments	212	347
Other credit risks	30	13
Subtotal	282	398
Portfolio loan loss provisions for		
Contingent liabilities	48	46
Irrevocable loan commitments	8	11
Subtotal	56	57
Total	338	455

36. LIABILITIES RELATING TO DISPOSAL GROUPS

LIABILITIES RELATING TO DISPOSAL GROUPS (€ m)

	30.06.2013	31.12.2012
Liabilities to banks	53	52
Provisions	107	120
Other liabilities	10	11
Total	170	183

The holdings under this item are part of disposal groups classified as such under the Group's strategic realignment.

The liabilities reported here include financial instruments amounting to € 63 million.

Comments on non-current assets held for sale and disposal groups are set out in Note 27.

37. OTHER LIABILITIES

OTHER LIABILITIES (€ m)

	30.06.2013	31.12.2012
Collateral provided for assumed liabilities	890	974
Outstanding payments for the second loss guarantee	73	72
Liabilities for outstanding invoices	46	34
Other tax liabilities	22	11
Deferred income	20	26
Liabilities for restructuring	17	26
Personnel liabilities	16	13
Liabilities from open bearer notes	15	15
Other	104	164
Total	1,203	1,335

The collateral provided for assumed liabilities serves to hedge leasing transactions of our customers with third parties.

€ 1,142 million of the liabilities reported here relate to financial instruments (previous year: € 1,335 million).

38. SUBORDINATED CAPITAL

SUBORDINATED CAPITAL (€ m)

	30.06.2013	31.12.2012
Subordinated liabilities	4,197	4,230
Silent participations	1,110	1,131
Profit participation capital	31	30
Total	5,338	5,391

The carrying amounts of silent participations and profit participation capital were determined on the basis of assumptions of the future earnings situation of HSH Nordbank Group and assumptions with regard to making use of termination or extension options (IAS 39.A8).

39. EQUITY

EQUITY (€ m)

	30.06.2013	31.12.2012
Share capital	3,018	3,018
Capital reserve	594	594
Retained earnings	1,754	1,876
Gains on pension obligations and similar obligations not recognised in the income statement	-15	-
Deferred taxes on gains from pension obligations and similar obligations not recognised in the income statement	5	-
Revaluation reserve	3	-31
Currency conversion reserve	-53	-59
Other net income from financial investments accounted for under the equity method	2	-
Group net profit/loss	91	-120
Total before non-controlling interests	5,409	5,278
Non-controlling interests	-7	-6
Total	5,402	5,272

CHANGES IN ORDINARY SHARES (number of shares)

	30.06.2013	31.12.2012
Number at the beginning of the year	301,822,453	263,508,277
Capital increase	0	38,314,176
Number at the end of the year	301,822,453	301,822,453

SEGMENT REPORTING

40. SEGMENT REPORT

(€ m/%)

	Shipping, Project & Real Estate Clients		Corporates & Markets		Corporate Center		Consolidation Core Bank		Total Core Bank	
	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012
Net interest income	293	300	86	92	-80	-72	-2	-82	297	238
Net commission income	20	16	29	24	-3	-3	-8	-11	38	26
Result from hedging	-	-	-	-	-	-	10	9	10	9
Net trading income	27	7	73	89	-1	-10	-61	-193	38	-107
Net income from financial investments ¹⁾	7	-3	10	2	56	-28	8	-6	81	-35
Total income	347	320	198	207	-28	-113	-53	-283	464	131
Loan loss provisions	-154	-142	-6	-4	4	-9	48	60	-108	-95
Administrative expenses	-126	-123	-118	-131	29	11	3	4	-212	-239
Other operating income	5	7	4	7	23	250	-	-17	32	247
Net income before restructuring	72	62	78	79	28	139	-2	-236	176	44
Result from restructuring	-	-	-	-	-	-	-6	-13	-6	-13
Expenses for government guarantees	-	-	-	-	-	-	-39	-61	-39	-61
Net income before taxes	72	62	78	79	28	139	-47	-310	131	-30
Cost/Income Ratio (CIR) (%)	36	38	60	63	-	-	-	-	46	182
Return on equity before tax (%)	14	14	46	49	-	-	-	-	10	-2
Average equity	998	917	340	325	165	139	1,184	1,143	2,687	2,524

(€ bn)

	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012
Segment assets	30	32	18	23	22	21	1	-1	71	75

¹⁾ Including net income from financial investments accounted for under the equity method.

(€ m/%)

	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012	30.06. 2013	30.06. 2012
	Net interest income	167	218	21	-3	188	215	485
Net commission income	14	18	-	-	14	18	52	44
Result from hedging	-	-	-	-	-	-	10	9
Net trading income	113	62	-42	-165	71	-103	109	-210
Net income from financial investments ¹⁾	72	177	-	-	72	177	153	142
Total income	366	475	-21	-168	345	307	809	438
Loan loss provisions	-337	-300	221	284	-116	-16	-224	-111
Administrative expenses	-158	-146	-	-	-158	-146	-370	-385
Other operating income	2	6	-	-	2	6	34	253
Net income before restructuring	-127	35	200	116	73	151	249	195
Result from restructuring	-	-	-2	-6	-2	-6	-8	-19
Expenses for government guarantees	-	-	-104	-96	-104	-96	-143	-157
Net income before taxes	-127	35	94	14	-33	49	98	19
Cost/Income Ratio (CIR) (%)							46	88
Return on equity before tax (%)							4	1
Average equity	2,650	2,581	-	-	2,650	2,581	5,337	5,105

(€ bn)

	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012
Segment assets	44	50	6	6	50	56	121	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. We adjusted the segment structure in the Core Bank as part of the reorganisation of the responsibilities of the Management Board and created a new segment. 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 Clients, 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 Clients 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 divisions the Corporates & Markets segment includes the Corporates, Savings Banks & Institutional Clients as well as Private Banking customer departments. The segment thus combines the development, structuring, sale and distribution 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 increasingly 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.

In accordance with IFRS 8.32 and 8.33, neither geographical information nor information on products and services is disclosed.

The cost/income ratio and return on equity are not shown in the segment report for the segments Corporate Center and Restructuring Unit. The Corporate Center segment is a summary in accordance with IFRS 8.16. The ratios are not shown for this segment as a joint ratio for the units in this segment provides little information. 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 within the framework of internal cost allocations.

Net income elements not allocated to divisions are reported in the consolidation columns of the Core Bank and the Restructuring Unit.

Measurement and recognition differences are principally reported under the consolidation of net interest income. These result among other things from pending interest income from items measured at cost externally.

Consolidation of the net trading income includes, among other things, credit rating effects on issues of HSH Nordbank measured at fair value not subject to any segment allocation as well as differences in the mapping of economic hedging relationships.

In addition, changes in value arising from interest rate derivatives and currency derivatives, and, in particular, EUR/USD basis swaps not allocated to a particular segment, were reported in the net trading income within the framework of the refinancing of foreign currency assets.

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 not subject to a segment allocation and are reported in the consolidation columns.

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 13 for comments on the depreciation of goodwill in the segments. See note 10 for comments on companies consolidated under the equity method recognised as part of net income from financial investments.

NOTES ON FINANCIAL INSTRUMENTS

41. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m)

30.06.2013	LoR	AfS	DFV	HfT	LIA	No IAS 39 category	Total
Assets							
Cash reserve	8,363	379	–	–	–	–	8,742
Loans and advances to banks	6,229	39	116	–	–	–	6,384
Loans and advances to customers	73,762	–	1,183	–	–	–	74,945
Receivables under finance leases	–	–	–	–	–	146	146
Positive fair values of hedging derivatives	–	–	–	–	–	1,658	1,658
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	174	174
Trading assets	–	–	–	8,805	–	–	8,805
Financial investments	7,773	11,329	2,216	–	–	–	21,318
Non-current assets held for sale and disposal groups	212	14	–	–	–	–	226
Other assets	80	–	–	–	–	–	80
Total assets	96,419	11,761	3,515	8,805	–	1,978	122,478
Liabilities							
Liabilities to banks	–	–	143	–	21,581	–	21,724
Liabilities to customers	–	–	2,889	–	42,169	–	45,058
Securitised liabilities	–	–	5,023	–	24,842	–	29,865
Negative fair values of hedging derivatives	–	–	–	–	–	812	812
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	1,086	1,086
Trading liabilities	–	–	–	8,672	–	–	8,672
Liabilities relating to disposal groups	–	–	–	–	63	–	63
Subordinated capital	–	–	118	–	5,220	–	5,338
Other liabilities	–	–	–	–	1,142	–	1,142
Total liabilities	–	–	8,173	8,672	95,017	1,898	113,760

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m)

31.12.2012	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 from finance lease transactions	-	-	-	-	-	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

42. RECLASSIFICATION UNDER IAS 39 (REVISED 2008)

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (revised 2008) 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)

	Carrying amount as at the time of reclassification	30.06.2013		31.12.2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	72	72	126	123
Reclassified from AfS to LaR	1,765	-	-	-	-
Total financial assets reclassified as LaR	2,785	72	72	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)

	Carrying amount as at the time of reclassification	30.06.2013		31.12.2012	
		Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	399	34	34	268	274
Reclassified from AfS to LaR	6,336	2,783	2,819	3,963	4,025
Total financial assets reclassified as LaR	6,735	2,817	2,853	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 € 1,295 million and the carrying amount of assets classified as AfS was € 5,334 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 € 1 million (31 December 2012: € 18 million) for the financial instruments reclassified in the 2008 financial year and € - 2 million (31 December 2012: € 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 (31 December 2012: € 0 million) for the financial instruments reclassified in the 2008 financial year and € - 22 million (31 December 2012: € 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)

	January - June 2013			January - June 2012		
	From HfT	From AfS	Total	From HfT	From AfS	Total
Net interest income	3	40	43	8	75	83
Net trading income	-	-22	-22	2	-	2
Net income from financial investments	5	-	5	2	7	9
Total	8	18	26	12	82	94

43. DISCLOSURE OF FAIR VALUE IN ACCORDANCE WITH IFRS 7 AND IFRS 13

I. DETERMINATION OF 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 an identical 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.

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, 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), 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 is 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 unobservable inputs, 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.

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 LGD of loans. In the case of receivables with a default rating, the fair values are determined based on the expected future cash flows. For current receivables and liabilities (e.g. current accounts) the carrying amount is shown at fair value.

A portion of the liabilities measured at fair value comes under the guarantor liability (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 provides an overview of the inputs and assumptions used and the valuation procedures they are based on.

1. Inputs used in valuation techniques and models

The following assumptions are used to determine the fair value for each class of financial assets and liabilities. We refer to the information provided on significant unobservable inputs (Section IV of this Note) with regard to the material inputs used.

a. Trading assets/Trading liabilities (HfT)

Securities in the trading portfolio are valued using quoted market prices to a large extent. If a current price from a liquid market is not available, interest-bearing securities are valued using 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 unobservable inputs 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 unobservable market inputs 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 unobservable market inputs to an insignificant extent, if at all.

c. Financial investments (Afs)

The HSH Nordbank Group's financial investments comprise mainly fixed income securities. Substantial parts are valued using liquid market prices (e.g. stock exchange prices). If a current price from a liquid market is not available, interest-bearing securities are valued using 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 above.

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.

These financial instruments are therefore 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 above is used for the other products.

DFV liabilities stated 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 indirectly hedged by corresponding derivatives (so-called back-to-back transactions). Where current market prices are available for securitised liabilities on liquid markets, these are used. However, the predominant 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 on the market DFV liabilities are principally hedged through offsetting derivatives so that there are positions which compensate for model risks or parameter uncertainties.

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.

2. 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 unobservable market inputs 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 (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).

3. 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 inputs, 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.

4. 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 inputs 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, adjusted, recalibrated or replaced by new measurement procedures or models. Any deficits and weaknesses identified are reported monthly to the Management Board.

II. 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

(€ m)

	30.06.2013			31.12.2012		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets						
Held for Trading (HfT)						
Trading assets	8,805	8,805	–	11,817	11,817	–
Designated at Fair Value (DFV)						
Loans and advances to banks	116	116	–	122	122	–
Loans and advances to customers	1,183	1,183	–	1,269	1,269	–
Financial investments	2,216	2,216	–	2,289	2,289	–
Available for Sale (AFS)						
Cash reserve	379	379	–	382	382	–
Loans and advances to banks	39	39	–	41	41	–
Financial investments	11,329	11,444	115	9,683	9,980	297
of which: Equity instruments measured at cost	164	–	–	195	–	–
Non-current assets held for sale and disposal groups	14	14	–	29	29	–
Loans and Receivables (LaR)						
Cash reserve	8,363	8,363	–	6,363	6,363	–
Loans and advances to banks	6,097	6,125	28	8,056	8,101	45
Loans and advances to customers	68,262	68,647	385	73,775	74,198	423
Financial investments	7,773	7,657	–116	10,095	9,919	–176
Non-current assets held for sale and disposal groups	212	212	–	156	156	–
Other assets	80	80	–	140	140	–
No IAS 39 category						
Positive fair values of hedging derivatives	1,658	1,658	–	2,170	2,170	–
Receivables under finance leases	146	146	–	155	155	–
Value adjustments from the portfolio fair value hedge	174	–	–174	403	–	–403
Total assets	116,846	117,084	238	126,945	127,131	186

The 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 € 115 million is accounted for by financial investments classified as Available for Sale (AfS) and € 59 million by loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS

(€ m)

	30.06.2013			31.12.2012		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Liabilities						
Held for Trading (HfT)						
Trading liabilities	8,672	8,672	-	11,450	11,450	-
Designated at Fair Value (DFV)						
Liabilities to banks	143	143	-	215	215	-
Liabilities to customers	2,889	2,889	-	2,987	2,987	-
Securitised liabilities	5,023	5,023	-	5,203	5,203	-
Subordinated capital	118	118	-	133	133	-
Other liabilities (LIA)						
Liabilities to banks	21,581	21,800	219	29,719	30,109	390
Liabilities to customers	42,169	43,441	1,272	38,321	39,968	1,647
Securitised liabilities	24,842	24,672	-170	26,256	26,382	126
Liabilities relating to disposal groups	63	63	-	63	63	-
Other liabilities	1,142	1,142	-	1,335	1,335	-
Subordinated capital	5,220	4,158	-1,062	5,258	4,268	-990
No IAS 39 category						
Negative fair values of hedging derivatives	812	812	-	943	943	-
Value adjustments from the portfolio fair value hedge	1,086	-	-1,086	1,545	-	-1,545
Total liabilities	113,760	112,933	-827	123,428	123,056	-372

III. FAIR VALUE HIERARCHY

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)

30.06.2013	Assets recognised at fair value			Total
	Level 1	Level 2	Level 3	
Cash reserve				
Afs	7	372	–	379
Loans and advances to banks				
Afs	–	–	39	39
DFV	–	39	77	116
Loans and advances to customers				
DFV	–	83	1,100	1,183
Positive fair values of hedging derivatives	–	1,658	–	1,658
Trading assets (Hft)	571	7,099	1,135	8,805
of which: Debt instruments	539	323	–	862
Securitisations	–	67	–	67
Equity and near-equity instruments	5	–	–	5
Interest rate derivatives	–	5,915	330	6,245
Cross-currency interest rate derivatives	–	340	15	355
Currency derivatives	–	131	22	153
Credit derivatives	–	26	2	28
Other derivatives	27	101	375	503
Structured interest rate and cross-currency interest rate derivatives	–	196	391	587
Financial investments				
Afs	9,419	1,450	296	11,165
of which: Debt instruments	9,219	1,429	3	10,651
Securitisations	166	20	–	186
Equity and near-equity instruments	34	1	293	328
DFV	924	393	899	2,216
of which: Debt instruments	924	327	513	1,764
Securitisations	–	60	348	408
Equity and near-equity instruments	–	6	38	44
Non-current assets held for sale and disposal groups				
Afs	–	–	14	14
Total	10,921	11,094	3,560	25,575

HIERARCHY LEVELS, LIABILITIES

(€ m)

30.06.2013	Liabilities recognised at fair value			Total
	Level 1	Level 2	Level 3	
Liabilities to banks				
DFV	-	33	110	143
Liabilities to customers				
DFV	-	566	2,323	2,889
Securitised liabilities				
DFV	-15	2,793	2,245	5,023
Negative fair values of hedging derivatives	-	812	-	812
Trading liabilities (Hft)	-	7,764	908	8,672
of which: Debt instruments	-	-	-	-
Securitisations	-	-	-	-
Equity and near-equity instruments	-	-	-	-
Interest rate derivatives	-	7,014	479	7,493
Cross-currency interest rate derivatives	-	355	15	370
Currency derivatives	-	127	33	160
Credit derivatives	-	1	-	1
Other derivatives	-	132	98	230
Structured interest rate and cross-currency interest rate derivatives	-	135	283	418
Subordinated capital				
DFV	-	101	17	118
Total	-15	12,069	5,603	17,657

Of the financial instruments allocated to level 3, € 2,925 million of assets or € 4,884 million of liabilities respectively are in economic hedging relationships, so that uncertainties and risk positions due to unobservable parameters offset each other at the level of hedging relationships involved.

During the period under review financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are made as at the reporting date and are shown below with the carrying amounts at the time of transfer for each class of financial instruments.

TRANSFER, ASSETS

(€ m)

30.06.2013	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						
DFV	-	-	-	-	-	-
Loans and advances to customers						
DFV	-	-	-	-	-	-
Trading assets (Hft)	-	-	149	-	-	-149
Financial investments						
AfS	60	-	-	-64	4	-
DFV	-	-	18	-	-	-18
Total	60	-	167	-64	4	-167

TRANSFER, ASSETS

(€ m)

31.12.2012	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)

30.06.2013	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	-	-	-	-	-	-
Liabilities to customers						
DFV	-	-	8	-	-	-8
Securitised liabilities						
DFV	-	-	307	-	-	-307
Trading liabilities (HfT)	-	-	97	-	-	-97
Total	-	-	412	-	-	-412

TRANSFER, LIABILITIES

(€ m)

31.12.2012	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

In addition to level changes for individual transactions there were significant level changes for products containing inflation components. Based on the periodic revaluation

the valuation models used to measure these products were no longer assigned to fair value level 3 but to fair value level 2.

The following shows the reconciliation for all assets and liabilities recognised on a recurring basis at fair value and allocated to level 3 in the fair value hierarchy in accordance with IFRS 13. This is presented by financial instrument class from the start of the period to the end of the period

and takes into account all movements in these assets and liabilities.

In the reconciliations of liability items below, income is shown with a negative sign and expenses without a sign.

RECONCILIATION, ASSETS (€ m)

30.06.2013	Loans and advances to banks		Loans and advances to customers	Trading assets	Financial investments		Non-current assets held for sale and disposal groups	Total
	AfS	DFV	DFV	HfT	AfS	DFV	AfS	
1 January 2013	41	78	1,155	1,441	499	943	29	4,186
Less equity instruments measured at cost	-	-	-	-	-195	-	-	-195
1 January 2013 following adjustment	41	78	1,155	1,441	304	943	29	3,991
Changes in holdings recognised in profit or loss								
Realised net income (income statement)	-	-	-55	-205	-	-7	-13	-280
Net income not recognised in profit or loss	-	-	-	-	2	-	-	2
Quantitative change								
Purchases	-	-	-	69	-	-	-	69
Sales	-	-1	-	-9	-7	-3	-16	-36
Settlements	-2	-	-	-	-	-8	-	-10
Transfer from level 3	-	-	-	-149	-	-18	-	-167
Transfer to level 3	-	-	-	-	4	-	-	4
Reclassification	-	-	-	-1	-9	-	14	4
Exchange rate changes	-	-	-	-11	2	-8	-	-17
Changes in the scope of consolidation	-	-	-	-	-	-	-	-
30 June 2013	39	77	1,100	1,135	296	899	14	3,560
Net income from assets held as at 30 June 2013	-	-	-54	-196	3	-11	-	-258

Income generated by equity instruments measured at cost is no longer disclosed in this table in contrast to the presentation in the consolidated financial statements as at 31 December 2012.

RECONCILIATION, LIABILITIES

(€ m)

30.06.2013	Liabilities to banks	Liabilities to customers	Securitised liabilities	Trading liabilities	Sub- ordinated capital	Total
	DFV	DFV	DFV	HfT	DFV	
1 January 2013	120	2,399	2,569	1,144	18	6,250
Changes in holdings recognised in profit or loss						
Realised net income (income statement) ¹⁾	-2	-50	17	-218	-1	-254
Quantitative change						
Purchases	1	22	-15	84	-	92
Sales	-9	-18	4	-2	-	-25
Issues, new business	-	-	66	-	-	66
Settlements	-	-30	-11	-1	-	-42
Transfer from level 3	-	-8	-307	-97	-	-412
Transfer to level 3	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-
Exchange rate changes	-	8	-78	-2	-	-72
Changes in the scope of consolidation	-	-	-	-	-	-
30 June 2013	110	2,323	2,245	908	17	5,603
Net income from liabilities held as at 30 June 2013	1	50	-15	204	-	240

¹⁾ In this table "Reconciliation, liabilities" income is disclosed with a negative sign and expenses without a sign.

The income statement line items are presented below, under which the results generated by financial instruments in level 3 are disclosed in the income statement and equity (Statement of Comprehensive Income):

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)

30.06.2013	Loans and advances to banks		Loans and advances to customers	Trading assets	Financial investments		Non-current assets held for sale and disposal groups	Total
	AfS	DFV	DFV	HfT	AfS	DFV	AfS	
Realised/Unrealised net income (income statement)								
Net interest income	-	-1	7	32	-	8	-	46
Net trading income	-	1	-61	-236	-	-15	-	-311
Net income from financial investments	-	-	-	-	-	-	-	-
Other operating income	-	-	-	-	-	-	-13	-13
Net income, income statement total	-	-	-54	-204	-	-7	-13	-278
Addition to/Reversal of revaluation reserve	-	-	-	-	1	-	-	1
Net income from assets held as at 30 June 2013								
Net interest income	-	-1	7	32	-	8	-	46
Net trading income	-	1	-61	-228	-	-19	-	-307
Net income from financial investments	-	-	-	-	1	-	-	1
Net income from assets held as at 30 June 2013	-	-	-54	-196	1	-11	-	-260
Addition to/Reverse of revaluation reserve relating to assets held as at 30 June 2013	-	-	-	-	2	-	-	2

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)

30.06.2013	Liabilities to banks	Liabilities to customers	Securitised liabilities	Trading liabilities	Sub- ordinated capital	Total
	DFV	DFV	DFV	HfT	DFV	
Realised/Unrealised net income (income statement)						
Net interest income	-	-8	-17	-3	-	-28
Net trading income	2	58	-	221	1	282
Net income, income statement total	2	50	-17	218	1	254
Net income (income statement) from liabilities held as at 30 June 2013						
Net interest income	-1	-10	-17	96	-	68
Net trading income	2	60	2	108	-	172
Net income (income statement) from liabilities held as at 30 June 2013	1	50	-15	204	-	240

IV. SIGNIFICANT UNOBSERVABLE INPUTS

The inputs, spreads and sensitivities that give rise to a P&L impact are set out in the following presentation of significant unobservable inputs.

Quantitative information on significant unobservable inputs

The following overview contains quantitative information on significant unobservable inputs.

FAIR VALUE (€ m)

		Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin
Financial investments	Debt instruments	516	–	Option pricing model	Interest rate volatility	10% – 115%
	Securitised instruments	348	–	Price based on DCF method	Price Spread (bps)	65% – 100% 150 – 500
	Equity or near-equity instruments	331	–	Price based on DCF method	Price Spread (bps)	2% – 100% 600 – 770
Trading assets/ Trading liabilities	Derivatives:					
	Interest rate derivatives	744	625	Option pricing model	Mean reversion Interest rate volatility	0% – 10% 10% – 115%
	Structured interest rate and cross-currency interest rate derivatives	391	283	Option pricing model	Mean reversion Interest rate volatility FX correlation	0% – 10% 10% – 115% 25% – 70%
Loans and advances to banks	Debt instruments	39		Price	Price	n.a. ¹⁾
	Securitised instruments	77		Price based on option pricing model	Basket correlation	0.5 – 0.95
Loans and advances to customers		1,100		Price based on DCF method	Price Spread (bps)	–
Liabilities to banks	Debt instruments	–	110	Option pricing model	Mean reversion Interest rate volatility	0% – 10% 10% – 115%
Liabilities to customers	Debt instruments	–	2,323	Option pricing model	Mean reversion Interest rate volatility	0% – 10% 10% – 115%
Securitised liabilities	Debt instruments	–	2,245	Option pricing model	Mean reversion Interest rate volatility	0% – 10% 10% – 115%
Subordinated capital		–	17	Option pricing model	Mean reversion Interest rate volatility	–
Non-current assets and disposal groups held for sale		14	–	–	–	–
		3,560	5,603			

¹⁾ Prices provided by an external supplier are used for this position. A spread is therefore not specified (IFRS 13.93 (d)).

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlyings, tenors and exercise prices.

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 the fair value 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” derivatives) or several shares as the underlyings (“equity basket” derivatives). Currency correlation describes the relationship between the changes in value of several currencies. Share correlation expresses 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

Volatility can also represent an important unobservable input for the measurement of the fair value of options. It expresses 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. An alternative choice of 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. For many of the financial instruments included here (e.g. derivatives) the unobservable inputs only represent a sub-set of the total inputs required for the measurement. The remaining inputs are observable inputs.

FAIR VALUE CHANGES LEVEL 3

(€ m)

		30.06.2013		31.12.2012	
		advantageous	disadvantageous	advantageous	disadvantageous
Financial investments	Debt instruments	3	1	3	1
	Securitised instruments	4	1	3	1
	Equity or near-equity instruments	9	2	1	-
Trading assets/Trading liabilities	Interest rate derivatives	15	5	25	7
	Structured interest rate and cross-currency interest rate derivatives	8	3	9	3
Loans and advances to banks	Debt instruments	1	-	-	-
	Securitised instruments	3	1	-	-
Liabilities to banks	Debt instruments	1	-	1	-
Liabilities to customers	Debt instruments	2	-	1	-
Securitised liabilities	Debt instruments	2	-	2	1
Total		48	13	45	13
	thereof measured in profit or loss	39	11	44	13
	thereof not measured in profit or loss	8	2	1	-

Fair values for financial instruments in valuation level 3 are subject to some uncertainties, as there are no observable market prices on the measurement date in an active market for the instrument to be measured and the measurement method uses non-observable parameters as well as observable market data. The range of fair values given may primarily be due to three reasons.

First, the estimate for the fair value of certain financial instruments which are not traded on an active market may involve prices from various sources (transaction prices, transaction prices for similar financial instruments, index prices, prices obtained from market partners, prices from price service agencies, model prices). In these cases, the range is derived from the differences between the various price sources.

Second, different valuation models may be used in the market for certain financial instruments, this means that there is no uniform market standard. For such financial instruments, possible ranges in determining fair value arise out of differences between the various model prices.

Third, non-observable parameters (e.g. correlations, specific volatilities) are used in the valuation model for specific financial instruments. In these cases, the range arises out of alternative possible parameter selections in the model.

V. DAY ONE PROFIT AND LOSS

The day one profit and loss reserve developed as follows:

DAY ONE PROFIT AND LOSS

(€ m)

	30.06.2013	31.12.2012
Holdings as at 1 January	37	23
Additions not recognised in profit or loss	1	20
Reversals recognised in profit or loss	5	6
Reserve as at 30 June	33	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 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.

The portfolio of shares and other non-interest bearing securities measured at cost amounts to € 147 million. Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 164 million. There are currently no concrete disposal plans for these equity instruments.

Financial instruments accounted for at cost are disclosed under assets measured at fair value (AfS).

Equity instruments not measured at fair value with a carrying amount of € 7 million were disposed of during the period under review. This resulted in a profit of € 5 million.

44. 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)

30.06.2013	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	230	180	50	50	-	-
Loans and advances to customers	131	59	72	1	-	71
Derivatives	8,348	-	8,348	7,548	548	252

Of the net amount of derivatives disclosed on the balance sheet, Positive market values of hedging derivatives account for € 1,591 million and Trading assets for € 6,757 million.

FINANCIAL LIABILITIES

(€ m)

30.06.2013	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	2,219	180	2,039	50	1,422	567
Liabilities to customers	342	59	283	1	40	242
Derivatives	9,416	-	9,416	7,548	1,868	-

Of the net amount of derivatives disclosed on the balance sheet, Negative market values of hedging derivatives account for € 812 million and Trading liabilities for € 8,604 million.

FINANCIAL ASSETS

(€ m)

31.12.2012	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	11,694	–	–

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)

31.12.2012	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	969	1,479
Liabilities to customers	407	60	347	2	72	273
Derivatives	12,291	–	12,291	11,694	597	–

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 € 11,348 million.

45. FINANCIAL TRANSACTIONS 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.

HSH Nordbank's exposure to banks, companies and other business partners in the listed European countries is disclosed in the Risk Report.

ASSETS CLASSIFIED AS LAR (€ m)

	Nominal values	Acquisition cost	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Carrying amount of financial assets after impairment	Fair value of assets
30.06.2013						
Portugal	180	180	171	-	171	134
Ireland	-	-	-	-	-	-
Italy	60	60	60	-	60	58
Greece	-	-	-	-	-	-
Spain	172	172	167	-	167	133
Slovenia	90	90	90	-	90	79
Hungary	25	25	25	-	25	26
Cyprus	-	-	-	-	-	-
Total	527	527	513	0	513	430

ASSETS CLASSIFIED AS LAR (€ m)

	Nominal values	Acquisition cost	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Carrying amount of financial assets after impairment	Fair value of assets
31.12.2012						
Portugal	180	167	167	-	167	120
Ireland	-	-	-	-	-	-
Italy	62	60	60	-	60	56
Greece	-	-	-	-	-	-
Spain	178	170	173	-	173	122
Slovenia	90	90	90	-	90	78
Hungary	25	24	24	-	24	26
Cyprus	-	-	-	-	-	-
Total	535	511	514	0	514	402

ASSETS CLASSIFIED AS AFS

(€ m)

30.06.2013	Nominal values	Acquisition cost	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Accumulated changes in value in the revaluation reserve	Fair value of assets
Portugal	-	-	-	-	-	-
Ireland	-	-	-	-	-	-
Italy	41	41	51	-	-13	38
Greece	6	7	7	-3	-	4
Spain	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-
Hungary	12	12	12	-	-1	11
Cyprus	-	-	-	-	-	-
Total	59	60	70	-3	-14	53

ASSETS CLASSIFIED AS AFS

(€ m)

31.12.2012	Nominal values	Acquisition cost	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Accumulated changes in value in the revaluation reserve	Fair value of assets
Portugal	-	-	-	-	-	-
Ireland	-	-	-	-	-	-
Italy	41	41	53	-	-17	36
Greece	7	7	7	-5	-	2
Spain	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-
Hungary	12	12	12	-	-1	12
Cyprus	-	-	-	-	-	-
Total	60	60	72	-5	-18	50

ASSETS CLASSIFIED AS DFV
 (€ m)

30.06.2013	Nominal values	Acquisition cost	Gross carrying amount of financial assets	Accumulated valuation affecting P&L	Fair value of assets
Portugal	100	100	100	-9	91
Ireland	-	-	-	-	-
Italy	393	402	397	88	485
Greece	68	68	0	1	1
Spain	-	-	-	-	-
Slovenia	-	-	-	-	-
Hungary	-	-	-	-	-
Cyprus	-	-	-	-	-
Total	561	570	497	80	577

ASSETS CLASSIFIED AS DFV
 (€ m)

31.12.2012	Nominal values	Acquisition cost	Gross carrying amount of financial assets	Accumulated valuation affecting P&L	Fair value of assets
Portugal	100	100	100	-11	89
Ireland	-	-	-	-	-
Italy	410	410	418	88	506
Greece	68	-	-	-	-
Spain	-	-	-	-	-
Slovenia	-	-	-	-	-
Hungary	-	-	-	-	-
Cyprus	-	-	-	-	-
Total	578	510	518	77	595

ASSETS CLASSIFIED AS HFT

(€ m)

	Fair value of assets	
	30.06.2013	31.12.2012
Portugal	-	-
Ireland	-	-
Italy	-	-
Greece	-	-
Spain	-	-
Slovenia	-	-
Hungary	-	-
Cyprus	-	-
Total	0	0

46. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS AND DETAILS OF COLLATERAL**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	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Held for Trading (HfT)						
Trading assets	1,652	1,780	3,923	6,138	1,653	1,639
Designated at Fair Value (DFV)						
Loans and advances to banks	49	47	-	-	67	75
Loans and advances to customers	1,109	1,195	-	-	-	-
Financial investments	190	191	829	1,047	1,109	772
Assets held for sale	-	-	-	-	-	-
Available for Sale (AFS)						
Cash reserve	379	382	-	-	-	-
Loans and advances to banks	23	24	12	13	2	2
Financial investments	6,521	5,546	3,535	2,989	673	566
Assets held for sale	8	18	4	9	1	2
Loans and Receivables (LaR)						
Cash reserve	8,363	6,363	-	-	-	-
Loans and advances to banks	2,486	4,254	3,230	3,307	320	348
Loans and advances to customers	4,595	5,393	5,297	5,556	15,448	16,328
Financial investments	3,920	5,183	1,450	2,001	737	1,213
Assets held for sale	17	14	20	14	58	41
Other assets	-	-	-	-	-	-
No IAS 39 category						
Positive fair values of hedging derivatives	461	603	999	1,385	160	108
Receivables under finance leases	11	13	14	14	40	41
Value adjustments from the portfolio fair value hedge	48	112	105	257	17	20
Total	29,832	31,118	19,418	22,730	20,285	21,155

	6 to 9		10 to 12		13 to 15		16 to 18	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
	756	1,133	226	334	358	372	237	421
	-	-	-	-	-	-	-	-
	-	-	-	45	74	29	-	-
	30	71	10	-	8	1	40	207
	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	2	2	-	-	-	-	-	-
	454	399	3	1	4	10	22	28
	1	1	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	38	124	3	3	-	-	-	-
	14,263	16,962	5,680	5,645	7,639	7,861	3,655	4,481
	524	545	100	122	275	290	250	279
	53	43	21	14	29	20	14	11
	80	140	-	-	-	-	-	-
	34	71	4	3	-	-	-	-
	37	42	15	14	20	20	9	11
	4	13	-	1	-	-	-	-
	16,276	19,546	6,062	6,182	8,407	8,603	4,227	5,438

II. CARRYING AMOUNTS OF OVERDUE, UNIMPAIRED FINANCIAL ASSETS ¹⁾

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, UNIMPAIRED FINANCIAL ASSETS (€ m)

	Overdue < 3 months		Overdue 3 to 6 months		Overdue > 6 to 12 months		Overdue > 12 months	
	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012	30.06. 2013	31.12. 2012
Loans and Receivables (LaR)								
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	1,453	1,289	712	796	1,305	1,239	1,333	559
Total	1,453	1,289	712	796	1,305	1,239	1,333	559

Payments of € 75 million on transactions with a carrying amount volume of € 465 million were received up to ten days after the reporting date of 30 June 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.

¹⁾ As a result of incorrect data preparation the carrying amount of overdue, unimpaired financial assets disclosed in the loans and advances to customers line item was too low by € 836 million. The correction will result in corresponding adjustments to the figures presented in Section I (credit quality) of this Note.

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	
	30.06.2013	31.12.2012	30.06.2013	31.12.2012	30.06.2013	31.12.2012
Loans and Receivables (LaR)						
Loans and advances to banks	152	154	131	133	21	21
Loans and advances to customers	12,383	13,037	4,969	4,867	7,414	8,170
Financial investments ¹⁾	943	985	426	523	517	462
Available for Sale (AFS)						
Financial investments ¹⁾	337	393	220	249	117	144
Total	13,815	14,569	5,746	5,772	8,069	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.

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 41 as well as off-balance sheet liabilities as presented in Note 47.

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 20. 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)

30.06.2013	Carrying amount	Value of collateral received		
		Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	8,805	196	1	587
Designated at Fair Value (DFV)				
Loans and advances to banks	116	-	61	-
Loans and advances to customers	1,183	-	-	-
Financial investments	2,216	-	-	-
Available for Sale (AFS)				
Cash reserve	379	-	-	-
Loans and advances to banks	39	-	-	-
Financial investments	11,329	-	-	-
Loans and Receivables (LaR)				
Cash reserve	8,363	-	-	-
Loans and advances to banks	6,229	2	1,037	79
Loans and advances to customers	73,762	28,627	1,789	3,162
Financial investments	7,773	-	-	-
Other assets	80	-	-	-
No IAS 39 category				
Positive fair values of hedging derivatives	1,658	-	-	-
Value adjustments from the portfolio fair value hedge	174	-	-	-
Receivables under finance leases	146	-	-	-
Contingent liabilities	3,000	253	142	121
Irrevocable loan commitments	5,019	422	63	93
Total assets	130,271	29,500	3,093	4,042

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL
(€ m)

31.12.2012	Carrying amount	Value of collateral received		
		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 values 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 via HSH Finanzfonds AöR in 2009. This guarantee facility of originally € 10 billion was reduced in 2011 by € 3 billion in total to € 7 billion and increased again to the original amount of € 10 billion as at 30 June 2013.

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 € 1,085 million (31 December 2012: € 1,280 million). The collateral received is split up as follows: € 754 million (31 December 2012: € 857 million) related to OTC derivatives and structured transactions. The Group received collateral in the amount of € 331 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 € 571 million (31 December 2012: € 806 million). Of the collateral received € 115 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 (31 December 2012: € 0 million).

For further information on the second loss guarantee please refer to Note 2.

47. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

OFF-BALANCE-SHEET BUSINESS

(€ m)

	30.06.2013	31.12.2012
Contingent liabilities	3,000	2,917
Irrevocable loan commitments	5,019	4,992
Total	8,019	7,909

OTHER DISCLOSURES

48. RELATED PARTIES

HSH Nordbank does business with related parties and companies. These include the 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.

Transactions with related parties mainly include loans, call and fixed-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 Note 2 and 15 for more details.

II. SUBSIDIARIES

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS

	30.06.2013	31.12.2012
Loans and advances to customers	67	92
Loan loss provisions	-4	-4
Financial investments	13	14
Other assets	1	1
Total	77	103

SUBSIDIARIES – LIABILITIES

	30.06.2013	31.12.2012
Liabilities to customers	25	29
Provisions	7	-
Other liabilities	1	-
Total	33	29

SUBSIDIARIES – INCOME STATEMENT

	January – June 2013	January – June 2012
Net interest income	2	3
Loan loss provisions	-1	4
Net income from financial investments	-	1
Other operating income	-2	-
Total	-1	8

Furthermore, there are contingent liabilities to subsidiaries of € 2 million (31 December 2012: € 3 million).

Similar to the previous year, there are no other financial liabilities to subsidiaries as at the reporting date.

III. ASSOCIATES

The following table shows the transactions with associates:

ASSOCIATES – ASSETS

	30.06.2013	31.12.2012
Loans and advances to customers	463	492
Loan loss provisions	-53	-51
Trading assets	5	7
Financial investments	185	223
Other assets	1	2
Total	601	673

ASSOCIATES – LIABILITIES

	30.06.2013	31.12.2012
Liabilities to customers	52	43
Other liabilities	20	-
Total	72	43

ASSOCIATES – INCOME STATEMENT

	January – June 2013	January – June 2012
Net interest income	14	9
Loan loss provisions	-5	-13
Net trading income	-3	3
Net income from financial investments	-	10
Administrative expenses	-4	-
Total	2	9

As was the case in the previous year, there are no contingent liabilities relating to associates. Irrevocable loan commitments amount to € 24 million (31 December 2012: € 39 million).

There are no other financial liabilities to associates (31 December 2012: € 90 million).

IV. JOINT VENTURES

The following table shows the transactions with joint ventures:

JOINT VENTURES – ASSETS

	30.06.2013	31.12.2012
Loans and advances to customers	3	3
Loan loss provisions	-3	-3
Total	-	-

JOINT VENTURES – INCOME STATEMENT

	January – June 2013	January – June 2012
Net interest income	-	2
Net trading income	-	-2
Total	-	-

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

	30.06.2013	31.12.2012
Liabilities to customers	-	1
Total	-	1

49. BOARD MEMBERS

Constantin von Oesterreich

Born in 1953
Chairman

Stefan Ermisch

Born in 1966
Chief Financial Officer

Torsten Temp

Born in 1960
Shipping, Project & Real Estate Clients

Edwin Wartenweiler

Born in 1959
Chief Risk Officer

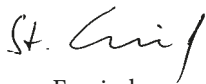
Matthias Wittenburg

Born in 1968
Corporates & Markets

Hamburg/Kiel, 22 August 2013



von Oesterreich



Ermisch



Temp



Wartenweiler



Wittenburg

REVIEW OPINION

To HSH Nordbank AG, Hamburg and Kiel

We have reviewed the condensed interim consolidated financial statements of the HSH Nordbank AG, Hamburg and Kiel, – comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and selected explanatory notes – together with the interim group management report of the HSH Nordbank AG for the period from 1 January to 30 June 2013 that are part of the semi annual financial report according to § 37 w WpHG (“Wertpapierhandelsgesetz”: “German Securities Trading Act”). The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company’s management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

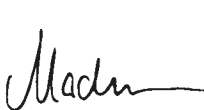
We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor’s report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Without qualifying this opinion, we draw attention to the statements made in the “Outlook” section of the interim group management report. It is stated there that the assumption made regarding the continuation 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 is only subject to conditions that can be implemented within a sustainable corporate plan. Furthermore 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.

Hamburg, 22 August 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft



Madsen
Wirtschaftsprüfer



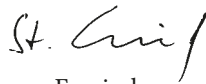
König
Wirtschaftsprüfer


RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD


We hereby affirm that to the best of our knowledge the Interim Group 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 Interim 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, 22 August 2013


von Gestreich


Ermisch


Temp


Wartenweiler


Wittenburg

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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.

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This is an English translation of the original German version of the Interim Report.

Forward-looking statements

This Interim 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. Actual events may therefore 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 financial information. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this Interim 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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