2014 ANNUAL REPORT
STRONG FOR ENTREPRENEURS

PERSPECTIVES

HSH
NORDBANK

MILESTONES IN 2014

- We returned to profit territory.
- We successfully completed the stress test of the European Central Bank (ECB) and the European Banking Authority (EBA).
- We made progress in terms of income and expanded new business with circumspection. With a reviewed new business volume of around € 35 billion, € 9.5 billion is business which provides stable margins and fits the profile of our Bank.
- The legacy assets within the Restructuring Unit decreased substantially once again: to € 31 billion, down from € 37 billion at the end of 2013.
- The Bank broadened its areas of expertise: The strong Real Estate and Energy & Infrastructure divisions show that we are today more than just a provider of ship finance.
- Our commitment to the region is becoming more and more visible: the newly established Stiftung Maritime Forschung (Foundation for Maritime Research), which joins the HSH Nordbank Run, the Art Foundation HSH Nordbank and Kieler Woche, demonstrates that we are taking on even more social responsibility.

WE ARE...

…the "Bank for entrepreneurs" – the bank for people with foresight, passion and initiative. We are where our clients are: in our home region of Northern Germany, all other metropolitan areas of Germany and at selected international locations. Here we offer tailored finance solutions to entrepreneurs and assist them with our broad-based sector expertise. **HSH NORDBANK** is an important provider of ship finance worldwide, but it is also more than that: in Germany we are one of the leaders in real estate finance, in the renewable energies segment we focus on projects with entrepreneurs throughout Europe. The corporate clients business is an important pillar of our Bank, which we aim to strengthen further: through commitment, single-minded determination and reliability. We seek to convince through performance because we are **STRONG FOR ENTREPRENEURS.**

HSH NORDBANK GROUP AT A GLANCE

INCOME STATEMENT
in (€ m)

	2014	2013[1]
Net income before restructuring	883	–48
Net income before taxes	278	– 518
Group net result	160	– 769

BALANCE SHEET
in (€ bn)

	31.12.2014	31.12.2013[1]
Equity	4.7	4.6
Total assets	110.1	109.1
Business volume	119.9	118.7

CAPITAL RATIOS[2]
in (%)

	31.12.2014	31.12.2013
CET1 ratio	10.0[3]	10.0[3]
Tier 1 capital ratio	14.4	14.3
Regulatory capital ratio	18.7	19.7

EMPLOYEES
(computed on full-time equivalent basis)

	31.12.2014	31.12.2013[1]
Total	2,579	2,835
Germany	2,422	2,627
Abroad	157	208

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities[4]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa 3	Aa 1	Aa 2	Aa 3	Baa 2
Fitch	A–	AAA	–	–	–

[1] Following adjustment.
[2] According to the same period calculation under the CRR rules.
[3] Additionally, there is a buffer of 3.1 (31.12.2013) resp. 2.6 (31.12.2014) percentage points resulting from the effect of the guarantee structure.
[4] Liabilities covered by guarantor's liability (Gewährträgerhaftung).

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

BANK FOR ENTREPRENEURS

CORE BANK

SHIPPING, PROJECT & REAL ESTATE FINANCE

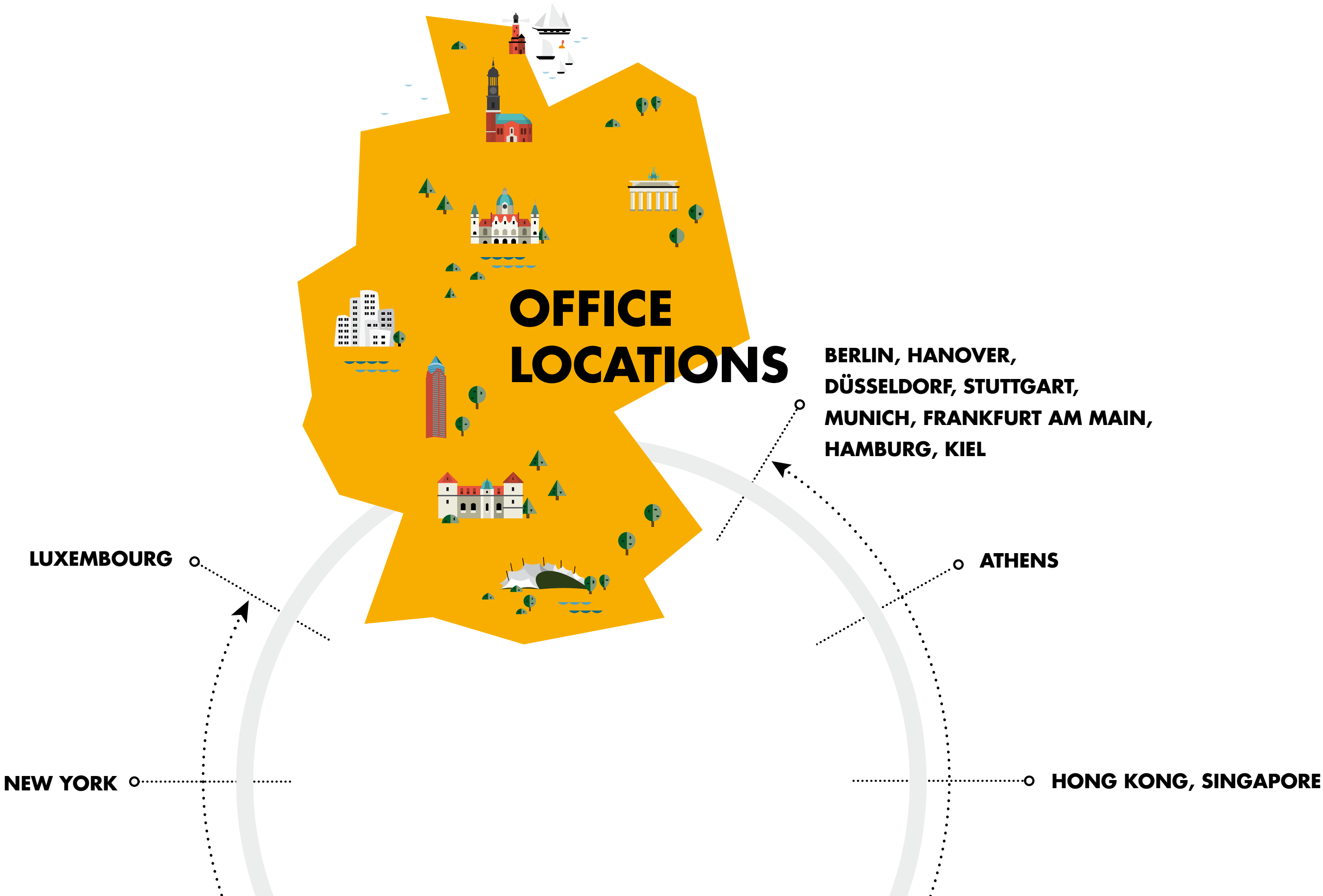
2014	2015*
SHIPPING CLIENTS DOMESTIC SHIPPING CLIENTS INTERNATIONAL REAL ESTATE CLIENTS ENERGY & INFRASTRUCTURE	**SHIPPING** **REAL ESTATE CLIENTS** **CORPORATE FINANCE**

CORPORATES & MARKETS

2014	2015*
CORPORATES WEALTH MANAGEMENT SAVINGS BANKS & INSTITUTIONAL CLIENTS CAPITAL MARKETS & CORPORATE FINANCE	**CORPORATES** Corporates Energy & Infrastructure Wealth Management **CAPITAL MARKETS** Savings Banks & Institutional Clients Capital Markets

RESTRUCTURING UNIT

* Target structure as of May 2015



PERSPECTIVES

We continued the transformation of the Bank with focus and considerable energy in 2014. We maintained cost discipline, streamlined our structures further and linked the divisions more closely together. HSH Nordbank is today a permanent fixture in the market where comprehensive finance solutions for upper medium-sized companies are concerned. At the same time, we are aware that further intense and challenging times lie ahead for us. Competition is tough, and the EU state aid proceedings that are important for HSH Nordbank have not yet been completed. Both of these factors are an incentive for us to get even better. This is why we want to be convincing from every perspective. From the perspective of our clients, who we want to understand even better and whose needs constitute the yardstick for our products and services. And from our own perspective, by setting the right course for our successful future. This annual report shows that we are on the right path – **WITH MANY DIFFERENT PERSPECTIVES.**

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FOREWORD BY THE MANAGEMENT BOARD

Ladies and gentlemen,

two key projects shaped the year 2014 for HSH Nordbank: first of all, we made substantial progress in implementing our business model. This is evident from many aspects, particularly in terms of new business, which we expanded significantly in 2014, as we have done in each of the past four years. Clear evidence that we are not alone in finding our business model a convincing one – our clients do, too. This is reflected in the results as well. As expected, the Bank has returned to profit territory and, following a loss in the previous year, has now once again reported a profit before and after tax.

The operational progress made in core business was accompanied by a further perceptible reduction in the legacy assets that are pooled in our Restructuring Unit. This is clear to see in the substantial drop in the assets of the Restructuring Unit, which we reduced from € 37 billion at the end of 2013 to € 31 billion at the end of 2014. This is a clear success since it shows how we have reduced our legacy assets while at the same time more than fulfilling the requirements of the EU Commission in Brussels.

In this connection, the total volume of all assets provides a valuable insight: over the past six years we reduced our total assets by around half, to some € 110 billion as at the end of 2014.

There is also another event that shaped the year 2014 for us: the comprehensive assessment made by the European Central Bank (ECB) and the European Banking Authority (EBA) including the asset quality review and stress test. Around one-fifth of the 130 audited European banks were shown to have a shortfall in capital. In some cases the shortfall had already been uncovered during the year. The results of the comprehensive assessment showed that the capitalisation of German banks is solid overall and they are strong enough to withstand even heavy strain. This also applies to HSH Nordbank, which came through the comprehensive assessment with a very good result in the Asset Quality Review and solid figures in the stress test.

HSH Nordbank has thereby demonstrated that its capitalisation on the basis of its high capital ratios is solid and that it will be able to cope even with demanding stress scenarios. At the same time, the results of the comprehensive assessment show the substantial progress made in implementing the business model, and this amid a persistently challenging setting of low interest rates, intense competition and the continuing upheaval in the shipping markets.

All told, HSH Nordbank is increasingly staking its claim as a bank for entrepreneurs. Strong in real estate, but also in other areas such as renewable energies and infrastructure. Strong in sectors that are growing and that we consider to have more growth potential. Even though the corporate clients business in 2014 showed a weaker performance than planned due to market conditions and even though new shipping business recorded only a modest uptrend, we know how strong our position in these areas is.

We have the risks firmly under control. As expected, the highest allocations to loan loss provisions for the legacy portfolio in 2014 came once again from the shipping business. However, they were substantially below the previous year's level.

Although we can look back on a successful year overall, we are all aware that HSH Nordbank still has a lot to do. The year 2015 will pose another major challenge for us. We must and we shall prove to the EU Commission that our business model is viable on a sustained basis.

This claim, this promise, also brings with it a series of painful and yet inevitable changes. Only if we adjust our cost structure will we be able to position a wholesale bank of our size and structure in such a way that will keep us competitive.

To achieve this, we must become faster, more efficient and better while at the same time not losing sight of our risks. Over the next three years we also need to reduce our operating expenses and personnel costs further. All told, this is a huge challenge, which we shall tackle for the benefit of HSH Nordbank, just as we have done in the past. We are and we remain convinced that we can do it.

Yours sincerely,

Constantin von Oesterreich
Chairman of the Management Board

Stefan Ermisch
Chief Financial Officer

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

Edwin Wartenweiler
Chief Risk Officer

Matthias Wittenburg
Member of the Management Board, Corporates & Markets

STEFAN ERMISCH
Chief Financial Officer

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

CONSTANTIN VON OESTERREICH
Chairman of the Management Board

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

MATTHIAS WITTENBURG
Member of the Management Board, Corporates & Markets

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

EDWIN WARTENWEILER
Chief Risk Officer

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

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

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

INTERVIEW WITH THE CHAIRMAN OF THE MANAGEMENT BOARD

Mr von Oesterreich, in 2014, for the first time since 2010, HSH Nordbank closed out the year with a profit. What are the main factors that contributed to this turnaround?

The positive result shows how well HSH Nordbank is now functioning as a Bank for entrepreneurs. We have expanded our new business and our loan loss provisions are under control. The fact that we have returned to profit territory is the result of a great team effort. For this, I would like to express my sincere thanks to all staff members. At the same time, as expected, we benefited from the capital protection clause in 2014 – we were able to reverse a portion of the accumulated guarantee premiums at a profit. However, it is not only the positive results that is encouraging: last October we passed the stress test of the European Central Bank and the European Banking Authority. It confirmed what we have always said, namely, that HSH Nordbank has solid capital resources.

The banking market is characterised by heavy competition. Banks with international operations have also discovered medium-sized German companies – the "Mittelstand" – as a client group. How can HSH Nordbank assert itself against its competitors?

It is true that competition for clients is very intense. We are tackling this competition with self-confidence and are scoring with our clients. Amid a challenging setting we have increased our new business and even slightly exceeded our own targets: all told, new business in 2014 came to 9.5 billion euros, equivalent to an increase of 25 per cent over the previous year. What is just as important, the margins are absolutely satisfactory. This success proves just how strongly we are anchored among our clients and in our region.

In recent years HSH Nordbank has in some cases had to set aside considerable loan loss provisions. What does the quality of new business look like now?

Let there be no misunderstanding: it is true that we had to set aside loan loss provisions for parts of our shipping portfolio. However, these form part of the legacy assets with which HSH Nordbank is still battling. They have nothing to do with our new business of recent years. In our Shipping division alone we have concluded new business totalling 5 billion euros since 2010, where there have been virtually no impairments. I think that this fact in itself says quite a lot about the circumspection we observe in our shipping as well as in the real estate and corporate clients businesses.

Where do you see HSH Nordbank's strengths?

We provide upper medium-sized companies with excellent service paired with long-standing experience, in-depth market knowledge and a high degree of consistency. Some banks come and go. We stay close to our clients in their markets. This is especially appreciated by companies with a long-term perspective. We combine commitment with purposefulness and reliability. And we are where our clients are. Incidentally, our strong Real Estate, Corporate Clients and Energy & Infrastructure divisions show that we are today much more than just a provider of ship finance.

In which areas does HSH Nordbank need to get even better?

We aim to become better, more efficient and more closely aligned to the needs of our clients across all areas. No company, let alone a bank, can afford to stand still. This is why we are working intensively to improve our internal processes and structures. One example is the restructuring of our lending process. We have shortened the throughput times and made them binding without, however, making any concessions on the quality of loan reviews.

Why are these internal improvements so important?

The banking sector as a whole is on the brink of a major shake-up: Digitalisation, new, stricter regulations plus the globalisation of business and the extremely low level of interest rates – the sector is experiencing change to a previously unseen extent. I can say this because I have been in this business already for a number of decades. We are tackling these market challenges. We are forging ahead with change within HSH Nordbank. It is an ongoing process with no end to it. To be successful in a dynamic market one has to be willing to change. And we are willing.

HSH Nordbank has posted a profit for the first time in many years. Yet the Bank has also announced that it will cut further jobs. How does this fit together?

We have to be competitive, now and in the future. This includes not only changes and improvements to processes and structures. It is equally important to keep costs under control. This is why we will reduce our annual administrative expenses by just under one-third to a total of 500 million euros until 2018, with the focus being on reducing operating expenses. But that is not enough, and this is why we are also reducing personnel costs, which incidentally also affects executive staff members. The objective is to become lean! Until now, we have managed this well, we have been able to perform better both in qualitative and quantitative terms with a substantially smaller staff over the past few years. For instance, our new business has more than doubled, since 2011. We have to reach a level of costs that suits a bank of our size.

Constantin von Oesterreich: *"With the successes of the core bank, the progressive wind-down of our legacy assets and the ongoing efficiency gains we are strengthening the foundations for a successful future of HSH Nordbank in the long term."*

And what is this level?

For a wholesale bank such as ours, a cost/income ratio of 50 per cent is a generally recognised target. It is only when costs and income – as shown by this ratio – are roughly of this size that a wholesale bank is able to generate a reasonable return on equity, which should be in the high single-digit range. What this means in concrete terms is that we are aiming for income of around 1 billion euros in 2018, with costs of no more than 500 million euros.

What role does the European Union, which has state aid proceedings pending against the Bank, play in your thoughts on profitability?

The European Union wants clear and credible proof that we can generate reasonable returns over the medium and long term. We have to prove that our business model works – and this, of course, also includes an adequate return. We also want to show our shareholders, who support and assist us, that we can earn money.

Legacy assets are an important topic for HSH Nordbank. How far are you in winding them down in the Restructuring Unit?

We are moving ahead step by step. At the end of 2013, total assets of the Restructuring Unit, i.e. our internal wind-down bank, came to 37 billion euros, while this figure is now 31 billion euros. By comparison, when the Restructuring Unit was set up at the end of 2009 its total assets came to 83 billion euros. We are thus further along than projected and are even ahead of the requirements set by the EU. Our objective with the wind-down is not only to sell assets; we also want to and have to do so in a way that minimises losses. The team headed by my colleague Wolfgang Topp is doing a very good job in this respect. This year we expect a number of further deals in which we transfer ships to a so-called Nautilus construct. This will take pressure off our balance sheet while at the same time benefiting from a potential recovery in the value of the ships.

What do you expect from 2015 for HSH Nordbank?

The conclusion of the EU state aid proceedings will be an important issue – and we would like to get a go-ahead from Brussels as early as possible, that means ideally in summer 2015. We know that the competition will be heavy again this year and are ready to confront it. Remember, at present we are limited mainly to Germany. In this respect, too, we hope the EU will grant us more freedom. We will also continue to work towards improving our own quality. All in all, I look to 2015 with cautious optimism. With the benefits achieved in the Core Bank, the ongoing wind-down of our legacy assets and the current efficiency gains we have already laid the foundations for sustained success of HSH Nordbank over the long term, and we are now resolutely building on these foundations.

AS A TEAM WE CAN ACHIEVE MORE

ABILITY TO PERFORM Our commited employees are the basis of our capabilities. Competence, motivation and flexibility: their 360-degree view enables them to monitor the market and sector and to use this knowledge for the benefit of our clients. It is also thanks to the dedication of all our colleagues that we closed out the year 2014 with a profit.

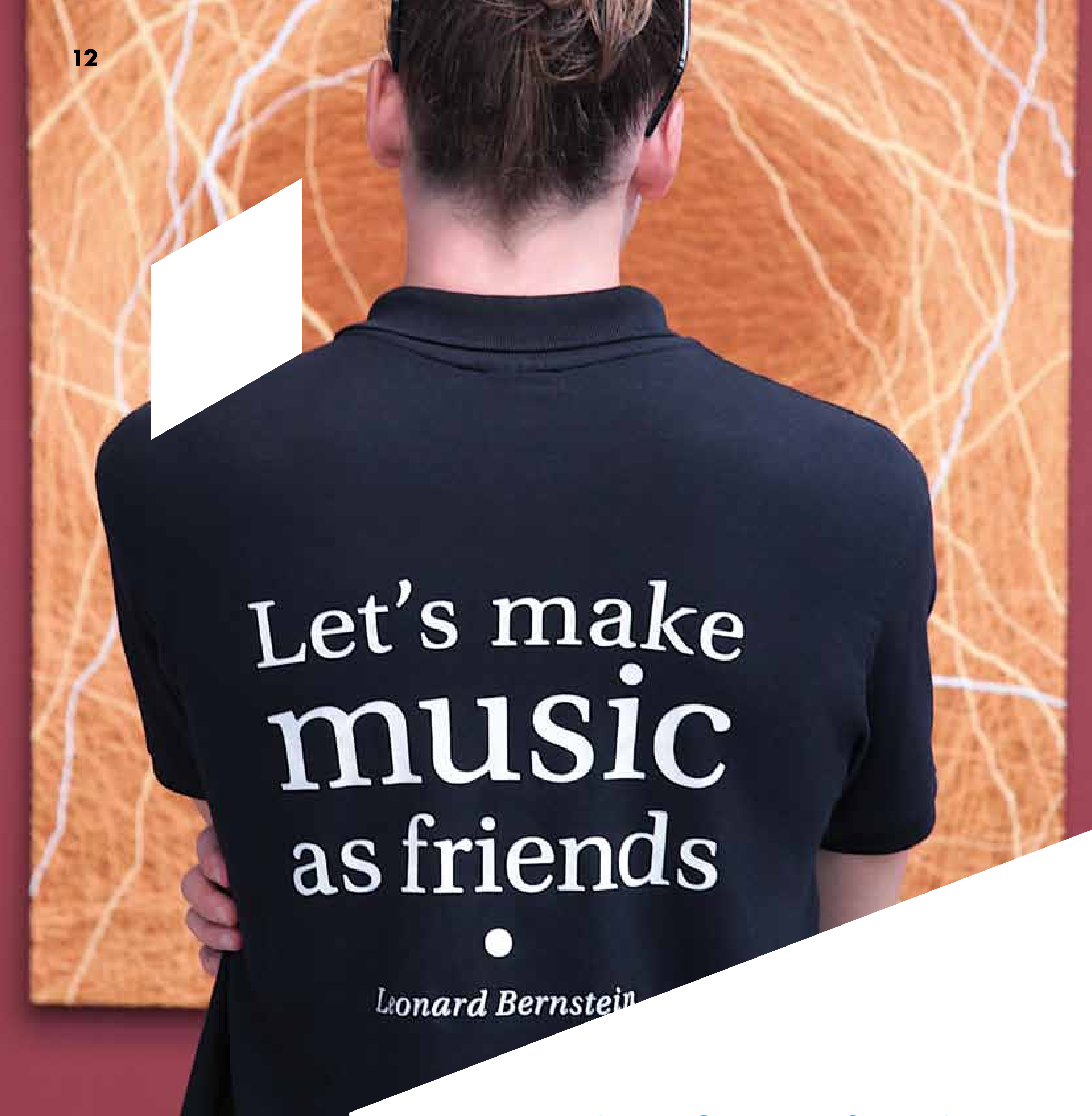
TORSTEN SCHWARZ
Department Director,
healthcare sector

SVEN STEINKUHL, CFO OF VAPIANO SE, talking to **RAINER ENGSTENBERG** (on the left), Department Director Corporate Clients

UTE BRETTSCHNEIDER
Corporate Clients,
Client Relationship Manager

TRUST CANNOT BE BOUGHT IT HAS TO BE EARNED

CLIENT SATISFACTION A good partnership lives by mutual understanding. Our advisors adopt a fresh perspective in order to put themselves in their clients' shoes. This allows the development of customised finance solutions which don't just hold a promise but which actually deliver, thereby creating the trust we require to be successful and to grow on a sustained basis.



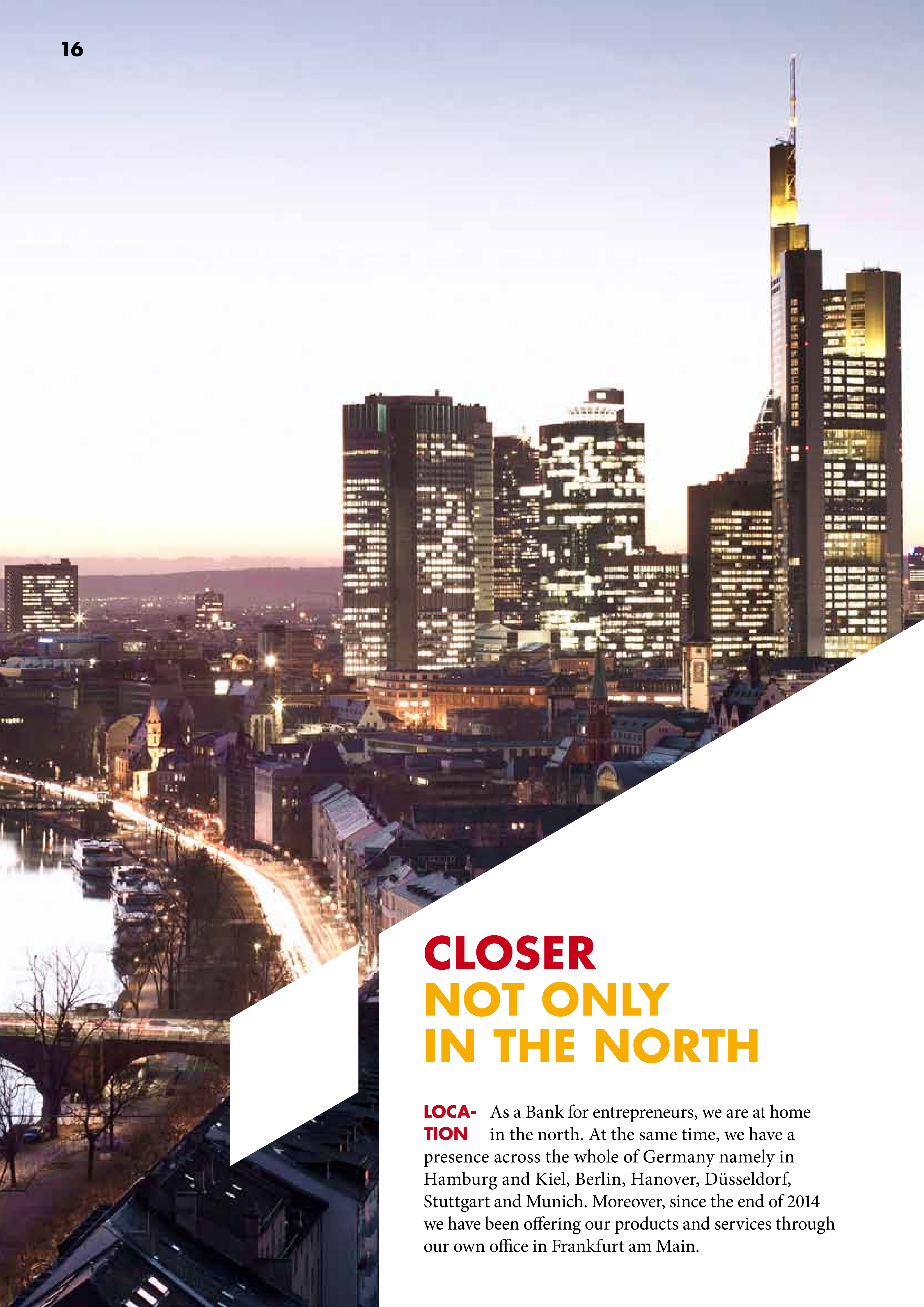
THERE IS MORE TO US THAN YOU EXPECT

SOCIAL COMMITMENT We are interested not only in numbers but are also committed to social and cultural projects. It is our conviction that a company must always keep an eye on its social responsibility. This is why we have a long-standing commitment to the HSH Nordbank Run, the biggest charity run in Northern Germany and support the well-known Schleswig-Holstein Music Festival as well as the world's biggest sailing event, the Kieler Woche. The proceeds from our charity appeals are used to fund selected social projects.

OBSTACLES OVERCOME LOOKING AHEAD

CHALLENGES The European Central Bank and the European Banking Authority have put us through our paces. Having successfully passed the stress test as expected, thereby confirming the stability of our Bank, we are now looking ahead. We refuse to rest but continue to work hard to safeguard a successful future. Furthermore, we are tackling the new challenges from the Basel III regulations with confidence.

PATRICK MILJES
Head of Corporates,
Wealth Management,
Energy & Infrastructure



CLOSER NOT ONLY IN THE NORTH

LOCATION As a Bank for entrepreneurs, we are at home in the north. At the same time, we have a presence across the whole of Germany namely in Hamburg and Kiel, Berlin, Hanover, Düsseldorf, Stuttgart and Munich. Moreover, since the end of 2014 we have been offering our products and services through our own office in Frankfurt am Main.

STEFAN HOENEN
Head of
Frankfurt am Main Branch

EUGEN BLOCK, FOUNDER OF THE BLOCK GROUP

"Right from the start I felt that HSH Nordbank really understood me and gave me good advice. This has not changed."

CORPORATE CLIENTS

Eugen Block opened his first restaurant in Hamburg-Winterhude in 1968 and thus laid the foundations for the **BLOCK GROUP** in its current form, with 36 Block House restaurants in Germany and eight Block House restaurants in other European countries. The Group comprises a total of more than 60 restaurants, a food production facility and the 5-star restaurant "Grand Elysée Hamburg". The Block Group employs a staff of nearly 2,200 and recently generated renevues of € 340 million.

MARLIES BORCHERT, MANAGING PARTNER OF THE SEGEBERGER KLINIKEN GROUP

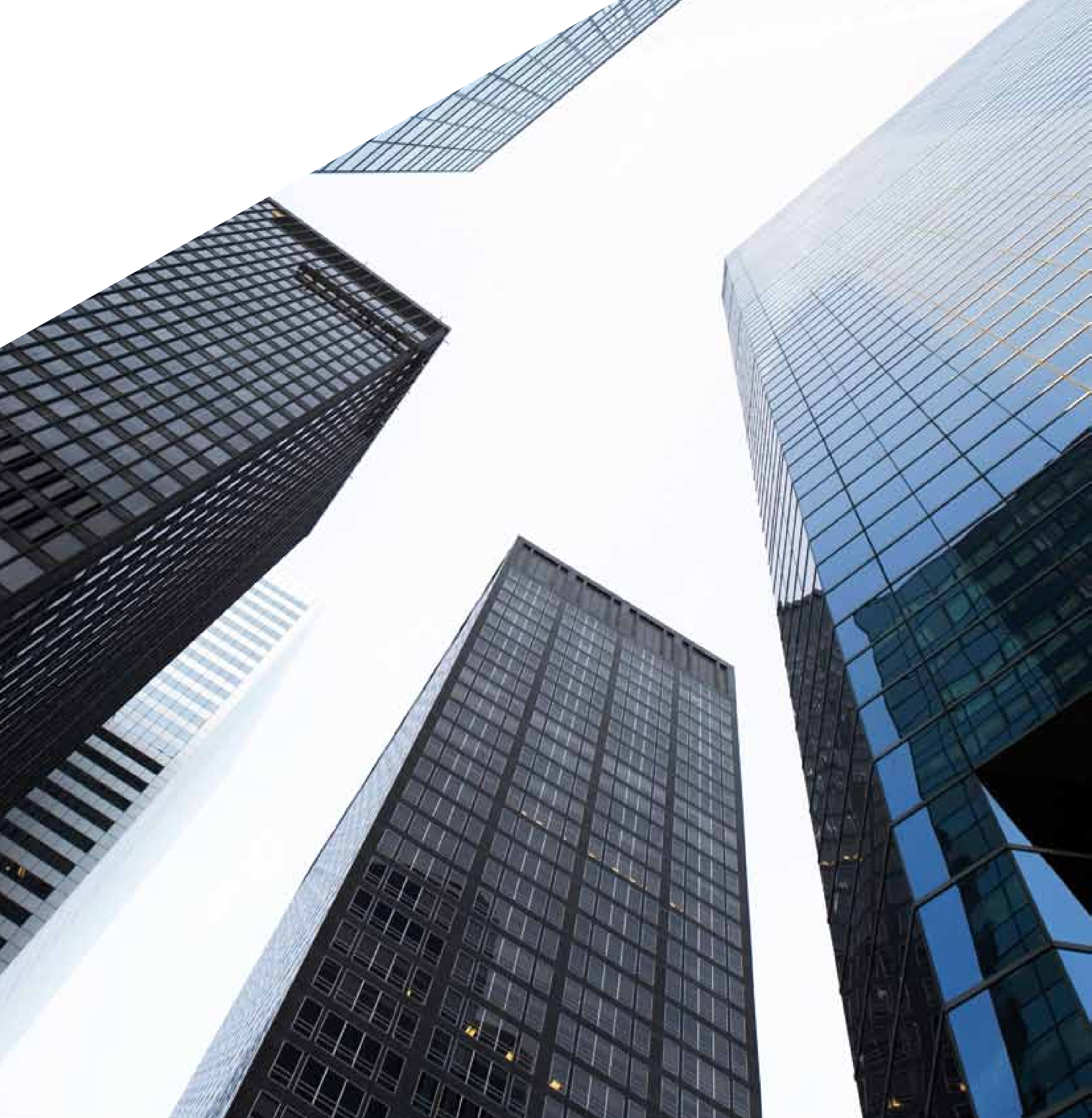
"As our principal bankers, HSH Nordbank has always provided us with reliable and competent assistance during the many years we have worked together."

CORPORATE CLIENTS

The **SEGEBERGER KLINIKEN GROUP**, with around 1,850 employees, 1,000 beds and annual revenues of approximately € 125 million is the largest private hospital located in Schleswig-Holstein. The owner, Marlies Borchert, has made a major contribution to the company's development from a pure wellness clinic into a group offering top-class services in the areas of acute and rehabilitation medicine.

REAL ESTATE CLIENTS

DEUTSCHE WOHNEN AG is one of the leading real estate companies in Germany and Europe with a focus on the management and development of its portfolio comprising around 147,000 residential units and approx. 2,000 commercial properties located predominantly in German metropolitan regions with a positive development potential.

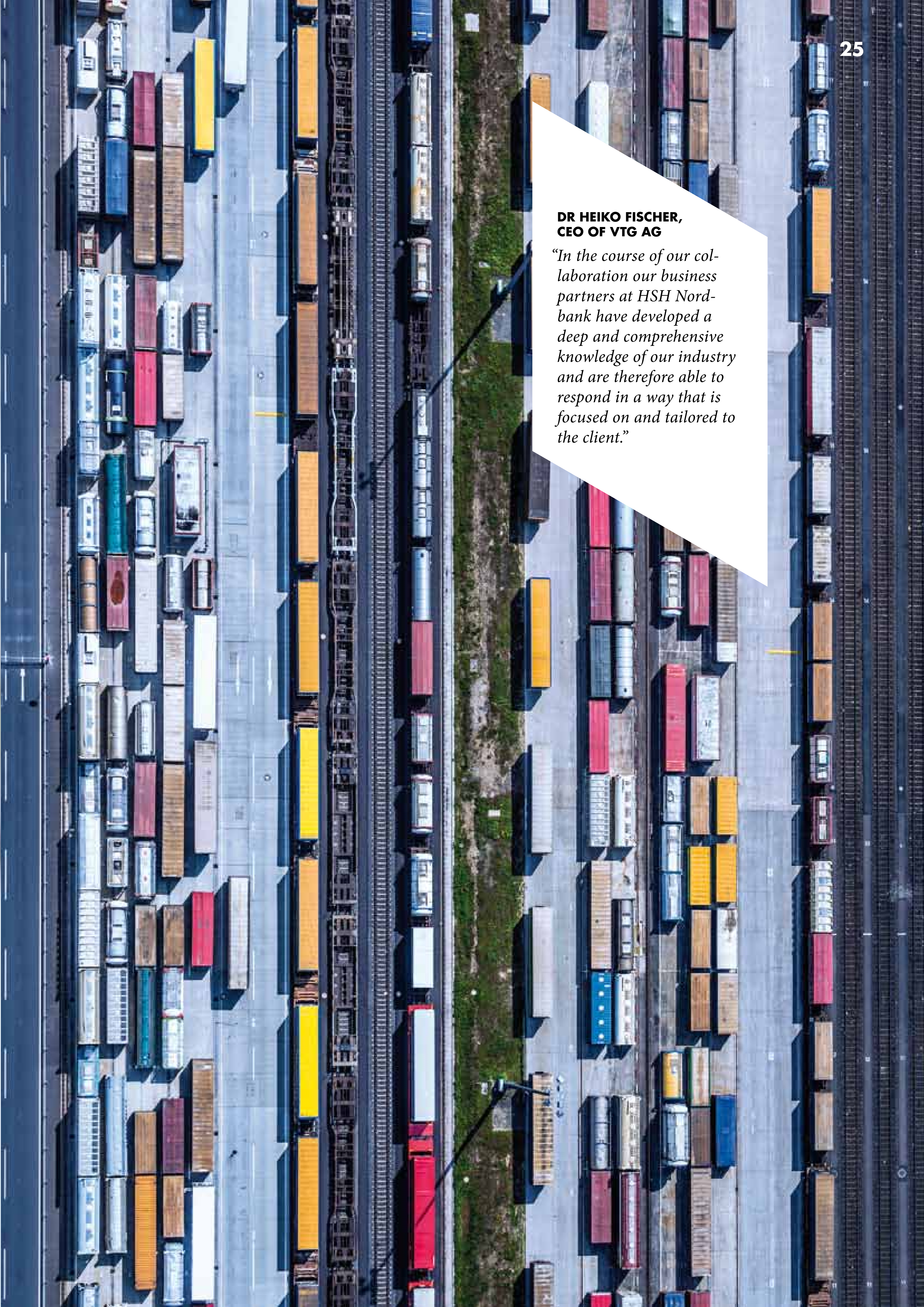


MICHAEL ZAHN,
CEO DEUTSCHE WOHNEN AG

"HSH Nordbank is an important business partner for us. In addition to offering customised finance solutions for our residential and commercial real estate, it also supports us with individual hedging strategies, for example. Our long-standing and trusting collaboration is an important element when it comes to implementing our growth strategy."

INFRASTRUCTURE

VTG AKTIENGESELLSCHAFT is a listed rail freight car leasing and railway logistics company based in Hamburg. Following its merger with AAE-Ahaus Alstätter Eisenbahn Holding AG, the VTG Group now has more than 80,000 rail freight cars and thus owns the biggest private rail car fleet in Europe. VTG employs a staff of more than 1,400. It is made up of 83 companies that operate in 24 countries around the world.



**DR HEIKO FISCHER,
CEO OF VTG AG**

"In the course of our collaboration our business partners at HSH Nordbank have developed a deep and comprehensive knowledge of our industry and are therefore able to respond in a way that is focused on and tailored to the client."

ENERGY

WPD AG with headquarters in Bremen develops and operates wind farms. The company, established in 1996, is now the market leader among German wind farm developers and has carried out projects with an output of more than 3,000 megawatts. The wpd Group has a staff of 1,200 and operates in 17 countries around the world.

**DR GERNOT BLANKE,
CEO WPD AG**

“We have always felt that HSH Nordbank supports us constructively in our projects. This perception runs like a golden thread through our business relationship.”

**ANDREAS SOHMEN-PAO,
CHAIRMAN, BW GROUP**

"HSH Nordbank has been our trusted and supportive partner since 2000 providing loans, interest rate hedging and other treasury services. The Bank regularly supports us in large-volume financing transactions as mandated lead arranger and underwriter. We look forward to continuing our proven and successful business relationship."

SHIPPING

In 2002, **BW GROUP** was created through a merger of World-Wide Shipping, founded in Hong Kong in 1955, and Bergesen, Norway's largest shipping company founded in 1935. The combined group represents two long-standing shipping businesses with a truly global footprint and more than 75 years of experience in energy transportation, floating gas infrastructure, environmental technologies and deep-water production.

OLAF SCHOLZ
First Mayor of the Free and Hanseatic City of Hamburg

UP° UNTERNEHMER POSITIONEN NORD

For medium-sized entrepreneurs the "Unternehmer Positionen Nord" initiative, UP° for short, offers high-calibre events, topic-specific studies, scientific background information, interviews with experts and information on recent developments.

Through UP°, HSH Nordbank underscores its position as the "Bank for entrepreneurs". At the centre of the exclusive information platform in 2014 were key issues such as markets of the future and mega-trends. The four major events saw several hundreds of entrepreneurs and managers come together to hold debates with widely recognised experts from the worlds of politics and business.

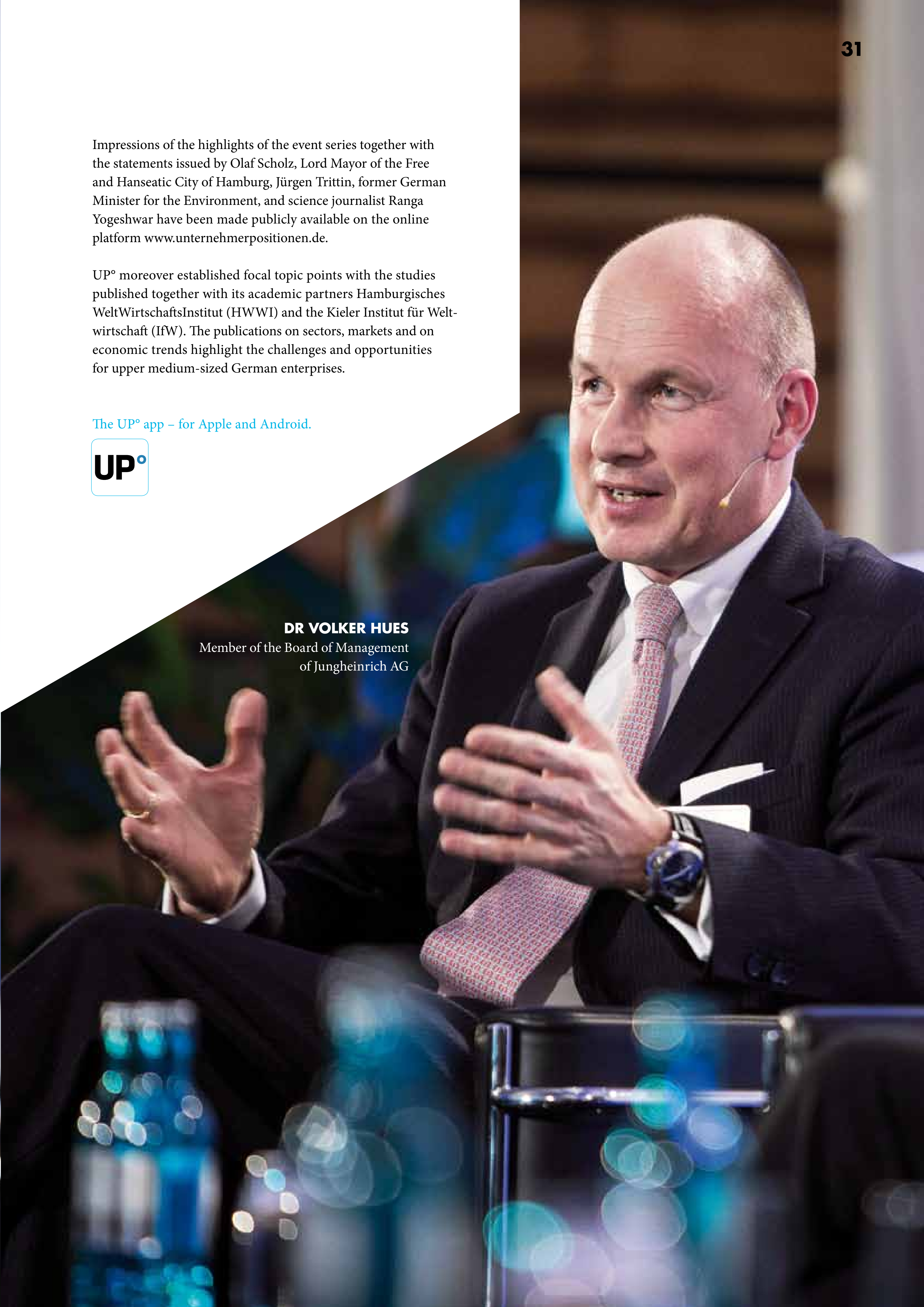
www.unternehmerpositionen.de

Impressions of the highlights of the event series together with the statements issued by Olaf Scholz, Lord Mayor of the Free and Hanseatic City of Hamburg, Jürgen Trittin, former German Minister for the Environment, and science journalist Ranga Yogeshwar have been made publicly available on the online platform www.unternehmerpositionen.de.

UP° moreover established focal topic points with the studies published together with its academic partners Hamburgisches WeltWirtschaftsInstitut (HWWI) and the Kieler Institut für Weltwirtschaft (IfW). The publications on sectors, markets and on economic trends highlight the challenges and opportunities for upper medium-sized German enterprises.

The UP° app – for Apple and Android.

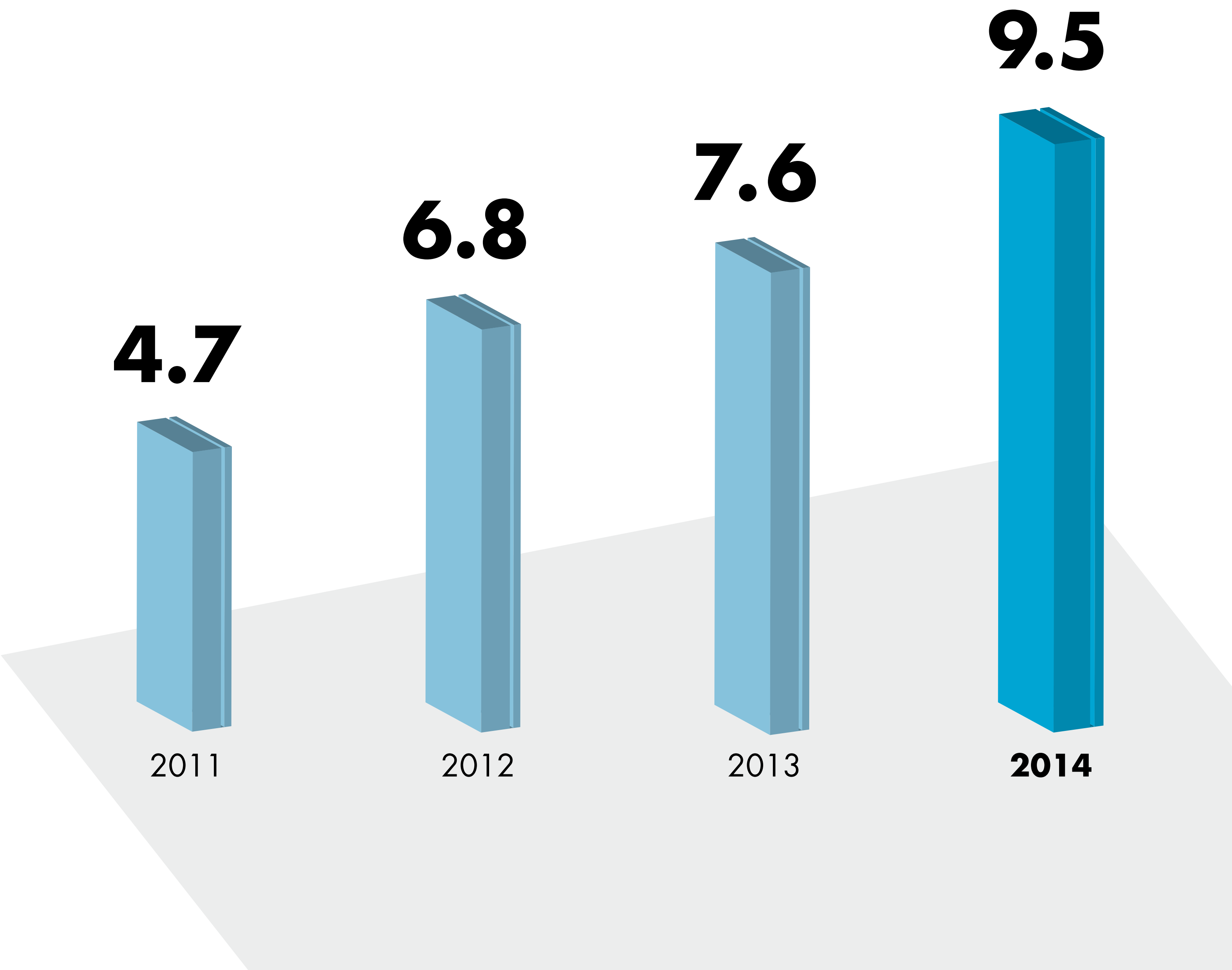
UP°



DR VOLKER HUES
Member of the Board of Management
of Jungheinrich AG

NEW BUSINESS OF THE CORE BANK

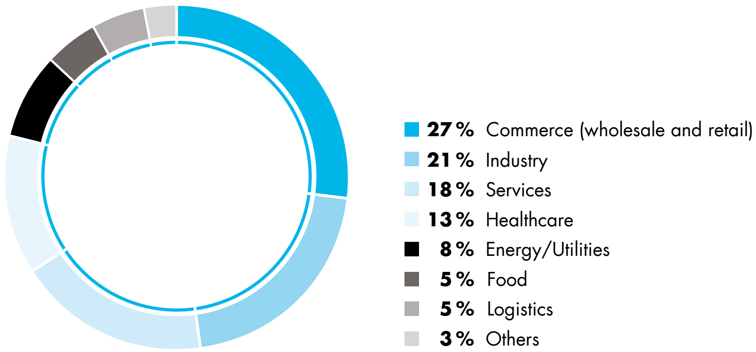
Chart 01
NEW BUSINESS
(in € bn)



CORPORATE CLIENTS

in the Core Bank

Chart 02
CORPORATES
Loan portfolio by sector (31.12.2014)



The Corporate Clients division in 2014 focused mainly on upper medium-sized companies, i.e. usually companies with revenues of more than € 50 million. With its three mainstays – Northern Germany, Central/Southern Germany and the large corporates business – the focus is on the fast-growing retail and logistics sectors, where we traditionally occupy a strong position, plus food and utilities. We also pay special attention to the healthcare sector. We maintain business relationships with all major private hospital operators and with the university clinics of Schleswig-Holstein (UKSH) and of the Hanseatic City of Hamburg (UKE), making us one of the top three banks in Germany in this segment.

In 2014, HSH Nordbank matched the encouraging pre-year result in the corporate clients business. The strategy of developing customised solutions for upper medium-sized companies through structured finance has proven its worth. The trend towards bank-independent forms of finance alongside the conventional bank loan continued its dynamic performance last year. The successful cooperation between the Corporate Clients and Capital Markets divisions enabled us to expand our excellent position among issuers of promissory note loans further in the course of a large number of transactions. In the supraregional business with corporate clients with annual revenues of up to € 1 billion we increased our income by a figure in excess of 20 % year on year.

Due to the high intrinsic financing strength of German SMEs and the continuing restraint in capital spending, loan demand in 2014 stagnated at a low level. The renewed entry of a large number of foreign banks in the German market exacerbated the challenging competitive situation in the corporate clients business. It is therefore a particular achievement to report that we gained a large number of new clients amid this competitive setting, with the branch offices in Berlin, Düsseldorf and Stuttgart recording major successes. The large corporates business, where the average quality of the new client business remained high, has improved its risk quality and remains an important pillar of the corporate clients business.

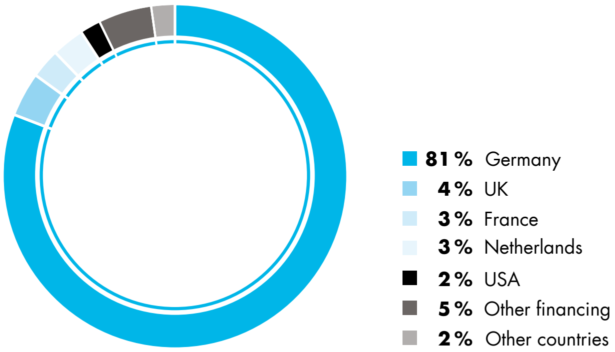
We expect competition to remain intense in 2015 while remaining confident that our offer to clients to provide customised loans together with all other financial services will prove very popular. In 2015, we will continue gaining new clients following a successful start and will broaden our client base on a sustained basis, with our sights firmly set on companies with annual revenues of more than € 100 million.

▶ *We arranged a promissory loan amounting to € 28 million for Polifilm GmbH, a producer of polyethylene-based plastic films with head offices in the Bergisches Land region with global operations. Polifilm is among the top ten film extruders in Europe and the second-largest producer of surface protection films in the world. The company employs around 1,200 employees at nine production locations around the world.* ◀

REAL ESTATE CLIENTS

in the Core Bank

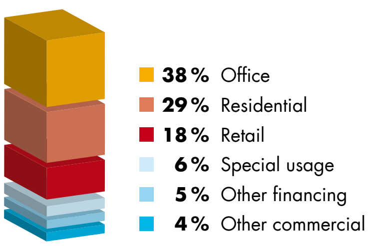
Chart 03
REAL ESTATE CLIENTS
Loan portfolio by region (31.12.2014)



In the area of commercial real estate finance HSH Nordbank ranks among the main players in Germany. We assist project and property developers as well as investors over the entire life of their real estate and support them reliably with their projects. We also assist international investors with their commitments in Germany. In particular, our clients appreciate our expertise when it comes to tailoring financing solutions that are guided by their own individual requirements. We provide customised mortgage finance for office, retail and residential real estate and draw up complex financing structures, for example for portfolio transactions.

Real estate finance is a business that is characterised by trust. In many cases we have maintained close and trusting business relationships with clients in our home region of Hamburg and Schleswig-Holstein over many decades. Moreover, we are on site for our clients in the prospering German metropolitan regions: we have had a presence with real estate experts in Berlin, Düsseldorf/Cologne, Stuttgart and Munich for some time now. With the opening of its office in Frankfurt am Main at the end of 2014 HSH Nordbank expanded its network of offices to enable it to provide targeted assistance to its clients here with regional market expertise and a comprehensive local network.

Chart 04
REAL ESTATE CLIENTS
Loan portfolio by property type (31.12.2014)



In 2014, HSH Nordbank benefited from the strong demand for commercial real estate finance in Germany and is among the top performers in the sector in terms of new business volume. We examined enquiries for loans amounting to around € 17 billion in the year as a whole and, in line with our selective approach, completed € 4.1 billion in finance. What is particularly important is that this encouraging trend in new business has been accompanied by solid margins and good risk profiles. We will continue our growth strategy in the coming year. Our aim is to keep the high-margin new business in real estate finance at a high level while maintaining the same risk parameters and to expand our client base across Germany further.

Our core business in the real estate segment still includes assisting international investors with their commitments in Germany. For these cross-border activities a comprehensive knowledge of national practices and an in-depth market understanding by the finance partner are indispensable. HSH Nordbank offers this local expertise thanks to its many years of experience in this segment.

▶ *At the beginning of the year HSH Nordbank successfully assisted the market entry of a strategic US investor into the German real estate market. € 200 million was made available to the Castlelake Group to partially finance the "Kontor portfolio" in Hamburg and the surrounding area. Hamburg-based Becken Group took part in the acquisition as a co-investor with extensive local market knowledge. The portfolio included a total of 109 commercial buildings with office, retail and residential use that were intended for sale. Around half of the rental income was provided by Hamburger Sparkasse as the main tenant.* ◀

SHIPPING

in the Core Bank

Chart 05
SEGMENT ASSETS
(in € bn (31.12.2014))

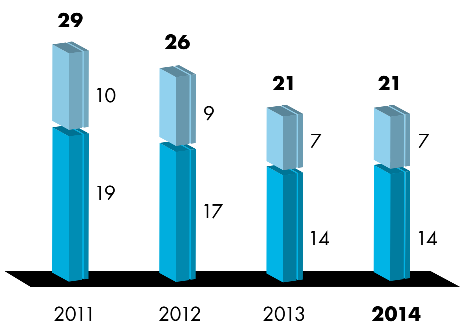
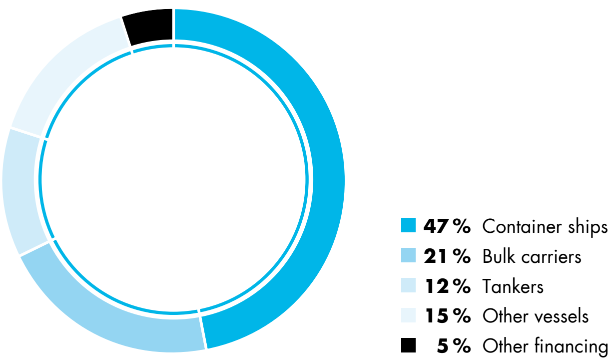


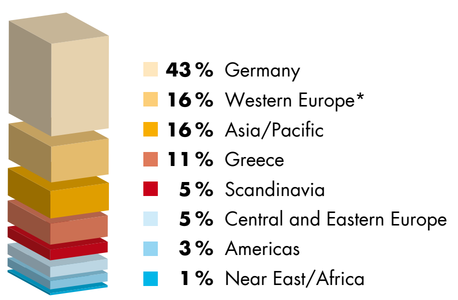
Chart 06
SHIPPING
Loan portfolio by segment (31.12.2014)



International ship finance is a core area of expertise of HSH Nordbank. We provide structured finance together with short-, medium- and long-term ship mortgage loans to our clients from the maritime industry. To finance newbuilds and second-hand ships we focus on sought-after ship types from the container ship, bulk carrier, tanker and special tonnage segments. In addition to our twin head offices in Hamburg and Kiel we have offices in Singapore, Hong Kong, Athens and New York. In close collaboration with our colleagues from the capital market units we hedge the market price risks of our clients, provide support during company mergers and takeovers and thereby actively assist the market consolidation within the shipping sector.

The challenging situation in the shipping industry continued in the past financial year. The charter rates for container ships did not show any positive trend in 2014 either. There was a temporary trend towards recovery in the bulk carrier segment, with charter rates rising slightly, particularly in the first half of the year. The recovery of charter rates in the tanker segment was more pronounced.

Chart 07
SHIPPING
Loan portfolio by region (31.12.2014)



*excl. Germany, Scandinavia and Greece.

Despite isolated positive trends, the level of charter rates remained at a low level overall. This was due mainly to an excess of supply in all three main segments, especially in container shipping. The resultant need for loan loss provisions weighed further on the results in the 2014 financial year. At the same time, however, the need for loan loss provisioning declined substantially following extensive provisioning in 2013. From today's aspect, current risks are adequately covered.

Thanks to successful new business HSH Nordbank expanded its client base during the past financial year. To improve the breakdown of the shipping portfolio further we have focused on established shipping companies with strong capital resources based mainly outside Germany. Around 70 % of new business was accounted for by international clients and 30 % by German shipping companies. The new business volume of ship finance amounted to some € 1.5 billion (2013: € 0.9 billion). HSH Nordbank is thus at a higher level than the previous year, albeit substantially lower than before the outbreak of the turmoil on the shipping markets.

Segment assets in the Shipping division came to around € 21 billion at the end of 2014. Some € 14 billion of this amount were accounted for by the Core Bank and around € 7 billion by the wind-down bank. The EU Commission's demand that we limit the assets of the Core Bank in the shipping segment to € 15 billion by the end of 2014 had already been met by HSH Nordbank after the first six months of 2014.

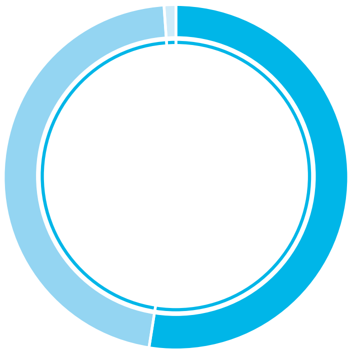
Even though the market situation remains challenging, on account of its importance in international goods traffic we see further potential in shipping. Accordingly, HSH Nordbank will – albeit to a substantially lesser extent and mainly outside Germany – continue to do new business in the shipping area. Even with our focus on international business we continue to pay close attention to German shipping companies and still see ourselves as their reliable partner. We will continue to support viable domestic companies in the context of ongoing restructuring and by granting new loans.

▶ *Due to the long-standing connection with Greek shipping company Kyklades Maritime Corporation, in 2014 we were able to provide partial financing for a total of four new Aframax oil tankers with an ecodesign. The transaction has a volume of up to US dollar 146 million.* ◀

ENERGY & INFRASTRUCTURE

in the Core Bank

Chart 08
RENEWABLE ENERGY
Loan portfolio by asset class (31.12.2014)



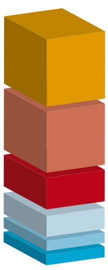
RENEWABLE ENERGIES

HSH Nordbank has been financing wind and solar projects for around 30 years, and as a pioneer within the sector is able to assist its clients with solidly based expertise. Be they project developers, operators or investors – we offer our business partners financing solutions that are exactly tailored to their needs. Our clients appreciate this – in some cases we have been collaborating with them for more than a decade.

We met our new business targets in the renewable energies segment yet again in 2014 – this success has encouraged us to increase our new business targets for 2015 to € 1 billion. In future, we want to consolidate our position as one of Europe's top five providers of finance in this business segment.

The portfolio increased by 26 projects over the previous year, of which 16 in the wind segment and ten in the solar segment. All told, we are now financing 224 projects with a total volume of around € 4.3 billion. More than € 1.5 billion in enquiries for finance are in the pipeline. The enquiries still focus on Germany and France, although Finland, Ireland and the UK are also of interest to HSH Nordbank's clients.

Chart 09
RENEWABLE ENERGY
Loan portfolio by region (31.12.2014)

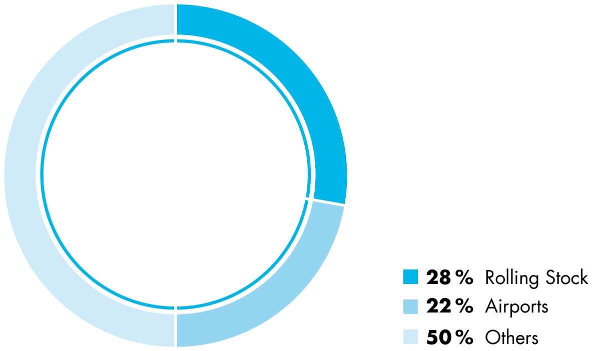


In 2014, our activities were focused in tried and tested fashion on financing wind and solar projects, with wind projects in Germany alone accounting for around 33 % of new business. Moreover, HSH Nordbank is a leading provider of finance for solar parks in France. Alongside projects on established markets such as the UK and Ireland, we have financed two wind farms in Finland for the first time, thus moving into a market with considerable growth potential. At the WindEnergy 2014 trade fair in Hamburg our publication Wind Study has demonstrated once again our expertise as a leading market player. The study casts light on the growth market of onshore and offshore wind energy in Germany and the rest of Europe and forecasts the trend of installed wind power capacity for the next four years.

For Germany, HSH Nordbank expects wind energy to be expanded by between three and four gigawatts in 2015 and 2016 each. The percentage of onshore wind energy will continue to predominate, while at the same time offshore wind energy will steadily gain in importance. While solar energy has further growth potential outside Europe, it has passed the zenith of its growth in Germany and the rest of Europe for the present. In the wake of the upcoming tenders in the photovoltaic market in Germany, however, the situation might show some slight improvement over the coming years.

▶ *As part of our increasing business in Germany in recent years we financed another citizens' wind farm in 2014. In Neuenkirchen in Schleswig-Holstein, excellent wind quality and a high level of acceptance among the population have created ideal conditions for the farm to produce a nominal output of 41.4 megawatts under full operating conditions. As a syndicate leader we have involved the local savings banks, thereby creating high regional added value in our home region.* ◀

Chart 10
INFRASTRUCTURE
Loan portfolio by asset class (31.12.2014)

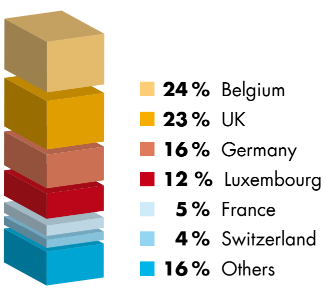


INFRASTRUCTURE

In the infrastructure sector HSH Nordbank supports companies from the traffic infrastructure/railway, networks and energy storage segments with structured finance. Moreover, we cover the social, communications, utilities and waste management segments. In 2014, we signed substantially more transactions in the infrastructure and railway segment than in the previous year. Thanks to an experienced team we are ideally equipped to assist the growth in the European infrastructure market. Our clients – companies and the public sector – have benefited from our in-depth sector knowledge for about the last ten years.

HSH Nordbank's infrastructure and railway portfolio in 2014 comprised more than 30 projects with a total volume of around € 1.9 billion. The projects were in our European target markets, almost exclusively in Germany and the rest of Western Europe. For instance, HSH Nordbank participated in leading infrastructure acquisition finance deals as a mandated lead arranger. We successfully completed major transactions such as the refinancing of Budapest Airport and acquisition finance for Vinci Car Parks, one of Europe's major parking operators.

Chart 11
INFRASTRUCTURE
Loan portfolio by region (31.12.2014)



All told, the infrastructure and railway segments provide a highly attractive market for investors. However, this leads to intense competition on the equity and debt sides. Our transaction pipeline is well stocked with more than 30 projects and a total current volume of around € 3 billion. HSH Nordbank has excellent connections in this segment and is perceived as a recognised partner. We are seeking to grow further next year and are aiming for an increased new business volume of € 1 billion. We are confident of achieving this goal while at the same time raising its profitability. Europe remains our main target market.

▶ *One milestone was the profitable sale of the successfully established locomotive leasing joint venture Railpool accompanied by the refinancing of the finance lines as a mandated lead arranger. Railpool was established by HSH Nordbank and KfW IPEX-Bank as a joint venture in 2008 and leases rolling stock, locomotives and multiple-unit trains with or without full service to rail operators in Europe.* ◀

WEALTH MANAGEMENT

As a “bank for entrepreneurs” HSH Nordbank advises its clients in all their financial affairs relating to business and, through our Wealth Management unit, to private matters. We have assisted many of our clients in a partnership going back decades. The in-depth and long-term relationship we enjoy with our clients is one of our main strengths. We provide independent advice in the interests of our clients and have always been committed to the principles of reliability, transparency and solidity.

HSH Nordbank is among the leading banks in Northern Germany for high net worth private individuals and for foundations. The protracted phase of low interest rates – to which no end is in sight over the short term – provides entirely new challenges for wealth management. The strategies for maintaining wealth that had proven their worth in the past are now jeopardising entire assets. The same applies as far as a wait-and-see approach in the event of high liquidity is concerned. Against this backdrop, topics such as equity investments, greater internationalisation of portfolios and the effect of exchange rates gain in importance and so the clients’ need for advice increases. The advice HSH Nordbank offers aims to show our clients more opportunities and to manage the associated risks, always through the use of customised solutions.

In 2014, we realigned VIA-Stiftungsfonds UI, our fund which is geared specifically to the needs of foundations and conservative private investors, to take into account sustainability and ethical criteria. We also include these aspects increasingly in our investment advice and are pleased to implement our clients’ individual investment wishes through sustainable investments.

In 2014, advice on inheritance, legacies and testaments played an increasing role. HSH Nordbank advises and supports its clients in these matters and also employs a network of external experts to this end. Foundation solutions are often examined in the course of the advisory process. Here, our clients rely on our in-depth expertise as we advise and look after almost 700 foundations and non-profit organisations across Germany. The combination of financial know-how and long-standing experience in the strategic advice offered to foundations, non-profit organisations and owners is what characterises us. Across Germany we provide foundations and non-profit organisations with advice right from the start-up phase. Our services also include topics such as strategy, fund raising, public relations and management. Other focal points include social investments and philanthropy.

When looking after large and complex assets, the Kontora Family Office rounds off our range of services. It offers neutral strategic advice and asset controlling for family assets and acts independently of the Bank. Kontora provides our clients with access to exclusive and international investor networks. Kontora received an award from the renowned Handelsblatt Elite Report in 2014, as a result of which it was once again voted to join the elite of German family offices. It is considered to be one of the leading service providers in Germany.

HSH Nordbank completed the withdrawal from the conventional private clients business at the end of 2014 and now focuses exclusively on advising high net worth private individuals in wealth management.

SAVINGS BANKS & INSTITUTIONAL CLIENTS

Because we cover all institutional investors from a single source, we meet our clients' needs in a targeted way. This is based on our excellent and long-standing market expertise in combination with a comprehensive understanding of our clients.

In 2014 we focused once again on intensive collaboration with the more than 300 savings banks throughout the whole of Germany, in line with their key importance for the Bank's business model and for its funding. We offer them customised solutions for their own investments and for their private client and corporate client business and bolster the supply of loans to SMEs via syndicate business. Furthermore, the medium-sized clients of the savings banks benefit from our hedging transactions to protect against fluctuations in interest and foreign exchange rates.

In addition, regional, private and cooperative banks, public-sector clients, insurance companies, utilities and capital investment companies appreciate our advice and product solutions. In 2014, we broadened our investor base, and with the sale of attractive products for proprietary and client business we further strengthened the Bank's funding.

One focus here was on the further expansion of our retail funding, that is the issue of structured bonds for our sales partners – including the first-time issue of credit-rating bonds with fixed or variable interest payment. Our floater with an attractive minimum interest rate in comparison with the competition and capital-guaranteed, share-based bonds proved particularly popular in 2014.

We responded to the low interest rate environment with our interesting money market products, in particular. One example is the term deposit with automatic renewal, which is characterised by a combination of flexibility in the availability of the investment amount while at the same time offering participation in attractive money market terms.

We further strengthened our position in structuring and placing capital market products. In this way we purposefully brought together our institutional clients, for example, and the providers of private placements. HSH Nordbank expanded its market share substantially when it comes to the issue of treasury notes of German federal states and assisting their development promotion institutions.

The strategic focus on the savings banks will also characterise 2015, including the offer of customised and attractive structured retail bonds. Collaboration with the savings banks will remain an important task in the syndicate loan business, together with real estate finance with a focus on financing in the renewable energies segment. Due to the high level of demand, we are planning to expand our collaboration with the savings banks in risk management, specifically for interest rate derivatives and forex transactions, on behalf of their clients. If the interest rate situation remains unchanged the offer of attractive products for short-term cash investments will remain of great importance.

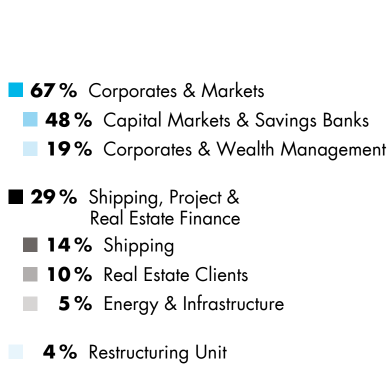
Thanks to our expertise as provider of project finance we aim to offer our institutional clients even more in-depth support in the selection of, and investment in, infrastructure projects. In particular, we see good growth opportunities when it comes to arranging and placing municipal and quasi-municipal promissory note loans, some of which also have an infrastructure character.

▶ *HSH Nordbank has been successful as an issuer of structured bonds on the market since 2002 and, with an outstanding business volume of more than € 9 billion as at the end of 2014, it ranks among the most important issuing houses in the German market. In 2014 alone, HSH Nordbank issued 180 structured retail bonds with a volume of € 2.5 billion. In our three product series Nordic Horizon®, (interest rate bonds), Nordic Sky® (share index-based bonds) and Nordic View® (credit-rating bonds) we regularly issue bonds on interest rates, share indices and credits. We are a fair and reliable partner and provide our business partners with customised issues via our exclusive bonds.* ◀

CAPITAL MARKETS & CORPORATE FINANCE

in the Core Bank

Chart 12
CAPITAL MARKET PRODUCTS
Income by segment (31.12.2014)



CAPITAL MARKETS

In the Capital Markets division HSH Nordbank develops and sells bonds, certificates and instruments for managing market price risks. The division recorded a generally more muted performance in the past financial year. In the first six months, in particular, the very low level of volatility on the interest rate, commodity and forex markets exerted a negative effect. For example, Brent crude oil, which has been moving sideways since mid-2012, hit a historically low volatility level towards mid-2014, despite geopolitical risks in the Middle East, Ukraine and West Africa. The price of Brent crude also slumped substantially in the second half of 2014. The reasons for this trend include alternative production methods in Canada and the USA, which have resulted in a worldwide increase in oil supply, and lower global economic expectations.

Initial trends of increased volatility on the oil markets became apparent in the second half of 2014. Accordingly, clients demonstrated an increased interest in longer-term hedging against exchange-rate fluctuations beyond 2015.

On the currency markets, particularly the €/US dollar market, volatility increased from September onwards, due among other factors to improved US economic prospects and an accommodative ECB monetary policy. Importers and exporters responded to the market movement by hedging their forex risks to an increasing extent. This also led to a recovery in sales and income in forex trading. The steady decline in interest rates resulted in a substantial decrease in client revenues from hedging transactions via interest rate swaps. HSH Nordbank expects this trend not to be reversed over the short to medium term.

The Debt Solutions department, in particular, recorded an encouraging performance in 2014. This newly established department aims to intensify cross-selling and to address clients in a more target-oriented manner. The team from the Debt Solutions department is responsible for all promissory note and bond issues and for arranging and structuring individual finance solutions specifically in the factoring and forfeiting segment. Compared to the 2013 financial year, when HSH Nordbank assisted promissory note loans with a volume of some € 265 million, we placed a total volume of around € 1 billion for our clients in 2014. The focus here was on transactions for municipalities and municipal and medium-sized companies. We substantially expanded our competitive position in 2014 amid a generally declining promissory note market through intensive personal contact with existing clients and improved investor access.

Demand for the SmartFact factoring solution, which enables companies to sell their receivables with immediate effect on liquidity, thereby easing the pressure on their capital ratio, was stable at a high level. For instance, in 2014 HSH Nordbank arranged a SmartFact transaction of € 100 million for construction firm PORR with international operations.

For the coming financial year HSH Nordbank plans to grow further particularly through the issue of promissory note loans and SmartFact solutions and to increase cross-selling with these product groups further. The implementation of regulatory requirements such as the European Market Infrastructure Regulation or the Markets in Financial Instruments Directive II will remain tasks in the coming financial year and will result in a further burden for capital markets business.

▶ *In the past financial year HSH Nordbank acted as the lead manager in the placement of the issue of promissory note loans for the University Hospital Schleswig-Holstein with a total amount of € 100 million. Among other things, the funds from the substantially oversubscribed transaction will be used to finance the new hospital building. Institutional investors, in particular, showed strong interest in the placement.* ◀

CORPORATE FINANCE

In the Corporate Finance division HSH Nordbank pools its advisory expertise on the purchase and sale of businesses, participation in syndicate loans, acquisition finance and leveraged buyouts in a leading role. Moreover, our experts in Corporate Finance provide advice on managing market price risks. Overall, the performance of this division was also in line with projections for financial year 2014. A boost was provided, in particular, by the business areas Leveraged Finance, where HSH Nordbank arranges debt capital finance deals for company acquisitions by institutional investors primarily in the SME segment, and by the Capital Structuring unit, which is responsible for structured finance solutions for corporate clients of HSH Nordbank. The Loan Syndication department, which is a strategically important unit of HSH Nordbank with responsibility for underwriting and outplacing portions of large-volume loan commitments, also recorded a gratifying performance.

M&A Advisory, formerly the independent company HSH Corporate Finance GmbH, was integrated at mid-year and also showed a convincing performance. In the second half of the year, in particular, it benefited from closer links with the market units and thus from improved access to transactions. The unit thus provided increasing support in winding down risk-weighted assets in the Restructuring Unit and assisted the consolidation process in the shipping sector repeatedly on both the buyer or seller side. In the Corporate Advisory unit, the persistently low interest rates and the low volatility on the global currency and commodity markets made themselves felt over the year as a whole. Demand for advisory services and for hedging market price risks declined perceptibly. Over the medium term, HSH Nordbank expects to see catching-up effects in this area as the volatility level returns to normal.

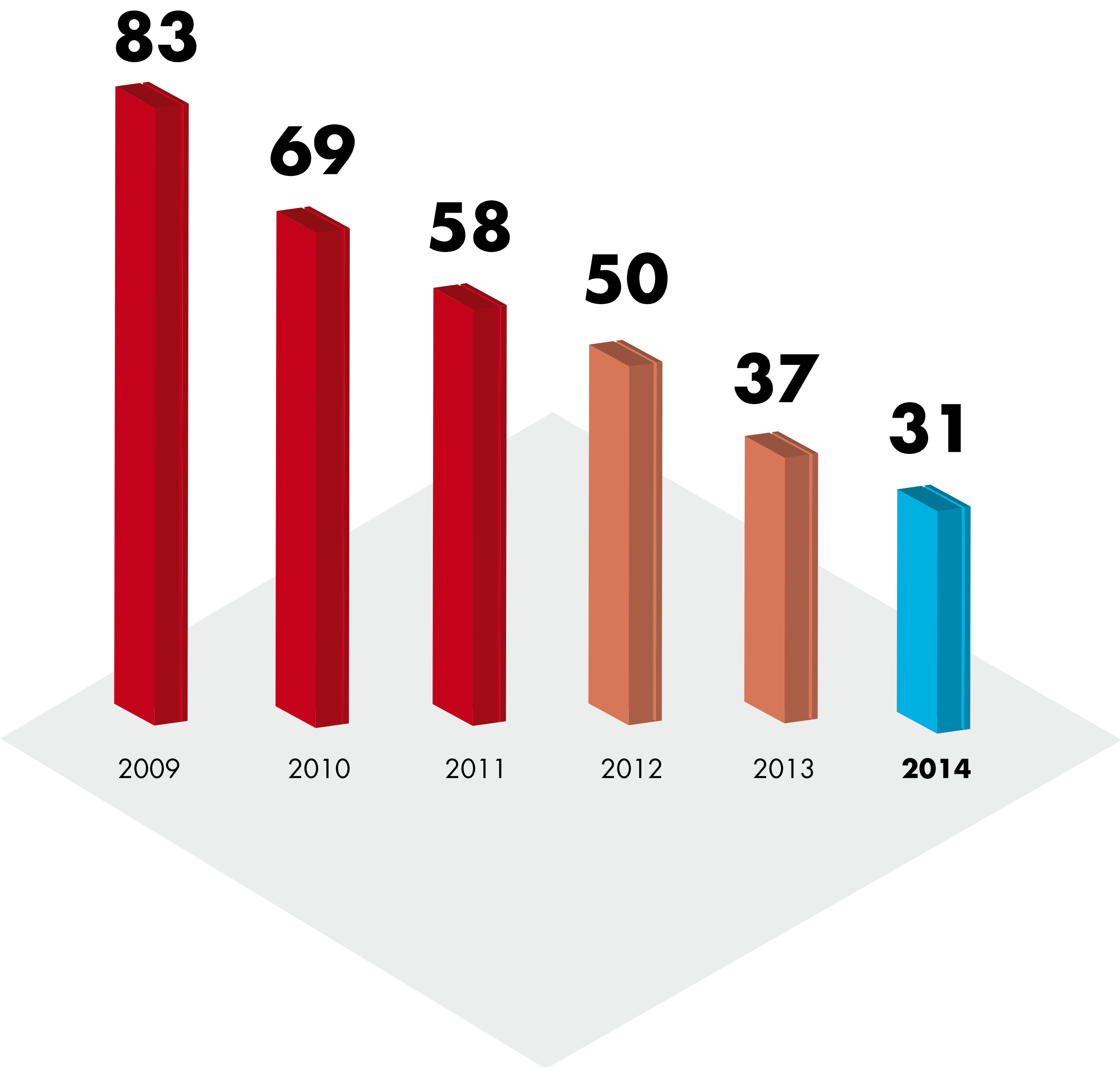
Transaction Banking, where we make services available for our clients' payment transactions, was pooled in an independent division within HSH Nordbank in the 2014 financial year and is headed by the Chief Operating Officer. HSH Nordbank is thus taking account of the procedural character of transaction banking and covers the entire value chain from the front office to the back office in a cost-efficient manner.

For the entire Corporate Finance division HSH Nordbank plans to continue its growth in the next financial year amid a highly competitive setting. From today's perspective, the growth areas of leveraged finance and capital structuring and their links with the M&A business will make a major contribution to achieving this goal.

▶ *In August 2014 HSH Nordbank arranged the finance for the Free and Hanseatic City of Hamburg as part of the full buyback of the Hamburg electricity grid from Vattenfall. It led a syndicate of 13 banks, which are providing a combined total of € 655 million over the next two years. The buyback was the first large-volume re-municipalisation of an electricity grid in Germany.* ◀

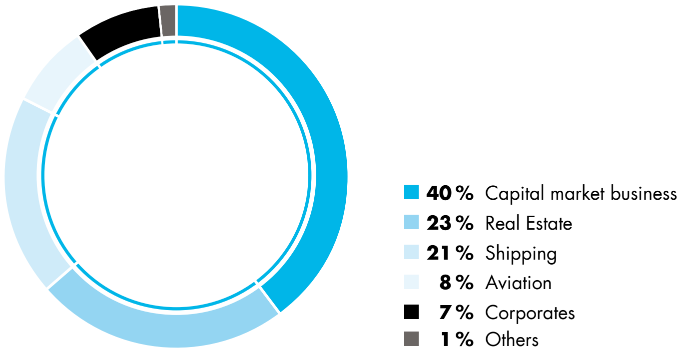
RESTRUCTURING UNIT

Chart 13
RESTRUCTURING UNIT
Segment assets 2009–2014
excluding consolidation items
(in € bn)



RESTRUCTURING UNIT

Chart 14
RESTRUCTURING UNIT
Segment assets by type of business (31.12.2014)



The Restructuring Unit is a wind-down division that was decoupled from the remaining banking business and in which the non-strategic portfolios and business areas of HSH Nordbank have been pooled since 2009. In parallel with the Bank's focus on its new business model, the Restructuring Unit seeks to wind down capital market and loan exposures on a value-oriented basis and with minimum market disruption. Over the past five years the initial portfolio has been reduced by around 63 % to € 31 billion. Since this wind-down reduces risk-weighted assets and provides equity capital with relief, the Restructuring Unit makes a major contribution to the risk-bearing capacity and stabilisation of HSH Nordbank. The funds set free are, moreover, available for new business in the Core Bank.

The restructuring unit which is integrated into the wind-down division and also manages the restructuring portfolios within the Core Bank successfully begun its work in 2014. Thanks to this step, the skills of our employees have been pooled and our processes streamlined.

Already last year the Bank undershot the restructuring activities maximum total assets stipulated by the EU Commission for the end of 2014. Commitments were reduced by a further € 6 billion in 2014. This means that the segment volume at € 31 billion is now substantially below the amount demanded by Brussels.

At the end of 2014, the portfolio of the internal wind-down unit comprised lending commitments (60 %) and capital market commitments (40 %). Around 80 % of the securities pooled here are in the investment-grade segment and thus have good credit ratings. In the loan unit we were able to sell a residential real estate portfolio in the US with a volume of around US dollar 300 million while safeguarding its value. Nevertheless, we continue to focus on the shipping portfolio, which HSH Nordbank has reduced from its highest level of € 10 billion in 2011 to the current level of € 7 billion despite further transfers from the Core Bank. The wind-down process aims at taking advantage of potential value and avoiding losses. To this end, the unit has developed innovative financing models for insolvent ships or those threatened with insolvency and actively assists consolidation within the sector.

▶ *The Restructuring Unit implemented a construct for the consolidation of shipping company C. F. Ahrenkiel by Hamburg-based MPC Group and Thien & Heyenga at the beginning of 2014. The merger of the three companies, which have been active on the market for many years, pooled long-standing sector experience and enabled economies of scale. The new shipping group is on solid foundations thanks to HSH Nordbank's financing structure.* ◀

ENTREPRENEURIAL RESPONSIBILITY

EMPLOYEES

In 2014, HSH Nordbank received numerous awards from various institutions for its work in the area of human resources. What we offer in terms of healthcare and social management as well as our strong commitment to further education and qualification provide important underlying conditions for our colleagues in their everyday work. Moreover, they are among the decisive criteria – alongside the actual tasks and professional challenges – for applicants when selecting their employer. Our modern human resources management is a basic requirement for a well-trained and motivated staff, and great importance is attached to it at all levels within the Bank.

In 2014, we successfully continued our talent and change management: 16 trainees completed their dual studies at HSH Nordbank with a mostly very good overall result. Fifteen of them were subsequently permanently employed by the Bank. We shall continue to offer training cum qualification courses: approximately 20 new trainees will be recruited as Bachelors of Arts/Science and Office Managers in 2015. Furthermore, nine new employees started as trainees at HSH Nordbank, of which eight now work for the Bank. Absolventa GmbH, which audits the quality of traineeships across Germany in close collaboration with Süddeutsche Zeitung newspaper and Ludwig-Maximilian University Munich, has rated our trainee programme as "promoting careers and fair".

For next year we have developed our trainee programme further so as to align it to the individual requirements of the corporate divisions and of the trainees themselves. The number of trainees accepted has been increased from nine to 15, the length of the programme has been extended from 12 months to 24 months. This enables us to offer a high-quality training period which allows trainees to gain a comprehensive and in-depth insight into their future area of work.

We made visible progress in 2014 in terms of equal opportunities and the promotion of women: the proportion of women on the Bank's Supervisory Board rose to 37.5 %. Since May 2014, six of the 16 members of the Supervisory Board are women. The Bank's "Initiative for the Promotion of Women" also remains firmly focused on filling open executive and specialist positions with women.

The restructuring programme implemented in the context of the EU requirements set in 2011 provides for just under 2,700 full-time jobs for the year 2014, which we almost achieved already as early as the end of 2013. Nevertheless, a new office location concept was approved in 2014, which provides for streamlining of executive structures, among other things.

Over the next three years a further cost-cutting programme and Group reorganisation will be continued with additional, targeted measures, the objective being to further develop HSH Nordbank under challenging underlying conditions. In this connection, the Management Board decided to reduce administrative expenses and to shed around 500 full-time jobs over the next three years. The Management Board and the Human Resources division attach particular importance to find socially responsible solutions for all parties that are drafted and implemented together with the works council.

COMPLIANCE

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

The independent Compliance division monitors adherence to the strict behavioural requirements for capital markets compliance, prevention of money laundering, the financing of terrorism and other criminal offences pursuant to section 25 of the German Banking Act and the adherence to financial sanctions and embargoes. In addition, the division assumes the compliance function in accordance with the minimum requirements for risk management (MaRisk, AT 4.4.2) published by the German bank regulator BaFin and, in this context, ensures that the material legal regulations and requirements are observed by the Bank. The MaRisk Compliance function was fully integrated into the existing processes of the division in 2014.

The material behaviour guidelines applicable at HSH Nordbank have been compiled in a Code of Conduct. In 2014, we realigned and expanded the Code of Conduct. It now includes the conventional compliance rules as well as the requirements that stem from issues relating to taxes, finance, risk management, data protection and communication. This Code of Conduct provides HSH Nordbank's staff and executives with a reliable orientation framework for responsible action which meets the statutory requirements as well as ethical and social norms.

The key monitoring areas of the Compliance division include client and transaction monitoring, market and investor protection and the management of conflicts of interest. We analyse the Bank's risk profile regularly and examine the adequacy of the established control measures. Compulsory training on the various compliance issues ensures that each staff member knows the statutory standards and behaviour guidelines that must be observed. Implementation of the applicable standards and requirements is regularly checked by the Compliance division by means of a risk-oriented monitoring plan in selected areas in which the Bank operates.

HSH Nordbank has an external whistle-blowers office which responds to anonymous tip-offs from Bank employees and, following a preliminary examination, forwards them to the Compliance division. In 2014, the relevant units and corporate bodies of HSH Nordbank examined compliance breaches and, in individual cases, involved external law firms and auditing companies. Cases of suspected insider trading, market manipulation, money laundering and other criminal acts are reported or notified to the relevant supervisory and criminal prosecution authorities.

SOCIAL COMMITMENT

We take our social responsibility seriously. Our social commitment has a long tradition.

The HSH Nordbank Run has established itself in recent years as the biggest charity run in Northern Germany. In 2014, a total of 812 teams with 22,244 participants took part in the four-kilometre race through Hamburg's HafenCity in aid of a good cause. The € 150,000 raised went once again to "Kids in die Clubs", a charitable initiative set up by the "Kinder helfen Kindern e.V." charity and Hamburger Sportjugend. Since 2004 the HSH Nordbank Run has raised far in excess of € 1 million. This has enabled more than 9,300 children and young people from financially disadvantaged families to join a sports club.

In 2014, HSH Nordbank was once again a premium partner of Kieler Woche, cultivating the longest existing partnership with the world's largest sailing sport event. As part of Kieler Woche we launched the charity appeal "Gut für Kids" ("Good for Kids") in 2011. Since then, we have generated more than € 100,000 in proceeds through the sale of the blue "Good for Kids" wristbands, thereby also enabling children and young people to join a sports club.

In 2014, together with Sparkassen-Finanzgruppe we were once again one of the main sponsors of the Schleswig-Holstein Music Festival where, over a period of eight weeks, special venues outside of traditional concert arenas provide an atmospheric backdrop to first-rate concerts in the north of Germany.

At the end of the year the HSH Nordbank Art Foundation completed the project "Landessprachen" ("Languages of the State of Schleswig-Holstein"), which was initiated in 2011 and started in 2012. By way of published books and personal appearances at numerous events the curator, Professor Detering, managed to demonstrate the literary riches resulting from the many voices of languages and cultures of the "border country" that is Schleswig-Holstein. As co-editors he managed to attract, among others, Nobel Prizewinning author Günter Grass and Flensburg-based literary scholar Prof. Dr Peter Nicolaisen. Many of the texts printed were made available in German for the first time. Furthermore, in winter 2014/2015 HSH Nordbank supported the "HerzAs" (Ace of Hearts) initiative in Hamburg and the Hempels Association in Kiel. Both facilities offer free midday meals to the homeless and the socially disadvantaged.

REPORT OF THE SUPERVISORY BOARD FOR THE 2014 FINANCIAL YEAR

The underlying macroeconomic and bank-related conditions remained challenging for HSH Nordbank's business performance in 2014. At the same time, the Bank systematically continued to pursue the strategy of expanding its client business in the Core Bank with risk awareness and to effect a rapid reduction of the legacy assets in the Restructuring Unit. Concerns about deflation, appreciation of the US dollar, geopolitical conflicts and tendencies towards economic weakness in Europe and overseas left their traces on the Bank's business, however. The persistently difficult situation in the shipping industry also presented the Bank with challenges. On top of this, there was speculation in the second half of the year concerning HSH Nordbank's performance in the ECB's comprehensive assessment. Amid this setting characterised by uncertainty the Supervisory Board advised the Management Board in the management of the company and monitored its management activities. Alongside questions regarding the Bank's strategic alignment the Supervisory Board sought regular information on the economic and financial performance as a whole and in specific business areas. Any deviations in the business performance from the forecasts were explained to the Supervisory Board together with the reasons for the discrepancy.

The Management Board informed the Supervisory Board regularly, punctually and comprehensively about business policy and other fundamental questions of corporate governance and planning, the financial performance, the income situation as well as the Bank's risk, liquidity and capital management, about major legal disputes and transactions and events of considerable significance to the Bank. The Supervisory Board was involved in decisions of material importance for the Bank. The Chairman of the Supervisory Board and the Chairs of the Risk Committee and Audit Committee were moreover kept informed by the Management Board of important topics and of upcoming decisions, including between scheduled meeting dates. Where resolutions were required between meetings, these were passed in writing.

MEETINGS OF THE SUPERVISORY BOARD

Seven meetings of the Supervisory Board were held during the 2014 financial year, one of which was convened for extraordinary reasons. One resolution was passed in writing.

The Management Board kept the Supervisory Board informed of the Bank's current economic situation, the business performance as a whole and in the individual business areas and in relation to the current business plan, the risk position, the trend of capital ratios and the liquidity and funding situation during all ordinary meetings. The Supervisory Board subjected the reports to critical scrutiny and requested additional information and reports in some cases.

The subject of regular reports also included status reports on the EU state aid proceedings, on IT topics and on tax risks from ongoing company audits. The Management Board moreover informed the Supervisory Board regularly of the status of the preliminary work on, and implementation of, the ECB's comprehensive assessment. The auditors regularly took part in the Supervisory Board meetings and were available to the Supervisory Board for additional information.

The meeting on 6 February 2014 focused on an in-depth discussion of the financial, capex and personnel plan from 2014–2016 presented by the Management Board. In addition, the Supervisory Board discussed the report on corporate governance, the declaration of conformity and the report of the Supervisory Board for the 2013 financial year. Due to the amendment of the German Banking Act (KWG) and the fact that the new German Ordinance on the Compensation of Financial Institutions came into force at the beginning of 2014, the members of the newly constituted Compensation Monitoring Committee had to be elected. Moreover, the Supervisory Board was consulted prior to the appointment of the Compensation Officer who was put forward by the Management Board. The Supervisory Board did not object to the proposed Compensation Officer and his Deputy. Another topic was the Bank's IT situation, on which the Supervisory Board received regular reports at the other meetings held during the year.

The meeting on the annual financial statements took place on 9 April 2014. The meeting was convened primarily in order to endorse the 2013 annual financial statements and consolidated financial statements following the Supervisory Board's own examination and previous discussion with the auditor at the recommendation of the Audit Committee. Furthermore, the report on relations with affiliated companies and the other resolutions usually to be adopted in this connection on the recommendations to shareholders at their annual general meeting were discussed. The Supervisory Board proposed the candidates for election put forward by the Nominating Committee for the new term of the Supervisory Board, which has been reduced in size to 16 members, to the shareholders at their annual general meeting. The merger of HSH Corporate Finance GmbH, a wholly owned subsidiary of the Bank, with HSH Nordbank was approved by the Supervisory Board and also recommended to the shareholders at their annual general meeting. During this meeting the Supervisory Board also discussed in depth the attainment of targets by the Management Board for the 2013 financial year and set the targets for the 2014 financial year. The Supervisory Board furthermore discussed with the Management Board the annual report on equity holdings. A new concept for the management and reporting of counterparty clusters necessitated an adjustment of the Guidelines for the Lending Business, which was decided by the Supervisory Board. Finally, the Management Board submitted the revised Code of Conduct to the Supervisory Board for acknowledgement.

Following the election of the new Supervisory Board members, the new Supervisory Board convened for a constituent meeting following the annual general meeting on 23 May 2014. The subject matter of the meeting was the election of the Chair and Deputy Chair of the Supervisory Board and the members and chairs of the committees. Six of the 16 Supervisory Board members were newly elected to it.

To make it easier for the members that were new to the Supervisory Board to take up their duties, the Bank held an information event on 4 June 2014. Division heads of the Bank explained the main current and structural topics of HSH Nordbank to the Supervisory Board members.

As part of dealing with individual business areas of the Bank, the Supervisory Board at its meeting on 6 June 2014 discussed the report on the Shipping division with the Management Board. Moreover, the Supervisory Board dealt with Management Board issues involving previous Management Board members. Finally, the Supervisory Board was presented with the restructuring plan that is to be drawn up pursuant to section 47 et seq. KWG and which is to be submitted to the banking supervisory authority.

At the subsequent meeting on 28 August 2014 the Supervisory Board discussed once again Management Board matters. A further focus was the half-year report, which was discussed with the Management Board in the presence of the auditors. A report on the real estate business continued the series of in-depth discussions concerning the performance in individual business areas. Furthermore, the Supervisory Board discussed with the Management Board the IT strategy up to the year 2018, which continued on from the Supervisory Board's ongoing deliberations on this subject.

The extraordinary meeting of the Supervisory Board on 28 October 2014 was dominated by an evaluation of the results of the comprehensive assessment for HSH Nordbank. In this process the Management Board also discussed in depth with the Supervisory Board the consequences for HSH Nordbank's strategy and planning going beyond the assessment. The Supervisory Board moreover approved the closure of the branches in New York and on the Cayman Islands and the opening of a Representative Office in New York. Amendment agreements in respect of a Silent Partnership Contract as well as two control and profit transfer agreements with subsidiaries of the Bank and a special election to the Supervisory Board necessitated an extraordinary meeting of shareholders, at which the Supervisory Board prepared proposed resolutions approving the motions.

At the meeting of the Supervisory Board on 11 December 2014 the in-depth discussion of further cost-cutting measures by the Management Board continued. Other items on the agenda of this meeting were a presentation of the Corporate Clients and Wealth Management business areas. In addition, the Supervisory Board discussed the results of its efficiency audit pursuant to section 25d KWG. Details can be found in the Corporate Governance report in this Annual Report. The Supervisory Board acknowledged the 2013 Compensation Report of the Bank at the meeting.

Where individual members of the Supervisory Board were affected by decisions made by the Supervisory Board or in its committees, either in person or on account of their position, or where other potential conflicts of interest occurred, they did not participate in the deliberations and decisions in the corporate body concerned. For instance, Dr Klemmt-Nissen did not participate in the deliberations and decisions of the Risk Committee in connection with finance deals for Hamburg Energienetze GmbH because he is part of the company's management. The number of material mandates of the Supervisory Board members can be found in the Corporate Governance report in this Annual Report.

With the exception of Mr Wrede, who was unable to attend the meetings of the Supervisory Board up to his departure on 23 May 2014, all members took part in at least half of the meetings.

SUPERVISORY BOARD COMMITTEES

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

The General/Nominating Committee met seven times last year, of which twice for extraordinary meetings. In accordance with the Rules of Procedure of the Supervisory Board, the General Committee prepared the Supervisory Board resolutions and also dealt with Management Board matters in particular. In addition, as the Nominating Committee it discussed at the first two meetings of the year the selection of candidates for the Supervisory Board to be elected by shareholders at their annual general meeting and issued a recommendation to the Supervisory Board. At its last meeting in the 2014 financial year, moreover, it evaluated the Management Board as well as the Supervisory Board's diversity strategy. It also reviewed the Management Board's principles for the selection and appointment of persons on the next management level.

The Risk Committee met five times last year. In addition, one resolution was passed by means of written circulation due to the urgent subject matter. At its meetings, which were regularly also attended by representatives of the auditors, the Risk Committee discussed in depth the Bank's risk situation and risk management, particularly the risk strategy and credit, liquidity, country, market and operational risks together with the reputational risks. Individual exposures of importance to the Bank were deliberated in detail, as were the regularly presented risk reports on the individual portfolios. The Risk Committee sought information on all exposures subject to mandatory reporting and granted its approval on business transactions requiring approval by law. The Risk Committe, moreover, discussed the comprehensive risk report with the Management Board on a quarterly basis. In addition, the committee received at all meetings a report on recent events and trends and their impact on the risk situation.

The Audit Committee met four times in 2014. Representatives of the auditors took part in all meetings. The subject matter of the first meeting was a discussion of the Bank's 2013 annual financial statements and consolidated financial statements together with the relevant audit reports. In this context the Audit Committee also discussed the report on relations with affiliated companies. The committee prepared the appointment of the auditors for 2014 and reviewed their independence pursuant to the requirements of the German Corporate Governance Code. Moreover, the committee was presented with a report on the status of the investigations initiated by the Bank on fiscal issues. At the further meetings of the Audit Committee, the auditors presented their findings of the review of the half-year report and discussed them with the committee prior to its publication. Also, the initial results from the audit of the annual financial statements were discussed with the committee. The committee received regular reports on the commissioning of the auditors with non-audit services, on the work of Internal Auditing and on compliance issues. Finally, the committee regularly deliberated on how to deal with audit findings from previous audits and of findings from non-event-driven audits by the banking supervisory authority. The committee satisfied itself of the efficiency of the Internal Control System and of Internal Audit. Furthermore, the committee discussed the results of the securities account audit and the audit of securities service business pursuant to the Securities Trading Act (WpHG).

The Compensation Oversight Committee that was newly constituted in 2014 met three times last year. It monitors the appropriate structuring of compensation systems for the Management Board and for employees. To this end, it obtained an overview of the Bank's compensation systems and discussed the implementation of the new regulatory requirements of the German Banking Act and the German Ordinance on the Compensation of Financial Institutions with regard to the compensation systems. Moreover, the Compensation Officer reported to the Compensation Monitoring Committee on the results of his monitoring and explained his annual Compensation Monitoring Report. The Chairman of the Compensation Oversight Committee also held regular exchanges with the Compensation Officer on relevant issues outside the meetings.

No meetings of the Mediation Committee that is to be formed pursuant to the provisions of the Co-Determination Act were required in 2014.

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

AUDIT AND ADOPTION OF THE FINANCIAL STATEMENTS AND GROUP FINANCIAL STATEMENTS FOR 2014

The accounts, annual financial statements including the status report, and the consolidated financial statements including the Group status report for the year 2014 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. KPMG was elected as auditors and Group auditors by the general shareholders' meeting on 23 May 2014. All audits resulted in an unqualified auditor's certificate with an explanatory note saying that, without limiting this assessment, the going concern assumption for accounting and valuation is based, in particular, on the EU Commission agreeing to replenishment of the capital-relieving guarantee, taking into account further structural measures to be implemented, and that the amendment to the guarantee agreement has now been finally approved following the preliminary approval granted in June 2013 and that approval is now subject only to conditions which can be implemented within the context of viable corporate planning. Furthermore, it is necessary that the acceptance required for the successful implementation of HSH Nordbank's business model by market participants and other relevant stakeholders continues.

The audits resulted in an unqualified auditor's certificate in each case. A note was added to the effect that, without restricting this opinion, the going concern assumption made for accounting and measurement purposes is based, in particular, on the EU Commission granting its approval to the increase in the capital-relieving guarantee, taking into account other structural measures to be implemented and that the amendment to the guarantee agreement has now, following the provisional approval issued in June 2013, been finally approved and that approval is tied only to conditions which can be implemented as part of viable corporate planning. Furthermore, in order to successfully implement the business model of HSH Nordbank it is necessary that acceptance by market participants and other relevant stakeholders be maintained.

The documentation relating to the financial statements and the audit reports together with all attachments were sent out to the members of the Supervisory Board in good time. During its meeting on 30 March 2015 the Audit Committee discussed the documents with the auditors in detail after receiving a report from the auditors on the execution and key findings of its audit. At the Supervisory Board meeting on 31 March 2015 the Chairman of the Audit Committee reported to the Supervisory Board on the result of the deliberations on the Audit Committee. The auditors also took part in the Supervisory Board meeting and reported on the main findings of their audit. On the recommendation of the Audit Committee, the Supervisory Board agreed with the findings of the audits following its own examination of the reports of the auditors and in-depth discussion and established that following the final result of its own inspections there were no objections to be raised. The Supervisory Board adopted the 2014 annual financial statements drawn up by the Management Board and approved the 2014 consolidated financial statements. Furthermore, it adopted the report of the Supervisory Board for the 2014 financial year.

The Management Board furthermore submitted a report on relations with affiliated companies for the 2014 financial year to the Supervisory Board and the auditor on time. The statutory auditor has reviewed the report on relations with affiliated companies and issued the following unqualified auditor's certificate:

"After due examination and assessment we confirm that

1. the factual statements of the report are correct, and

2. the company's legal transactions with respect to the services listed in the report were not disproportionate."

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

CHANGES IN MEMBERSHIP

At the end of the annual general meeting on 23 May 2014 the term of office of the previous Supervisory Board of HSH Nordbank AG ended. On this day, on the shareholder side Messrs Blöcker, Heuer and Koopmann, Dr Lemppenau and Mr Wrede left the Supervisory Board; the other shareholder representatives were re-elected to the Supervisory Board. Moreover, at the annual general meeting shareholders elected Ms Grimm and Ms Weber-Braun as well as Dr Allerkamp to the Supervisory Board.

On the employee side, Ms Kittner-Schürmann and Ms Redeker as well as Messrs Bose, Dircks and Lener left the Supervisory Board at the end of the annual general meeting on 23 May 2014. Ahead of the annual general meeting, the employees of HSH Nordbank had re-elected Ms Arp, Auerbach and Ms Meetz-Schawaller and Messrs Behm and Heick and newly elected Ms Graf and Messrs Randau and Schlatermund to the Supervisory Board.

Further personnel changes took place in the further course of the year. Mr Losse-Müller left the Supervisory Board effective 27 November 2014. On the same day, at the annual general meeting shareholders elected Dr Nimmermann to the Supervisory Board as his successor. Moreover, the shareholders at this annual general meeting elected Mr Wohlers to the Supervisory Board effective 1 January 2015 as successor to Dr Allerkamp, who resigned from his post effective 31 December 2014. The district court appointed Mr Schwettscher as successor to Mr Randau, who departed on 29 October 2014, the appointment having taken effect on 10 January 2015.

The Supervisory Board thanked all its retired members for their committed service.

There were no changes to the composition of the Management Board during the 2014 reporting year.

The Supervisory Board thanked the Management Board and all employees for their great personal commitment and their work under the difficult conditions experienced by the Bank.

Hamburg/Kiel, 31 March 2015

The Supervisory Board

Dr Thomas Mirow
Chairman of the Supervisory Board HSH Nordbank AG

CORPORATE GOVERNANCE

All information included in this Corporate Governance Report represents the status on 24 February 2015.
As an unlisted company, HSH Nordbank has recognised the German Corporate Governance Code (GCGC) voluntarily since 2005. The Management Board and Supervisory Board of HSH Nordbank expressly support the content and purposes of the GCGC. Corporate governance at HSH Nordbank is principally based on the provisions of the German Stock Corporation Act and the German Banking Act as well as internal rules such as the Articles of Association, the Rules of Procedure for the Management Board and the Supervisory Board as well as the Code of Conduct of HSH Nordbank. By presenting our system for managing and monitoring of the Bank and transparent reporting on conformity to the rules of the Code, we aim to enhance the confidence of shareholders and investors, clients, employees and the general public in HSH Nordbank.

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

In accordance with Section 161 of the German Stock Corporation Act, the Management Board and the Supervisory Board of listed companies are required to publish an annual declaration in which they indicate the extent to which their management and monitoring system complies with or deviates from the recommendations of the GCGC. Our objective is to conform to the Code as fully as possible even as a non-listed company. In February 2015, the Management Board and the Supervisory Board of HSH Nordbank therefore voluntarily issued a Declaration of Conformity with the GCGC in which the deviations from the Code recommendations were disclosed.

DECLARATION OF CONFORMITY

Since publishing the last Declaration of Conformity on 6 February 2014, the Management Board and the Supervisory Board of HSH Nordbank declare that HSH Nordbank has conformed to the recommendations of the GCGC in the versions dated 13 February 2013 and 24 February 2014 in every respect save for the following exceptions stated below. As of the date on which the next Declaration of Conformity is published, HSH Nordbank will be conforming to all the recommendations of the Code in the version dated 24 February 2014 save for the exceptions stated below.

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

Section 4.2.3 (3) requires that in the case of benefit commitments the Supervisory Board shall stipulate the target level for benefits and take the extrapolated annual and long-term expenditure for the company into account.
For members of the HSH Nordbank Management Board a contribution plan applies that is not aimed at a specific level of benefits.

Section 4.2.4 stipulates that the total compensation of each one of the members of the Management Board is to be disclosed by name, divided into fixed and variable compensation components.
This does not involve a recommendation of the GCGC, but is rather a mandatory requirement because the German Commercial Code (HGB) stipulates disclosure for market-listed companies. However, as a non-listed company, HSH Nordbank is in principle not subject to this obligation. Furthermore, the parameters for compensating members of the Management Board in accordance with the EU Commission's stipulations – set upper limit for the basic salary, no variable compensation – are already sufficiently common knowledge.

Section 4.2.5 requires certain information regarding the compensation and fringe benefits concerning each member of the Management Board on the basis of details determined by reference tables.
As HSH Nordbank does not disclose compensation of the Management Board on an individualised basis, these details are not disclosed either (c.f. also Section 4.2.4).

Section 5.4.6 (2) requires that if variable compensation is offered to Supervisory Board members it must be geared to sustainable corporate governance.
The compensation rules for the Supervisory Board of HSH Nordbank that applied until the 2014 annual general meeting provide for performance-based compensation for Board members that has a fixed ceiling and is paid only if the Bank pays a dividend for the financial year in question. Due to the dividend ban imposed by the EU Commission within the framework of the state aid decision this arrangement does not currently apply. New compensation rules, which no longer provide for any variable compensation for members of the Supervisory Board, have applied since the 2014 annual general meeting, meaning there will be no such deviation in the future.

Section 5.4.6 (3) provides that the compensation paid to members of the Supervisory Board be reported separately for each individual and broken down by component in either the Notes or the Management Report.
The compensation paid to the Supervisory Board is not disclosed on an individualised basis at HSH Nordbank. The shareholders receive sufficient information on the compensation paid to the members of the Supervisory Board by virtue of the fact that this compensation is determined by the shareholders themselves at the annual general meeting. In future HSH Nordbank intends to disclose the compensation of the individual members of the Supervisory Board.

According to Section 7.1.2 Sentence 4, the consolidated financial statements are to be published within 90 days of the end of the financial year and the interim reports within 45 days of the end of the period to which they refer.
HSH Nordbank did not make its consolidated financial statements for the 2013 financial year and the interim reports for 2014 publicly available within the prescribed period. The Bank will probably not publish either its 2014 consolidated financial statements or the 2015 interim reports within the recommended periods. The Bank is working on being able to adhere to the stipulated periods in future.

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

Hamburg/Kiel, 24 February 2015

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

All Declarations of Conformity previously published by HSH Nordbank can be viewed in the "Investor Relations" section of HSH Nordbank's website.

SUPERVISORY BOARD

Composition

The Supervisory Board of HSH Nordbank comprised 20 members until the annual general meeting on 23 February 2014 and has since then had 16 members. The Bank implemented a stipulation under the EU's decision of 2011 with this downsizing of its Supervisory Board. In accordance with the provisions of the German Co-Determination Act, half of the Supervisory Board's members are still shareholder representatives and half are still employee representatives. The capital side of the Supervisory Board comprises mainly experts from the business community who are independent of both the shareholders and the Bank. Four members of the Supervisory Board previously held executive positions at German and international financial institutions. One member also sits on the management board of a credit insurance company. The members of the Supervisory Board furthermore include one independent auditor, the managing director of an international private equity company and the managing director of an equity holding company.

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

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

1. HSH Nordbank will seek to have at least one non-German member on its Supervisory Board in the future as well.

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

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

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

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

Some changes to the composition ensued from the new elections to the Supervisory Board and the simultaneous downsizing of the board. When nominating the new members, care was taken to avoid potential conflicts of interest and to ensure the independence of the members. The age limit of 68 years at the time of the appointment was not exceeded in any of the appointments. The proportion of women on the newly elected Board is 37.5 %. The Supervisory Board has thus already met the target it had set for itself. The proportion of women on the shareholder side is 25 % and on the employee side it is 50 %.

The General/Nominating Committee also explicitly addressed this issue under the heading "Diversity Strategy of the Supervisory Board of HSH Nordbank" during its meeting in December 2014 and proposed to the Supervisory Board that it should strive to at least maintain the current proportion of women. If there is a subsequent need to fill seats on the shareholder side that have become vacant, the Nominating Committee will continue to also consider the objective of appropriate gender diversity in its proposal to the Supervisory Board for new candidates for members of the Supervisory Board to be elected during the annual general meeting. The Supervisory Board has furthermore considered the expertise, abilities and experience existing on the board and has prepared an expertise profile. This expertise profile provides the Supervisory Board with an overview of the skills covered by all the members of the board and can also be used in setting corresponding objectives in the search for suitable candidates when it becomes necessary in the future to replace skills lost due to departures or to complement existing ones.

Procedure

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

In keeping with Section 5.6 of the GCGC the Supervisory Board reviews the efficiency of its activities on a regular basis. Article 12 of the Rules of Procedure of the Supervisory Board provides for this to be done bi-annually. Given that the most recent, formal efficiency review took place in mid-2013, the Rules of Procedure for the Supervisory Board would not have required a review of efficiency in 2014. However, since January 2014, Section 25d (11) of the German Banking Act has required the Supervisory Board – with the support of the Nominating Committee – to review the efficiency of its work on an annual basis. Another review of efficiency was therefore carried out in the autumn of 2014. The efficiency reviews pursuant to the Banking Act and the GCGC will in the future be carried out concurrently. The principal finding of the 2014 efficiency review is that the Supervisory Board is, generally speaking, satisfied with the efficiency of its activities. Advanced training sessions on specific or overarching subjects will in the future be regularly offered to members of the Supervisory Board in order to update and develop their expertise.

Other mandates

The Supervisory Board must devote ample time to this task to be able to appropriately perform its work. This presupposes that the individual members of the Supervisory Board perform other tasks apart from their Supervisory Board work to a limited extent only. The Supervisory Board members representing the shareholders of HSH Nordbank perform the following further supervisory board mandates in other companies:

SB member	No. of other mandates (as of 31.12.2014)
Dr Jürgen Allerkamp (on the SB until 31.12.2014)	3
Dr Thomas Mirow	2
Silke Grimm	4
Stefan Jütte	1
Dr Rainer Klemmt-Nissen	4
Dr David Morgan	4
Dr Philipp Nimmermann	4
Elke Weber-Braun	1
Jörg Wohlers (on the SB from 01.01.2015)	none

Detailed information on the work of the Supervisory Board in 2014 is contained in the Supervisory Board Report.

Compensation

Information on the compensation of the Supervisory Board can be found in the Appendix.

MANAGEMENT BOARD

Composition

The Management Board of HSH Nordbank is composed of five members whose duties are divided into CEO, CFO, CRO, Corporates & Markets as well as Shipping, Project & Real Estate Finance. When selecting new Management Board members, the Supervisory Board is bound by the pertinent legal requirements. Here, too, diversity plays an important role. For instance, the GCGC requires an adequate proportion of women, while the Banking Act stipulates that the balance and diversity of the knowledge, abilities and experience of all Management Board members be taken into consideration. The Rules of Procedure for the Supervisory Board likewise contain requirements that the Supervisory Board or the General/Nominating Committee must take into consideration when assessing applicants for appointment to a position on the Management Board. In each individual case of a Management Board position to be filled, the Supervisory Board therefore selects Management Board members on consideration of the requirements of the respective position as well as the expertise already available on the Management Board on the basis of an individual job profile.

Procedure

The Management Board is responsible for the Bank and works with HSH Nordbank's other corporate bodies and with the employee' representatives on a basis of mutual trust in the Bank's best interests. It defines the Bank's strategic alignment in consultation with the Supervisory Board. The Chairman of the Management Board represents the Management Board as a collegial body, presides over its meetings and coordinates its work. The Management Board mainly met once a week during the period under review. The members of the Management Board are jointly responsible for running the Bank's business. Their duties and responsibilities are laid down in the Rules of Procedure for the Management Board, as supplemented by the business allocation plan.

Other mandates

The members of the Management Board do not perform any management or supervisory functions in other companies.

Compensation

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

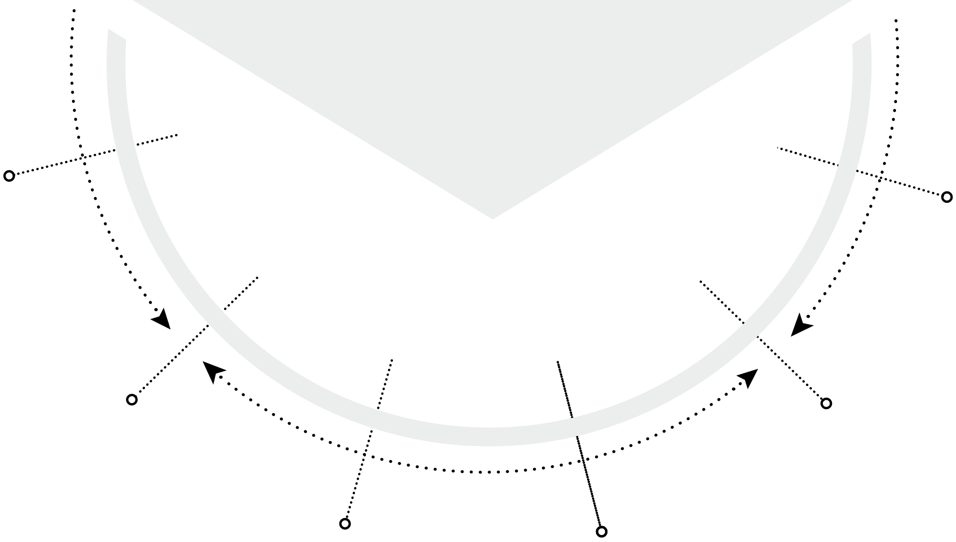
SHAREHOLDERS, ANNUAL GENERAL MEETING

HSH Nordbank's shareholders exercise their rights at the annual general meeting. The Management Board convenes the annual general meeting once a year, stating the agenda and including the requisite reports and documents.

In addition to the annual general meeting held in May 2014, a further two extraordinary shareholder meetings were held in 2014.

The agenda for the annual general meeting also included – alongside the legally required agenda items of an annual general meeting – stipulation of new compensation for the members of the Supervisory Board. The regularly scheduled re-elections for the entire Supervisory Board (on the shareholders side) were also on the agenda. Finally, approval for an amalgamation agreement was adopted at the annual general meeting.

The extraordinary meeting of shareholders in June 2014 was held to decide on the amendment to a partial profit transfer agreement (corporate contract). The meeting in November likewise dealt with the amendment to a partial profit transfer agreement as well as with amendment to two control and profit transfer agreements and with first-time election of two new members to the Supervisory Board.



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BASIS OF THE GROUP

BUSINESS ACTIVITIES

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

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

The strategic divisions are combined in the Core Bank. The Shipping, Project & Real Estate Financing segment covered the business conducted with shipping clients, real estate clients and clients in the energy and infrastructure industry as at 31 December 2014. On the one hand, business transacted with corporates and wealth management with a focus on entrepreneurs, foundations and non-profit organisations is combined in the Corporates & Markets segment. On the other hand, the development, sales and trading of financial products (Capital Markets), special financing and advisory solutions (Corporate Finance division) as well as the servicing of savings banks, banks and insurance companies are allocated to this segment. The administrative and service divisions as well as overall Bank positions and equity holdings not assigned to segments are included in the Corporate Center segment. Since the end of 2014 the Transaction Banking division has also been assigned to the Corporate Center segment (previously Corporates & Markets segment).

At the beginning of 2015 the Bank announced changes to the organisational structure aimed at increasing efficiency and pooling its client business expertise. Implementation should mainly take place during the course of the financial year. The Corporate Clients, Energy & Infrastructure and Wealth Management divisions will be combined in the new division Corporate Clients and assigned to the Corporates & Markets segment. Furthermore, capital market activities and the servicing of savings banks, banks and insurance companies are combined in the Capital Markets division. The Corporate Finance division will become part of the Shipping, Project & Real Estate Financing segment. Business conducted with shipping clients will be concentrated in future in a single division.

As part of the focusing of its business activities HSH Nordbank has significantly reduced its international network of locations over the past years and closed a number of branches abroad. HSH Nordbank will maintain its presence in Singapore, Hong Kong, Athens and New York in line with its strategic orientation. The New York branch will be reduced in size and converted into a representative office as part of the further reorganisation of HSH Nordbank. The branch in Luxembourg primarily provides services for the Restructuring Unit. In Germany, HSH Nordbank is represented in Berlin, Hanover, Düsseldorf, Munich and Stuttgart and since 2014 in Frankfurt am Main.

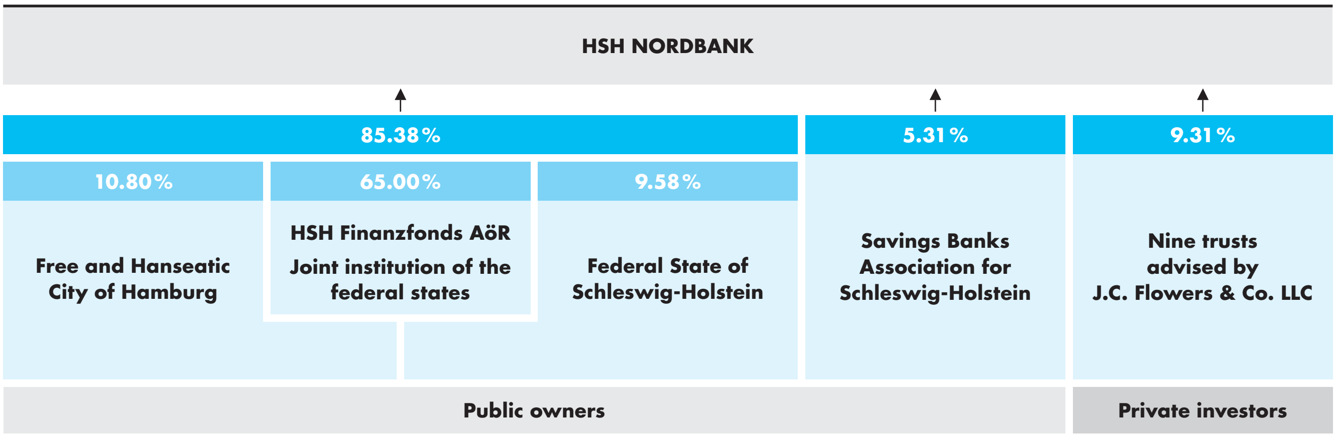
As an internal segment, the Restructuring Unit has managed the winding-down of non-strategic credit and capital markets transactions since December 2009 (legacy portfolios).

The Bank has disposed of further non-strategic equity holdings over the past year (including Railpool GmbH and Railpool Holding GmbH & Co. KG, DMS Semiconductor Equipment GmbH as well as NOBIS Asset Management S.A.). The scope of consolidation for the consolidated financial statements was determined for the first time in accordance with the requirements of IFRS 10 ("Consolidated Financial Statements") in the year 2014. Eleven companies were included in the scope of consolidation and therefore fully consolidated in the 2014 financial year, which would not have been required to be included as subsidiaries if IFRS 10 had not been introduced. Three further companies were included as subsidiaries under IFRS 10, which would have had to be included as companies consolidated at equity under the old legal framework. The "Earnings, net assets and financial position" section of this Group Management Report informs about the impact of the changes to the scope of consolidation on the income statement. Further details regarding the scope of consolidation are set out in Note 4 (Adjustments to previous year comparative figures) and Note 6 (Scope of consolidation).

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

Chart 15

OWNERSHIP STRUCTURE



The federal states of Hamburg and Schleswig-Holstein as the owners of the Bank have issued via HSH Finanzfonds AöR a guarantee in favour of HSH Nordbank that provides capital relief (second loss guarantee), under which defaults in a specified portfolio are hedged (mainly Restructuring Unit and ship financing recovery unit in the Core Bank). First piece losses incurred in this portfolio are borne by HSH Nordbank itself up to an amount of € 3.2 billion.

In 2013 the guarantee facility provided by Hamburg and Schleswig-Holstein was replenished after a reduction in 2011 from € 7 billion to the original facility of € 10 billion in view of the changed underlying conditions. This measure was provisionally approved by the EU Commission. The EU proceedings that were still pending at the beginning of 2015 are investigating whether the replenishment of the guarantee is consistent with state aid rules. A final decision in favour of HSH Nordbank is being sought for the middle of 2015, whereas the time frame is set solely by the EU Commission.

As a member of the German Savings Banks Finance Group HSH Nordbank AG is a member of the support fund of the Landesbanken and therefore is also affiliated to the joint liability scheme of the German savings bank organisation. This system secures the continued existence of the member institutions and guarantees their liquidity and solvency. The strengthening of the financial funding of the guarantee scheme by means of a risk- and deposit-based adjustment to the contribution system and expansion of the governance rules for the institutional guarantee is planned in connection with the harmonisation of the European deposit guarantee schemes.

Key external factors influencing the business of HSH Nordbank include economic and financial markets developments (such as movements in the EUR/USD exchange rates, interest level), trends in the relevant industry sectors such as shipping (especially charter rates), regulatory requirements, external ratings as well as assessments made by capital market participants and other stakeholders.

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

OBJECTIVES AND STRATEGY

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

In order to implement the business model with a sustainable profitable focus as a Bank for Entrepreneurs HSH Nordbank is concentrating on strengthening the viable business areas of the Core Bank and, at the same time, on winding down the high-risk legacy portfolios, which are bundled in the Restructuring Unit.

The aim of HSH Nordbank in the planning period up to 2017 is to increase new business with risk-commensurate margins in accordance with the business and risk strategy. The sales and distribution of the entire range of services will also be driven forward in order to exploit the business potential. On the one hand, business is to be intensified in the core region, where the Bank has long-standing client relationships and a high level of market penetration and, on the other hand, business activities outside Northern Germany are to be expanded further in order to achieve the planned growth and to ensure a balanced portfolio structure.

The strategic divisions will be continuously developed and their business portfolios and positioning adjusted to the changing underlying conditions in the market and competitive environment.

The aim of the Restructuring Unit in the planning period until 2017 is an additional significant reduction in the non-strategic loan and capital markets portfolios through scheduled and early principal repayments, sales of loans and structured solutions.

With the ongoing winding down of the troubled assets on the balance sheet and against the backdrop of significant premium expense for the compensation for the second loss guarantee a key objective is to again reduce the guarantee facility of € 10 billion taking due account of the increasing capital requirements.

In view of the fact that a positive conclusion of the ongoing EU proceedings is being sought for the middle of the year, discussions between the Bank's Management and Supervisory Boards and the majority federal state owners, Schleswig-Holstein and Hamburg, as well as the EU Commission will be pursued intensively. These go beyond the Bank's current plan and address further structural measures, the aim of which is to improve the sustainability and resilience of the business model against the backdrop of the expected market and competitive conditions and to ensure final approval by the EU Commission of the replenishment of the guarantee. The objective upon conclusion of the EU state aid proceedings is to establish HSH Nordbank as a structurally profitable bank in the market, which can effectively meet current requirements regarding the building up of capital from its own resources.

The restructuring of the guarantee in order to thereby ease the burden on the expense side of HSH Nordbank's income statement and strengthen the capital base is one of the structural measures discussed with the EU Commission and the Bank's federal state owners. The objective is to reduce the amount of the guarantee fees to an appropriate level in the future more in line with the continuing reduction of risk and not only by the planned gradual reduction of the guarantee facility. It is important to note in this connection that HSH Nordbank has already provided substantial compensation for state aid since 2009, which includes, in addition to the premiums paid to the guarantors, the reduction of total assets and discontinuation of business fields in accordance with the conditions imposed.

A further objective is to amend the existing guarantee agreement to facilitate the future reduction or restructuring of the troubled assets. Portfolio adjustments could be made that allow the Bank to reduce risk even more sharply. In this context, particular focus is placed on the shipping portfolio, which accounts for a large part of the remaining troubled assets.

A high priority for HSH Nordbank is to continually improve the Bank's efficiency. In the fourth quarter 2014 HSH revised its cost and efficiency targets for the period to 2018 in view of the challen-ging environment with a sustained shipping crisis, intensive competition in the German corporates business and increasing regulatory requirements. The objective is to achieve a sustainable, competitive cost-income ratio. HSH Nordbank is striving to reduce operative administrative expenses to a maximum of € 500 million in 2018 (31 December 2014: € 724 million). A comprehensive package of measures was initiated for this purpose that is to be gradually implemented by 2018. Details regarding the measures introduced are set out in the "Business developments" section.

In this connection, the Bank has launched a realignment of IT, the objective of which is to sharpen the positioning of the division as a central management unit and service provider that supports the business operations. One key element of the new IT strategy to be implemented by 2018 is the focused rendering of services at a lower cost. Investments are also being made in adjusting the IT architecture with a focus on the data platform, in IT security and for the purpose of meeting the ever-increasing regulatory requirements.

MANAGEMENT SYSTEM

The management system of the Bank is aimed at the management of key value drivers – income, expense, capital, liquidity and risk – on a targeted basis. For this purpose the Bank uses a central key indicator and ratio system that ensures that the Overall Bank, Core Bank, Restructuring Unit and segments are managed in a uniform and effective manner.

Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers. On the one hand, the focus is placed on the change in these key indicators over the past year compared to the previous year and previous year's forecast ("Economic Report" section) and, on the other, on their expected development in 2015 ("Forecast, opportunities and risks report" section). In principle, the HSH Nordbank Group is managed on the basis of group figures prepared in accordance with the International Financial Reporting Standards (IFRS).

The most important key indicators used for managing the earnings of HSH Nordbank are total income and new business volume. The latter includes new credit risk incurred as a result of the acquisition of new business and loan increases (loans, loan commitments and guarantees). The Bank also uses other supporting key indicators such as the new business margin, cross-selling income and risk-adjusted contribution margins within the framework of value-driven management.

With regard to the cost side the report focuses on administrative expenses. The number of employees (calculated as full-time equivalents, FTE) is also important as a key non-financial management indicator. Employee satisfaction, which is captured by surveying the employees, is another supporting management tool used in this connection.

Income before taxes is a key measure of earnings. In addition, return on equity and the cost-income ratio are integrated into the Bank's management systems within the framework of value-driven management as key relative ratios. Return on equity is calculated as the ratio of income before taxes to average equity capital disclosed on the balance sheet and shows the return on capital (allocated on a risk-adjusted basis). The cost-income ratio represents the ratio of administrative expenses to total income (since 2014 plus Other operating income) and is used as a key indicator of cost efficiency.

The core Tier 1 capital ratio (common equity Tier 1 ratio or CET1 ratio) plus the additional premium buffer and risk-weighted assets (RWA) are used as key ratios for managing regulatory capital.

The CET1 ratio is determined in the same period calculation (i.e. taking the annual financial statements into account) in accordance with the transitional rules (phase in) of the Capital Requirements Regulation (CRR). The buffer arising from the additional premium (AP buffer) is based on a potential waiver of the additional premium by the guarantors, through which an adequate CET1 ratio is to be ensured. The amount of the AP buffer is calculated from the additional premium balance and a regulatory adjustment item included in regulatory capital for the additional premiums. The key ratio used for internal management purposes is not the same as that disclosed in the regulatory report due to the same period calculation. Further information regarding the guarantee and guarantee premiums is set out in Note 3 ("Provision of a guarantee facility") of the consolidated financial statements.

The CET1 ratio calculated under the assumption of full implementation of the CRR (fully loaded) has been used as an important management tool since 2014 in light of the introduction of a uniform Supervisory Review and Evaluation Process (SREP) in the European Banking Union.

RWA in the same period calculation are also determined in accordance with the provisions of the CRR taking due account of the second loss guarantee. The ratio used for internal management purposes is not the same as that disclosed in the regulatory report due to the same period calculation.

Another supporting key ratio included in the management system is the leverage ratio, which must be disclosed from 2015. The leverage ratio is a capital ratio that is not weighted and compares the Tier 1 capital to regulatory adjusted business volume.

The monitoring of key risk types, which are described in detail in the "Risk report" section, is important for risk management. HSH Nordbank has identified loan loss provisions as a key management indicator in the lending business. Other key indicators and ratios are used to monitor the portfolio hedged by the second loss guarantee. These are loan loss provisions in the guaranteed portfolio, the risk weighting and expected future drawdown of the guarantee, in particular.

The key regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). The liquidity ratio as defined in LiqV describes the relationship between expected cash inflows and cash outflows over the next 30 days.

Furthermore, the liquidity situation is measured for a period of one year based on the liquidity development report (LAB) as a supporting indicator. An economic assessment over several years is performed based on the so-called Expected Case. The liquidity coverage ratio (LCR, based on the QIS set of rules: January 2013) and net stable funding ratio (NSFR, based on the QIS set of rules: October 2014) were integrated into the internal management processes in 2013 (as part of the Basel QIS framework). The mandatory disclosure of the LCR will be gradually introduced in the years 2015 to 2018. The NSFR will need to be adhered to from 2018 at the earliest. Details on the liquidity ratios and liquidity management are set out in the section "Liquidity risk" in the "Risk report".

The recovery and early warning indicators as defined in MaSan (Minimum Requirements for the Design of Recovery Plans) are monitored and assessed periodically by the MaSan Committee as supporting ratios in order to be able to implement any required targeted measures on a timely basis. Further information regarding this and other key management committees can be found in the Risk Report under "Risk management by a central committee structure".

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

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

Notwithstanding the management indicators for the key value drivers HSH Nordbank had to comply with conditions imposed by the EU Commission, mainly until 2014. These conditions applied to the total assets of the Overall Bank, Core Bank and Restructuring Unit and volume limits for the Shipping division, which were also monitored continuously. In addition, premiums still have to be paid as compensation for the state aid received.

The remuneration of the Management Board of HSH Nordbank is limited to a fixed – and therefore not performance-based – monetary remuneration. Entitlements to variable remuneration are not granted due to a requirement imposed by the EU Commission. The provisions recognised up to and including the 2011 financial year for variable performance-based remuneration are dependent, amongst other things, on when the Bank is able to pay dividends. Details are set out in the following “Remuneration system” section.

REMUNERATION SYSTEM

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

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

The Supervisory Board decided on the basis of a communication of the European Commission dated 23 August 2012 to no longer grant any entitlement to variable remuneration for the 2012 financial year and subsequent years until the restructuring phase is completed.

The provisions recognised up to and including the 2011 financial year for variable performance-related remuneration remain in force. This remuneration is subject to the precondition that the Bank is able to pay a dividend as at 31 December 2015 or at the latest as at 31 December 2016 and the European Commission has not instituted abuse proceedings. The Bank does not offer additional long-term incentives such as share option schemes. Further information on Management Board remuneration is set out in Note 64 (“Related parties”).

The remuneration system for employees below the Management Board level is based on a total remuneration approach, reduces any significant dependence on variable remuneration and thereby prevents employees from taking excessively high risks for the purposes of realising the variable remuneration potential. The amount of the total budget for the variable performance-related remuneration of employees is determined on the basis of the Bank’s performance, which is calculated using parameters that reflect the success of the Bank. In addition to achieving key financial ratios these parameters are also based on the Bank’s strategic objectives amongst other things. They take account of the concept of sustainability and are always tailored to the business model as well as the overall Bank strategy and risk strategy.

The budget of the Overall Bank for variable performance-related remuneration of the employees is distributed to the employees taking into account the performance of the divisions based on the achievement of individual objectives. Fixed upper limits for ratio of variable to fixed remuneration were set for all employees of the Group in accordance with the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV) in order to avoid disproportionately high variable remuneration.

In accordance with the specific requirements of the InstitutsVergV HSH Nordbank defines a group of employees as so-called risk takers, who have a significant influence on the overall risk profile of the Bank by virtue of their function. In accordance with the InstitutsVergV parts of their variable remuneration are paid on a deferred basis and are dependent on the sustained performance of the Bank.

These remained the focus of the supervisory authorities in 2014 in connection with the further development of the remuneration systems. Special attention was paid in this regard to the analysis, interpretation and implementation of the amended InstitutsVergV that was published on 16 December 2013 and came into force on 1 January 2014. Various technical regulatory standards were also developed in connection with the regulation of remuneration systems at the European level, which had to be taken into account from the middle of 2014 in addition to the InstitutsVergV. The focus of the regulatory requirements was on special topics such as risk taker analysis or the future bonus and payment methodology.

The adjustments required were identified, analysed and their implementation initiated. The Bank has already been able to implement many of the InstitutsVergV requirements. Full implementation of the amended and partially new regulatory requirements has not been possible so far because of its dependence on the results of the negotiations regarding the relevant collective bargaining agreements.

In accordance with the regulation further details are published in a separate remuneration report on the website of HSH Nordbank.

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

MODERATE GLOBAL ECONOMIC GROWTH

The global economy grew relatively unevenly in 2014. Whilst the gross domestic product of the USA expanded relatively strongly by around 2.8 %, the eurozone economy only grew slightly, by just under 1 %.

At the beginning of 2015 the results of the elections in Greece and the hostile attitude of the new Greek government towards the reform programme agreed with its creditors gave rise to a tangible sense of uncertainty in the eurozone, which decreased again following the agreement to prolong the programme.

Inflation decreased during the course of the year in light of the relatively weak growth rates in Europe and also the clearly falling oil price. In December the consumer price index in the eurozone was 0.2 percentage points below the previous year's level.

The German economy started very dynamically in 2014, but was unable to maintain the pace of expansion and stagnated in the second and third quarters. However, the business climate improved again in the final quarter, as indicated by, among other things, the monthly ifo Business Climate Index. Overall, the German economy grew by 1.6 % in 2014. The relatively low growth rate is attributable to the palpable uncertainty of companies caused by geopolitical tensions in Russia, Ukraine and the Middle East, which was reflected particularly in subdued investment activity. However, the economy has been supported over the entire year by robust consumer demand.

FALLING GOVERNMENT BOND YIELDS THROUGHOUT THE WORLD

The situation in the financial markets was characterised by a further decrease in government bond yields, falling risk premiums for high risk bonds, a depreciation of the euro against the US dollar and a falling oil price. The European equity markets recorded a slight increase last year on high volatility.

The monetary policy measures taken by the central banks had a material impact on the markets. Whilst the European Central Bank (ECB) took new expansive measures and the Japanese central bank also increased its bond purchase programme, the US Federal Reserve Bank ended its bond purchase programme in October 2014. Renowned market observers such as the International Monetary Fund (IMF) point to the danger of asset price bubbles and increased stability risks. The impact of the fall in the oil price among other things on countries such as Russia and Venezuela, whose revenues are largely dependent on oil exports, give reasons for concern.

In the first quarter the credit rating of Russia was downgraded by the rating agencies, Standard & Poor's and Moody's, to non-investment grade in light of the movement in the oil price and the conflict in Ukraine. The reasons given were its declining financial strength, decreasing foreign exchange reserves and Russia's limited access to international capital markets.

The general level of interest rates has fallen further in Germany. Following the yield on two-year German government bonds turning negative in the second half of 2014, five-year German government bonds were also quoted at negative rates at the beginning of 2015. This was mainly attributable to the very expansive monetary policy and geopolitical risks. A high level of liquidity in the market also resulted in falling risk premiums, for example for bonds issued by European periphery countries.

The current monetary policy in the USA and in the eurozone has put significant downward pressure on the euro against the US dollar. The single currency closed at its lowest level for the year of USD/EUR 1.21 after an interim high of USD/EUR 1.39 and depreciated further at the beginning of 2015.

MIXED TREND IN RELEVANT MARKETS

The main shipping markets have behaved differently during 2014. Overall, the expectation that the difficult conditions in the shipping markets can only be overcome slowly has been confirmed, however.

The container shipping market has stabilised during the past year at a very low level. Although demand grew slightly more strongly during the year than the container ship fleet, charter rates and ship prices did not increase. This was probably due to the more efficient use of the fleet by the shipping lines, to which the increased building of alliances made a particular contribution.

The growth in the fleet of bulk carriers slowed down continuously during the year. Nonetheless, charter rates decreased during the second half of the year following an initial increase. This was mainly attributable to adverse effects on the demand side, especially a reduction in coal imports to China. An export ban on unrefined ores implemented by Indonesia since the beginning of 2014 had an additional adverse impact.

Only the situation in the oil tanker market has improved during the year, although demand was rather weak well into the third quarter. Nevertheless, freight rates, time charter rates and ship values in this segment have increased markedly since the middle of the year.

German real estate markets remained overall on an upward trend. The residential real estate markets benefited from a sustained high demand for housing in large cities. However, the noticeable increase in construction activity over recent years is not yet meeting demand. Vacancy rates decreased again in the office real estate markets, as the demand for office space grew more quickly than the increase in office completions. The retail sector benefited from strong private consumption. However, although retail stores are feeling increasing pressure from e-commerce, they generated nevertheless appreciable sales growth.

Against this backdrop modern retail space was still in demand, especially in prime locations in large cities. Although the growth in rents for office and retail properties slowed slightly during the past year, it remained at a high rate in good locations, whereas the increased pace of growth of residential rents and prices for apartments in urban centres hardly slowed down. Commercial property also recorded further increases in value due to the high investor interest.

There was no common trend in the European real estate markets. Whilst the real estate markets in Great Britain – primarily in London – have already developed very positively over the past two years, there was still no upswing in other markets such as the Dutch market. Rents stagnated in many locations on high vacancy rates. However, quite a few markets started to recover. Prime properties in good locations were mainly in demand. The upward trend continued in the USA in both the office and residential real estate markets on a falling vacancy rate and increasing rents and market values.

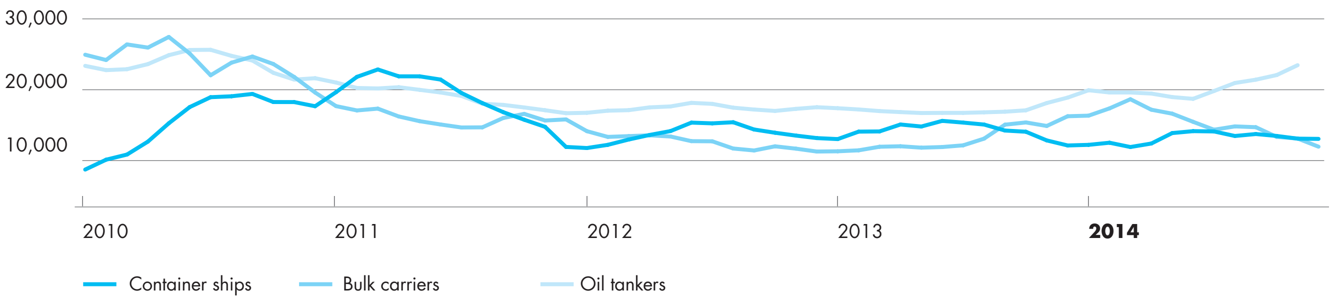
The development of renewable energies made further progress. In Germany new installations in the wind energy sector in 2014 were 65 % above the previous year's level, which represents a new installation record for this country. For the first time the offshore sector also accounted for a considerable portion of this with around 11 %. According to estimates the increase in capacity slowed slightly throughout Europe.

Growth in the photovoltaic market should have continued to decrease – this should have been particularly significant in Germany. This decrease was more pronounced for large-scale plants, as the subsidy programme for these ceased.

According to initial estimates the project financing volume for transport infrastructure in terms of signed contracts remained below the previous year's level. The proportion of PPP projects (Public Private Partnership) to the total volume has increased slightly. Financing was arranged mainly for roads, airports and in the railway sector, with the focus of the activities on Great Britain. Highly liquid funds among others from institutional investors, such as pension funds and insurance companies, continued to flow into this sector, as appropriate investments are increasingly being regarded as an alternative to low yielding government securities.

The industry sectors relevant for the corporate clients business of HSH Nordbank developed quite well in 2014 with a few exceptions. However, demand for loan financing remained generally restrained in view of the good financial position of many medium-sized companies, as investments made by companies can be financed from their own resources.

Chart 16
TREND OF TIME CHARTER RATES IN THE SHIPPING INDUSTRY
(Market average, USD/day)



LAUNCH OF THE EUROPEAN BANKING AUTHORITY

2014 was for the banks a year very much marked at the regulatory level by the ECB's comprehensive assessment consisting of an asset quality review (AQR) and a stress test. The results of the assessment that took about a year were published on 26 October 2014 for the 130 banks involved. The objective of creating greater transparency with regard to balance sheet quality and the banks' resilience and identifying any action required was thus achieved. About a fifth of the European institutions were shown to have a capital shortfall, some of which had already been covered during the course of the year. Based on the results of the comprehensive assessment German banks are solidly capitalised overall and are also able to withstand severe stress conditions. HSH Nordbank also successfully concluded the comprehensive assessment.

Following the comprehensive assessment the ECB indicated that it expects banks to incorporate the adjustments made in the AQR in the IFRS annual financial statements for the year 2014 to the maximum extent possible.

The comprehensive assessment was part of the preparations for the launch of the European Banking Authority, which was transferred to the ECB on 4 November 2014. The Single Supervisory Mechanism (SSM) created as a result harmonises the supervisory standards for large banks throughout Europe.

In addition to single supervision, the Single Resolution Mechanism (SRM) is a further element of the European Banking Union. This is based on the Bank Recovery and Resolution Directive (BRRD), under which uniform rules are established throughout Europe for banks facing financial difficulties.

The BRRD is to be transposed into national law by all EU Member States and applied from 1 January 2016. In Germany, the BRRD was transposed by the German BRRD Implementation Act (BRRD-Umsetzungsgesetz), which includes the Act on the Recovery and Resolution of Credit Institutions (SAG, Sanierungs- und Abwicklungsgesetz). The SAG provides for the use of different instruments in a restructuring including the participation of shareholders and creditors in losses and in the recapitalisation of the bank to be recovered (bail-in). The BRRD Implementation Act already entered into force in Germany as of 1 January 2015 – a year earlier than stipulated in the BRRD.

The SRM also provides the institutional framework for the use of the instruments created under the BRRD and consists of a single resolution committee and a single resolution fund. The fund will be gradually built up through bank levies imposed on the supervised institutions. It will only be possible to make use of the fund if a bail-in had previously been carried out in a resolution case in the amount of at least 8% of equity capital and total liabilities in accordance with a specified liability sequence.

The harmonisation of the European deposit guarantee schemes is the third pillar of the Banking Union. It is based on the European Deposit Guarantee Directive that came into force in the middle of 2014. Under this directive depositors have a legal claim for compensation of up to € 100,000 for deposits in default. At the same time the financial resources of national support schemes are improved.

Integrated supervisory review and evaluation process

Additional requirements for banks result from the establishing of a uniform Supervisory Review and Evaluation Process (SREP) in the European Banking Union. The supervisory evaluation of institutions will be based in future on a comprehensive analysis and assessment. This includes the periodic observation and assessment of financial and non-financial key indicators, capital and liquidity base, governance and controls as well as the resilience of the business model.

The regulator may impose additional capital and liquidity requirements based on the overall assessment of an institution and initiate further supervisory measures such as adjustments to the business model. Based on an overall assessment the ECB has assigned for the first time individual minimum capital ratios, among other things, to the banks supervised by it.

Further improvement in the capitalisation of banks

The comprehensive assessment results showed that the large German banks are solidly capitalised on an overall basis. The change in regulatory Tier 1 capital ratios of banks in 2014 was marked by the transition to the new Basel III equity capital standard, which has been implemented in the EU since 1 January 2014 via the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) and gradually comes into force by 2021. Stricter recognition and valuation rules of the Basel III framework have to be applied in calculating capital ratios, which are reflected methodologically in a reduction in Tier 1 capital adequacy and an increase in risk-weighted assets.

Earnings under pressure from low interest rates and competitive situation

With the overall improved capitalisation due to the capital measures taken and reduction of risk positions banks have the important prerequisites in order to survive in the increasingly difficult banking environment. Sustained pressure on earnings in Germany shows that the challenges remain great and banks must continuously adjust their business models to the changing underlying conditions and increase efficiency to ensure adequate profitability and therefore the ability to build up capital from their own resources.

The low interest rate environment was an increasing negative factor over the past year, as the interest spread tends to fall in periods of low interest rates. At the same time fixed-interest loans give rise to interest rate risk in the future. Intensive competition, particularly in the German banking market, also continued to have an adverse impact, while loan demand in the corporates business was subdued at the same time. The constant increase in regulatory requirements in the banking market, which mean significant additional expense for institutions, had a noticeable impact on the cost side.

HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

Taking into account the subdued loan demand of companies in Germany with a simultaneous solid demand for real estate loans HSH Nordbank was able to significantly increase its new business in the past year in line with the business and risk strategy and thereby confirm its good position in the target markets. The focus was on real estate financing, which also benefited from the positive trend in the German real estate markets. In addition, more business was also concluded than in the previous year in the core areas of Energy & Infrastructure and Shipping International, whereas restrained demand for bank loans was noticeable in the classic corporate clients business. At the same time competition intensified in all divisions.

The solid financial position of many companies enabled them to make investments from their own resources and repay loans early. Both were reflected in earnings in addition to the winding down of the Restructuring Unit portfolio and offset the positive effect of the increase in new business.

In view of the persistent difficult trend in the shipping industry HSH Nordbank has again recognised substantial loan loss provisions particularly for the legacy portfolios concerned and further increased the loan loss provisions for problem commitments in the 2014 annual financial statements. This also reflects the ECB's conservative view from the AQR. On the other hand, positive trends in the real estate markets in the USA and Great Britain made it possible for loan loss provisions to be partially released.

The strong appreciation of the US dollar against the euro affected the earnings, net assets and financial position. IFRS measurement effects (equity holdings denominated in foreign currency, credit value adjustments) resulted in charges to net trading income and an increase in total assets due to the high US dollar proportion in the Restructuring Unit legacy portfolio and the Shipping division of the Core Bank. An increase in the US dollar requires higher collateral to be provided in the form of liquidity. Accordingly, the liquidity position of the Bank was adversely impacted by movements in the US dollar viewed in isolation.

Despite the declining trend of interest rates in the past year margins were maintained at a stable level in the client business. Nevertheless, the further decrease in interest rates had an adverse impact on the results. The decrease in risk premiums had a positive effect as at the 2014 year end on the measurement of high-risk securities portfolios, from which the Restructuring Unit benefited in particular. The narrowing of the own spread at HSH Nordbank resulted in a negative effect on own liabilities measured at fair value, which are allocated in full to the Core Bank.

HSH Nordbank passed the ECB's comprehensive assessment exceeding the minimum ratios in both the AQR and in the stress tests. The ECB is currently assigning for the first time individual minimum capital ratios extending beyond the regulatory capital ratios to the banks supervised by it. HSH Nordbank was assigned a minimum capital ratio assuming full implementation of Basel III (fully loaded). This ratio is clearly exceeded by the CET1 ratio disclosed as at 31 December 2014 (10.0 % plus 1.3 percentage points, fully loaded).

HSH Nordbank also faced the challenge of a large number of new regulatory requirements that resulted in substantial use of resources and additional costs.

The business performance is explained in detail in the following chapters.

BUSINESS DEVELOPMENTS

SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE 2014 REPORTING YEAR

Overview: good business performance in 2014

In 2014 HSH Nordbank made good progress in implementing its strategy in the Core Bank and in the Restructuring Unit. This is underpinned by new business transacted by client divisions that was developed in line with the plan. The focus on core activities of HSH Nordbank was supported by the progress made in the winding down of troubled assets on the balance sheet.

It was also pleasing that HSH Nordbank performed positively in the ECB's comprehensive assessment consisting of an asset quality review (AQR) and stress test, which, as expected, confirmed the adequacy of the capital base even under crisis market conditions. The results of the AQR were incorporated in the 2014 consolidated financial statements insofar as they complied with the IFRS accounting rules.

Despite the clear progress made, the difficult market situation in the shipping industry continued to be felt in the year under review, especially in HSH Nordbank's legacy portfolios. Loan loss provisions to be recognised for shipping loans impacted above all the Core Bank's ship financing recovery unit. On the other hand, loan loss provisions in the Restructuring Unit benefited from reversals relating to shipping and real estate loans and a stronger relief provided by the balance sheet mechanism of the second loss guarantee.

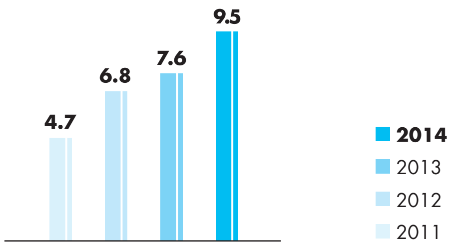
At the end of 2014 HSH Nordbank revised its cost targets for the period up to 2018 and initiated a comprehensive package of measures. The objective is to substantially improve the cost efficiency of HSH Nordbank in a banking market that is under significant cost and earnings pressure and to clearly reduce administrative expenses.

Earnings power of Core Bank strengthened by on-plan new business

New business transacted by client divisions was again further increased in line with the business and risk strategy in the past year. The volume of new business transactions concluded increased by about a quarter to € 9.5 billion (previous year: € 7.6 billion) and thereby achieved the overall 2014 target level. It was also possible to noticeably increase the proportion of new loans disbursed compared to the previous year. The risk-adjusted interest margin trend was encouragingly stable in a difficult competitive environment. New business more than doubled compared to 2011, when the realignment of the client-based business model was initiated.

The customer divisions contributed to the performance in varying degrees. As a financing partner of choice throughout Germany, the Real Estate Clients business division recorded the sharpest increase in new business. The Energy & Infrastructure and Shipping International divisions have significantly increased their client business volume compared to the previous year. On the other hand, new business in the Corporate Clients division remained below the level of the same period of the previous year and the target level due to the still subdued loan demand and the very intensive competition between banks for medium-sized companies, although business picked up markedly in the second half of the year.

Chart 17
NEW BUSINESS OF THE CORE BANK
(€ bn)



The regional spread of the new business is balanced and contributes to the further diversification of the loan portfolio. About 31 % of the new business transacted in the reporting year is attributable to the core region of Northern Germany. The remaining portion is accounted for by clients located in other regions of Germany (46 %) and abroad (23 %).

The increase in new business has a positive impact on the Core Bank's earnings base. On the other hand, a higher level of principal repayments due to the solid financial resources of many corporate clients had an adverse impact. Sales of capital markets products remained below the previous year and target levels against the backdrop of a very low interest rate environment, although product sales were supported by higher volatility in the financial and foreign exchange markets, especially in the second half of the year. Transaction Banking, which includes services covering all aspects of payment transactions and foreign trade financing, recorded an increase in earnings.

Overall, the new business performance is underpinning the advanced implementation of the Core Bank's client-based business model and the solid position of the customer departments in their target markets.

Total assets of the Core Bank increased against the backdrop of the increase in new business and a higher cash reserve to € 76 billion as at 31 December 2014 (31 December 2013: € 69 billion). The appreciation of the US dollar exchange rate increased assets by € 1.6 billion. The increase in total assets was offset by unscheduled principal repayments.

Winding down of legacy portfolios driven forward

The winding down strategy of the Restructuring Unit was further implemented over the past year and the Bank's focus on core bank activities was thereby supported. The total amount of legacy portfolios under the responsibility of the Restructuring Unit decreased in the 2014 reporting year by a further € 6 billion, excluding consolidation items, to € 31 billion compared to € 37 billion as at 31 December 2013 and is therefore at target level in the year under review without taking account of the strong appreciation of the US dollar (effect: € + 1.4 billion).

Total assets of the Restructuring Unit were about € 83 billion at the time the Restructuring Unit was formed at the end of 2009. The decrease includes reclassifications from the Core Bank totalling about € 8.1 billion that increased assets, which were made in order to implement the winding down measures agreed with the EU Commission and as part of the portfolio adjustments in the Core Bank.

HSH Nordbank pursues several approaches in order to further reduce the risk positions in the Restructuring Unit. These include the implementation of alternative structured solutions in the shipping portfolio, for which there was considerable investor interest in the year under review.

The favourable market environment in the real estate sectors in the USA and Great Britain in the fourth quarter was also exploited to reduce the portfolio by an amount equivalent to about € 0.6 billion whilst minimising losses. This includes the disposal of a residential property portfolio in the USA.

Successful conclusion of the comprehensive assessment

HSH Nordbank successfully completed the ECB's comprehensive assessment. The Bank exceeded the minimum capital ratios in both the AQR and stress test. The Bank's CET1 ratio (Common Equity Tier 1 ratio, core Tier 1 capital ratio) was at a solid level of 10.0 %, plus the buffer of 2.3 percentage points from the additional premium for the second loss guarantee in the AQR, which included a comprehensive review of the measurement of high-risk assets. The minimum ratio of 8 % required for the AQR was therefore clearly exceeded.

This good AQR result for the Bank was achieved even though the ECB applied so called prudential haircuts to the measurement of impaired loans and collateral. In addition, a conservative AQR methodology was applied to the measurement of client derivatives (credit value adjustments, CVA). The resulting regulatory capital charges were mainly compensated for under the second loss guarantee. The CET1 ratio thus remained at 10.0 % despite the specific AQR methodology. Only the buffer from the additional premium decreased by 0.8 percentage points (starting point as at the 2013 year end: 10.0 % plus buffer of 3.1 percentage points).

The stress test subsequently performed using assumptions regarding the economic environment was linked to the AQR. Starting from the adjusted CET1 ratio based on the outcome of the AQR the effect of stress scenarios was analysed over a period of three years (2014 to 2016). The analysis was based on a static balance sheet approach, as a result of which the winding down of troubled assets since the beginning of 2014 and planned up to 2016 as well as the increase in lower risk new business was not taken into account.

Whereas the Bank achieved a CET1 ratio of 9.4 % in the base scenario stress test as at the end of the period under review (2016) (minimum threshold: 8.0 %), the ratio in the adverse scenario, in which an extremely unfavourable economic and financial market environment was simulated, dropped to 6.1 % (minimum ratio: 5.5 %). The additional stress in the adverse scenario was further increased through the combination with the adjustments made in the AQR (join-up).

The guarantee premiums payable, which had to be included in the same amount as an expense over the three years of the period under review in the stress test and which caused significant hypothetical asset erosion, were a material negative factor. Nevertheless, the exceeding of the minimum ratio shows that HSH Nordbank can withstand this crisis scenario in the stress test.

Inclusion of the regulatory AQR adjustments in the IFRS consolidated financial statements

In the follow-up to the comprehensive assessment the ECB indicated that it expects banks to include the adjustments made in the AQR in the 2014 consolidated financial statements and annual financial statements to the maximum extent possible.

Insofar as they are in accordance with the IFRS accounting standards, HSH Nordbank processed the AQR results in the consolidated and annual financial statements. Details of the implementation were agreed with the ECB.

Additions of € 1.2 billion (gross) or € 0.6 billion (net) to loan loss provisions were recognised for the shipping sector regardless of the AQR results against the backdrop of revised forecasts for charter rates. This was offset by partial reversals of provisions for real estate financing as a result of positive developments over the past year.

The measurement of client derivatives (credit value adjustments, CVA) was developed further. This resulted in a one-off negative effect of € –43 million.

The inclusion of results of the AQR over and above this was also agreed with the supervisory authority.

Focus on cost efficiency

In the fourth quarter of 2014 HSH Nordbank revised its cost plan for the coming years and initiated a comprehensive cost reduction and efficiency improvement programme.

The key objective is to achieve a sustainable, competitive cost-income ratio (CIR). The Bank is striving to reduce administrative expenses to a maximum of € 500 million in 2018. This corresponds to a reduction of about 30 % compared to 2014. The Bank has defined a set of measures for this purpose, which will be gradually implemented by the end of 2017. The programme is linked to the cost-cutting measures and organisational changes already initiated in 2013, which were systematically carried out during the course of 2014. Exploiting the potential for efficiency improvements will be combined with a further reduction in headcount, which is to be implemented by 2017.

One of the main focuses of the new programme are targeted overarching initiatives. These include the further streamlining of the organisational structure, simplification and standardisation of key processes and adjustments to the Bank's IT systems. Attention is also being focused on optimising the product portfolio. Lastly, cost-cutting measures are also being implemented at foreign branches – for example, by the decision to reduce the size of the New York branch and convert it into a representative office.

Reduction in headcount implemented as planned until 2014

NUMBER OF EMPLOYEES REDUCED

	31.12.2014	31.12.2013
Full-time equivalents (FTE) in the Group[1]	**2,579**	**2,835**
of which: Women	965	1,083
Men	1,614	1,752
Employees in Germany	2,422	2,627
Employees abroad	157	208
Total number of employees in the Group [2]	3,072	3,391
New employees	130	197

[1] Total number of employees excluding trainees, temporary staff and interns (previous year adjusted).
[2] Headcount (previous year adjusted).

The number of employees decreased as planned to 2,579 - calculated as FTE - at the end of the year 2014 as a result of the cost saving programmes initiated in previous years (31 December 2013: 2,835). Changes to the scope of consolidation also had an impact on the headcount. The number of employees (FTE) at HSH Nordbank AG (single entity) decreased to 2,265 by the end of 2014 (31 December 2013: 2,358).

EARNINGS, NET ASSETS AND FINANCIAL POSITION

OVERVIEW OF THE RESULTS FOR THE GROUP, CORE BANK AND RESTRUCTURING UNIT

Significantly positive results for the Group in 2014

HSH Nordbank generated net income before taxes of € 278 million for 2014 compared to the loss before taxes of € –518 million disclosed in the previous year. After deducting tax expense of € –118 million a Group net income of € 160 million remains (previous year: € –769 million).

The result benefited from the progress made in implementing the business model and in particular from the debt waiver by the guarantors under the guarantee, which was primarily triggered by the stricter rules to be applied in calculating the capital ratios in the year under review (transition to Basel III and from HGB to IFRS for determining regulatory capital).

Successes in the operating client business and the cost savings implemented also contributed to the positive result. In addition, the result benefited significantly from the sales of securities and equity holdings in conformity with the strategy as well as reversals of impairment losses.

Besides the ongoing winding down of the portfolios in the Restructuring Unit these positive effects were offset, inter alia, by extremely high charges incurred as a result of the recovery measures implemented for the shipping loan portfolio, restructuring expenses as well as various special and measurement effects.

However, the relieving effect of the guarantee arising from the debt waiver and partial compensation for the loan loss provisions was at the same time offset by high premium expense for the guarantee.

Contrary to the loan loss provision trend, the Restructuring Unit benefited significantly in the 2014 reporting year from the net compensation under the guarantee at the expense of the Core Bank.

Due to the large number of special effects (guarantee, recovery of shipping loans, measurement effects, restructuring) HSH Nordbank calculated pro forma results using certain hypothetical assumptions[1] in order to reflect the operating performance of the Core Bank and Restructuring Unit excluding these effects from the results.

[1] As pro-forma financial information reproduces a hypothetical situation, it does not present all details that would have arisen, if the events taken into account had actually occurred in the reporting period. This applies to all pro-forma results presented in the management report.

Taking the hypothetical assumptions into account the pro forma result for the Group would have been € 421 million compared to € 227 million in the previous year, of which € 330 million (previous year: € 151 million) is attributable to the Core Bank and € 91 million (previous year: € 76 million) to the Restructuring Unit (details are set out at the end of this section).

Group income characterised by operating successes, reduction of risk and measurement effects

Total income amounted to € 909 million (previous year: € 1,496 million). It has decreased significantly as forecast in the previous year. As expected, it was adversely impacted to a considerable extent by recovery and restructuring measures carried out in the Core Bank and Restructuring Unit. In addition, loan principal repayments made by clients, special effects as well as the sharp appreciation in the US dollar and decreasing interest rates had a much stronger impact than expected, such that contrary to the forecast total income also decreased in the Core Bank despite the positive income effects of the successful client business.

These developments are particularly reflected in net interest income of € 586 million, which is significantly below the previous year's level (€ 929 million). This is due to high principal repayments made by clients as well as individual special effects (interest rate adjustments relating to hybrid capital and derecognition of hedge adjustments) in addition to recovery activities in the shipping portfolio. Net commission income of € 130 million (previous year: € 104 million), which benefited from higher loan fees, made a positive contribution to total income as did net income from financial investments (€ 169 million compared to € 276 million), which was positively affected by reversals of impairment losses in the Credit Investment Portfolio (CIP), sales of securities as part of liquidity management and individual disposals of equity holdings.

The further development of the measurement of client derivatives (credit value adjustments, CVA) made as a result of the AQR, effects from the measurement of own liabilities measured at fair value and from the US dollar currency translation had a negative impact on net trading income (€ 62 million compared to € 193 million in the previous year). The measurement of basis swaps and operating net trading income had a positive effect.

Loan loss provisions for shipping loans more than compensated for by the guarantee and releases of provisions in other areas

HSH Nordbank's loan loss provisions – before taking the guarantee into account – continued to be characterised as expected by additions for problem shipping loans, especially in the legacy portfolios, and, in light of the only slow recovery in the shipping industry, were still at a high level above the scheduled risk costs. Net loan loss provisions amounted to € – 486 million. Compared to the previous year (€ – 1,713 million) this represents a significant decrease, to which reversals of loan loss provisions as a result of successful recoveries of real estate loans and individual ship financings as well as healthy portfolio trends in other divisions contributed.

Additions, particularly for legacy portfolios, were offset by the high compensatory effect of the guarantee, which overall reduced total loan loss provisions as forecast. A positive amount of € 576 million is disclosed as scheduled for loan loss provisions after taking account of gross compensation of € 960 million, which includes compensation for currency effects and reversals of impairment losses in the CIP, income from the reversal of guarantee expenses in the amount of € 781 million as a result of the debt waiver and offsetting premium expense in loan loss provisions (€ – 340 million). As expected, the relief was greater in the Restructuring Unit than in the Core Bank. However, this overall positive effect is offset by the current base premium expense payable of € – 521 million for the guarantee facility provided.

The updating of the long-term loan loss provision plan is taken into account in the guarantee effect, whereby it is expected that the drawdown under the guarantee will increase by € 0.5 billion to € 2.1 billion for the years 2019 to 2025 primarily as a result of the adjustment made with regard to the expected USD/EUR exchange rate trend and the downwards revised charter rate forecasts. This is already offset as at the 2014 year end by the premiums of € 2.2 billion paid by HSH Nordbank to the guarantors not taking a one-off payment in the amount of € 0.5 billion into account). The premium expense to be recorded since 2009, including premiums in the loan loss provisions that result from the expected drawdown of the guarantee, amounted to € 3.2 billion as at the 2014 year end.

Cost reductions show effect

It was possible to decrease administrative expenses further to € – 724 million as a result of savings made in operating expenses (previous year: € – 755 million). The decrease in administrative expenses (offsetting income in Other operating income) was reduced by unscheduled depreciation recognised on companies included in the consolidated financial statements for the first time under IFRS 10, whose main business purpose is to hold real estate and aircraft. Adjusted for this negative special effect, administrative expenses were significantly reduced as expected. The result from restructuring amounted to € – 84 million (previous year: € – 56 million) due to high additions to provisions for the implementation of the cost reduction programme initiated.

Benefit of guarantee effect on Core Bank results significantly smaller – results continue to be affected by recovery activities and exceptional items

The Core Bank, in which the strategic divisions of HSH Nordbank including the restructuring commitments are combined, disclosed net income before taxes in the amount of € – 120 million compared to € – 123 million in the previous year. The recovery activities in ship financing had a considerable negative impact on the Core Bank earnings.

It must also be emphasised that loan loss provisions in the Core Bank, especially in the legacy portfolio, benefited from the guarantee in the 2014 reporting year to a considerably lesser extent than the corresponding loan loss provisions in the Restructuring Unit. The compensation effect of the guarantee was therefore not in line with the change in loan loss provisions in the Core Bank and Restructuring Unit due to the internal distribution key methodology used. Due to a higher share of the Core Bank in the first loss piece under the guarantee in the reporting year 2014, only € 341 million of the net loan loss provisions of € – 562 million, including the foreign exchange result, recognised in the Core Bank was covered by the gross compensation under the guarantee, whereas net loan loss provisions of € – 263 million, including the foreign exchange result, in the Restructuring Unit were offset by gross compensation of € 619 million. Related to the portfolio covered by the guarantee this gave rise to a benefit of € 250 million for the Restructuring Unit at the expense of the Core Bank.

Furthermore, a special effect relating to the adjustment of the interest rate for certain hybrid instruments together with other measurement effects had a noticeable negative impact on the Core Bank, which more than offset the positive effects generated by client business.

The increase in new business in line with the plan had a positive impact on the operating performance of the core divisions. The good performance of the Real Estate Clients and Energy & Infrastructure divisions in particular had a noticeable effect. This was offset by a subdued level of new business in the Corporate Clients division due to market conditions and a decrease in sales of capital market products in view of the very low interest rate environment. Unscheduled principal repayments made by companies with a healthy financial position also had an adverse impact.

Pro forma results of the Core Bank confirm operating progress

Due to the large number of exceptional items not to be allocated to operating businesses HSH Nordbank calculated a pro forma net income before taxes for the Core Bank based on hypothetical assumptions.

The effects of the guarantee, troubled assets held in the ship financing recovery unit, certain measurement effects with high volatility in net interest and net trading income and other effects relating to the restructuring of the Bank are not included in the result.

The following assumptions were applied in particular to the Core Bank. The fully separated out guarantee effects (net effect: € 210 million compared to € 188 million in the previous year) include the compensation for loan loss provisions adjusted for the foreign exchange result and including the write-back of the premiums due to the debt waiver as well as the premium expense offsetting this in the loan loss provisions and the current base premium. Total income and loan loss provisions were fully separated out for the recovery unit Ship Financing. The net effect from this adjustment amounted to € – 280 million compared to € – 364 million in the previous year. Included in the adjusted measurement effects (net effect: € – 272 million compared to € – 45 million in the previous year) are, inter alia, the interest rate adjustment for certain hybrid instruments, measurement of basis swaps, the further development of the measurement of client derivatives (CVA) and the currency translation of equity holdings denominated in foreign currency. Other adjusted components (net effect: € – 108 million compared to € – 53 million in the previous year) relate, inter alia, to restructuring costs for implementing the cost reduction programme and sales of equity holdings and securities.

Taking into account these adjustments the pro forma net income before taxes would amount to € 330 million. The increase in pro forma net income compared to the previous year (€ 151 million) confirms that progress has been made in developing the core business.

Overall, it is clear that – irrespective of the great importance of the guarantee for the Group and capital adequacy – the performance of the Core Bank was negatively impacted in the 2014 reporting year by the guarantee effect and the troubled assets arising from shipping loans.

Restructuring Unit benefits more from the guarantee at the expense of the Core Bank

Net income before taxes of € 398 million (previous year: € – 395 million) for the Restructuring Unit, which is responsible for winding down the legacy portfolios, benefited clearly from the compensation provided under the guarantee as a result of a temporary special effect at the expense of the Core Bank. Furthermore, restructuring successes were achieved in the Restructuring Unit regarding international real estate loans and individual shipping commitments and reversals of impairment losses on securities positions were recognised as well.

The sharp reduction in the portfolio and further increase in the volume of value-adjusted shipping loans had a negative effect in the Restructuring Unit. Both together resulted in a significant reduction in the interest-bearing loan volume, which was reflected in the decrease in net interest income.

Pro forma results were also calculated for the Restructuring Unit based on certain hypothetical assumptions. The fully separated out guarantee effects (net effect: € 290 million compared to € 324 million in the previous year) include the compensation for loan loss provisions and including the write-back of the premiums due to the debt waiver as well as the premium expense offsetting this in the loan loss provisions and the current base premium – in line with the assumption for the Core Bank. Total income and loan loss provisions were fully separated out for the shipping loan portfolio in the Restructuring Unit – also in line with the Core Bank approach. The net effect from this adjustment amounts to € – 83 million compared to € – 728 million in the previous year. Included in the adjusted measurement effects (net effect: € 37 million compared to € – 95 million in the previous year) are the measurement of basis swaps, the further development of the measurement of client derivatives (CVA) and the currency translation of equity holdings denominated in foreign currency. Other adjusted components (net effect: € 63 million compared to € 28 million in the previous year) relate, inter alia, to sales of equity holdings as well as restructuring costs for implementing the cost reduction programme. The pro forma net income would therefore amount to € 91 million at the end of 2014 (previous year: € 76 million).

Further details underlying the business performance are discussed below in the sections “Earnings situation”, “Net assets and financial position” and “Segment reporting”.

EARNINGS SITUATION

INCOME STATEMENT

(€ m)	2014	Following adjustment (see Note 4) 2013	Change in %
Interest income	5,119	6,097	– 16
Interest expense	– 4,326	– 5,021	– 14
Net income from hybrid financial instruments	– 207	– 147	– 41
Net interest income	**586**	**929**	**– 37**
Net commission income	130	104	25
Result from hedging	– 40	9	> – 100
Net trading income	62	193	– 68
Net income from financial investments	169	276	– 39
Net income from financial investments accounted for under the equity method	2	– 15	> 100
Total income	**909**	**1,496**	**– 39**
Loan loss provisions	576	– 833	> – 100
Administrative expenses	– 724	– 755	– 4
Other operating income	122	44	> 100
Net income before restructuring	**883**	**– 48**	**> 100**
Result from restructuring	– 84	– 56	– 50
Expenses for government guarantees	– 521	– 414	26
Net income before taxes	**278**	**– 518**	**> 100**
Income taxes	– 118	– 251	– 53
Group net result	**160**	**– 769**	**> 100**
Group net result attributable to non-controlling interests	1	– 2	> 100
Group net result attributable to HSH Nordbank shareholders	159	– 767	> 100

Total income adversely impacted by reduction in risk positions

Total income amounted to € 909 million for 2014 compared to € 1,496 million in the previous year. The following developments in the year under review were relevant in the individual income items for this result:

Net interest income of € 586 million was generated in the past year compared to € 929 million in the previous year. It was also impacted by various special effects in addition to the operating performance of the Core Bank and the Restructuring Unit.

As expected, the distinctly positive income impact of the growing new business of the Core Bank together with a stable margin trend and loan prolongations was more than offset by the substantial portfolio reduction in the Restructuring Unit and principal repayments in the Core Bank as well as the increase in impaired shipping loans in the Restructuring Unit and Core Bank. The further decrease in interest rates also had a negative impact in the year under review.

Furthermore, the following special effects amounting in total to € – 154 million were recognised in net interest income. The adjustment to the interest rate applied to certain hybrid instruments, which will be offset as planned in subsequent periods, had an adverse impact of € – 84 million. This resulted in net income from hybrid financial instruments in the amount of € – 207 million remaining significantly below the level of the same period of the previous year (€ – 147 million). A further exceptional charge of € – 49 million resulted from derecognition of hedge adjustments due to the sale of securities as part of liquidity management. The offsetting positive effect (€ 104 million) is disclosed under net income from financial investments. The change in market interest rates used to determine the present value of obligations relating to guarantee fees expected to be payable in the future had a negative impact of € – 21 million on net interest income.

Net commission income increased sharply to € 130 million compared to € 104 million in the previous year. The positive trend was mainly reflected in higher loan fees that could be collected due to the expansion of new business.

Net trading income amounted to € 62 million as at 2014 year end (previous year: € 193 million). Whilst income from trading operations was positive, other trading income was impacted by a large number of one-off expenses and measurement effects. These include the further development of the measurement of client derivatives (credit value adjustments, CVA) as a result of the AQR. This leads to an effect of about € –43 million for the year 2014.

Own liabilities measured at fair value also had an adverse impact – albeit to a lesser extent than in the previous year. Furthermore, the depreciation in the EUR/USD exchange rate resulted in a negative measurement effect from the currency translation of equity holdings denominated in foreign currency.

An improvement in the measurement result from interest rate/currency derivatives (EUR/USD basis swaps) compared to the previous year had a positive effect. The trading books in the Credit Investment Portfolio (CIP) also appreciated in value benefiting generally from the fall in risk premiums on debt instruments.

Result from hedging amounted to € –40 million (previous year: € 9 million). It includes measurement losses on hedging derivatives caused by volatile interest rate movements in the past year.

Net income from financial investments amounted to € 169 million compared to € 276 million in the previous year.

An event that became known subsequent to the reporting date had a significant impact on the decrease. Due to the decisions of the Austrian Financial Market Authority (FMA) and the Austrian Federal Government announced in the beginning of March 2015 regarding the drawing up of a resolution plan and resultant debt moratorium for Heta Asset Resolution AG (HETA) HSH Nordbank wrote down securities and loans due from HETA totalling € 220 million by € 89 million. Negative fair value changes of € 3 million were also recognised (Net trading income). The write-down was largely compensated for by the second loss guarantee. Net income before taxes decreased by € –22 million to € 278 million as a result of this effect. HSH Nordbank's claims against HETA are mostly secured under the default guarantee issued by the Austrian Federal State of Carinthia.

Sales of European government bonds and other securities within the context of the regular liquidity management as well as reversals of impairment losses on debt instruments held in the CIP made a positive contribution to earnings.

Measurement gains in the CIP disclosed under Net trading income and Net income from financial investments totalled a gross amount of € 106 million and were offset by charges of € –61 million arising on the corresponding reduction in the hedging effect of the second loss guarantee. This left net income for the CIP of a total of € 45 million. The compensation effect is disclosed under the loan loss provisions line item and impacts the securities positions hedged under the guarantee that had been impaired in previous periods.

Securities sold as part of liquidity management had a positive gross effect of € 104 million on net income from financial investments, which was offset by the interest effect arising from the reversal of hedge adjustments. In total, this left a positive net effect of € 55 million from the sale of these securities.

Other operating income increased to € 122 million (previous year: € 44 million). It benefited from operating income from companies included in the consolidated financial statements in accordance with IFRS 10 (offsetting expense in administrative expenses). Contributions to the German restructuring fund (bank levy) amounted to € 1 million in the year under review.

Loan loss provisions reflect difficult situation in the shipping industry

Loan loss provisions (before guarantee compensation and currency effects) continued to be characterised in the 2014 annual financial statements by additions for problem shipping loans, particularly in the legacy portfolios. This reflects the assessment that recovery in the shipping sector will be slow. On the other hand, a comparatively small amount of new loan loss provisions had to be recognised for other business fields and asset classes in view of the very positive risk cycle of German industry. Successful recoveries of international real estate loans and individual ship financing amounts had a positive impact in the Restructuring Unit. This enabled higher reversals to be recognised and thereby reduced net loan loss provisions on the Restructuring Unit.

Gross additions to individual valuation allowances and provisions in the lending business amounted to € 1,507 million, of which just over 76 % is attributable to additions in the shipping portfolios, out of which about 57 % relates to shipping loans directly in the Core Bank and about 43 % to shipping loans in the Restructuring Unit.

After taking into account portfolio valuation allowances, direct write-offs, income from the reversal of valuation allowances and provisions and recoveries on loans previously written down, net loan loss provision expense amounts to € –486 million before currency translation gain or loss and compensation effect under the guarantee (previous year: € – 1,713 million).

Against the backdrop of the movement of the US dollar the foreign exchange result to be recognised in loan loss provisions amounted to € – 339 million (previous year: € + 136 million). If the currency translation relates to guaranteed portfolios, it is fully compensated for by the guarantee. For foreign exchange positions held in portfolios not covered by the guarantee hedging instruments are used.

The loan loss provisions recognised for legacy portfolios were largely compensated by the guarantee. The compensation effect of the guarantee of € 1,401 million is broken down into gross compensation of € 960 million, which includes the compensation for the currency effects as well as the reversal of impairment losses in the CIP, income of € 781 million from the reversal of guarantee expense as a result of the debt waiver of the guarantors and offsetting expenses for base and additional premiums of € – 340 million for the period under review.

After taking into account the compensating effects under the guarantee, the total amount disclosed for loan loss provisions was income of € 576 million (previous year: € – 833 million).

Long-term loan loss provision plan updated

HSH Nordbank updated its long-term loan loss provision plan as at the 2014 year end. According to the plan it is expected that a higher drawdown of the guarantee by € 0.5 billion will be required in the years 2019 to 2025 mainly as a result of an adjustment of the expected EUR/USD exchange rate trend and reduced charter rate forecasts. After deducting the Bank's retained amount of € 3.2 billion the expected drawdown based on the new estimate therefore totals € 2.1 billion.

The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy and in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant potential for the reversal of impairment losses in the future. A key driver of the amount of loan loss provisions in this context is the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of individual value allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of individual value allowance on the assumption of a workout).

These expected actual payments under the guarantee are offset by significant fees already paid for the guarantee, through which HSH Nordbank is already making a substantial contribution to compensating the federal states of Hamburg and Schleswig-Holstein for the state aid granted.

Since 2009 HSH Nordbank has recognised a total premium expense of € 3.2 billion in the income statement up to 31 December 2014, which includes base and additional premiums in loan loss provisions disclosed in the compensation line item (excluding € 0.5 billion relating to a one-off payment required by the EU Commission in 2011, which was then subsequently returned to the Bank as part of a capital increase).

The premiums paid by HSH Nordbank to the guarantor to date (not taking the one-off payment in the amount of € 0.5 billion into account) increased to € 2.2 billion in 2014, of which € 1.9 billion is attributable to the recurring base premium and € 0.3 billion to the subsequent payment.

The compensation effect of the guarantee still did not result in a cash draw-down as at the 2014 year end. The amount retained by the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 1.2 billion as at 31 December 2014 (losses submitted for invoicing).

LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

(€ m)	2014	2013
Loan loss provisions before currency translation and compensation (net)	**– 486**	**– 1,713**
of which Core Bank	**– 461**	**– 692**
Shipping	– 402	– 527
Real Estate Clients	– 1	– 22
Energy & Infrastructure	– 41	– 110
Corporate Clients	– 16	– 37
Other	– 1	4
of which Restructuring Unit	**– 25**	**– 1,021**
Shipping loans	– 187	– 886
Real estate loans	138	– 9
Corporate loans	13	– 98
Other	11	– 28
Loan loss provisions before currency translation and compensation (net)	**576**	**– 833**
Core Bank	– 65	– 394
Restructuring Unit	641	– 439

Administration expenses reduced by cost-saving measures

The cost savings driven forward in the year under review made an impact on administrative expenses. They decreased in total from € – 755 million to € – 724 million despite negative one-off effects.

Personnel expenses, which decreased from € – 327 million to € – 296 million, were still impacted by the reduction in the number of employees resulting from the headcount reduction initiated in 2011 and largely completed by the end of 2014 and the additional elimination of positions.

Operating expenses (excluding depreciation) also decreased markedly to € – 303 million compared to € – 333 million in the same period of the previous year. Savings achieved, for instance with regard to consultancy costs and buildings, were offset by the substantial costs incurred in relation to regulatory requirements. About € 14 million has been recognised as an expense solely for the special audit carried out in connection with the ECB's asset quality review.

Depreciation of property, plant and equipment and amortisation of intangible assets (€ – 125 million compared to € – 95 million in the previous year) include unscheduled depreciation of € 67 million, of which € 65 million relates to depreciation of property, plant and equipment of borrowers in the aviation and real estate sectors, who are included in the scope of consolidation due to the first-time application of IFRS 10 in the year under review.

In total, additional administrative expenses (mainly depreciaton/amortisation) of € – 90 million (previous year: € – 23 million) were incurred as a result of companies newly included as subsidiaries in the consolidated financial statements due to the initial application of IFRS 10.

Restructuring costs for implementing the efficiency programme

The result from restructuring of € – 84 million (previous year: € – 56 million) includes costs incurred in connection with the cost reduction programme initiated in the fourth quarter of 2014, primarily additions to provisions for related personnel measures.

Higher guarantee expenses

In addition to the premium expense of € – 340 million recorded in loan loss provisions, higher base premium expenses of € – 521 million (previous year: € – 414 million) were incurred in the past year, which are disclosed in the expenses for government guarantees line item. € – 344 million of these are allocated to the Restructuring Unit and € – 177 million to the Core Bank.

The reasons underlying the increase are the higher ongoing base premium payable resulting from the replenishment of the guarantee facility from € 7 billion to € 10 billion in 2013 and the portion for the year 2014 of about € – 116 million of the subsequent payment of base premium relating to the replenishment of the guarantee facility in the middle of 2013. The subsequent payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. The remaining subsequent payment expense totalling about € – 90 million will be spread across the years 2015 and 2016 according to plan.

Positive Group net income

The operating performance, measurement and special effects together with guarantee effects, especially income from the debt waiver due to the stricter rules (implementation of Basel III) for calculating capital disclosures in the year under review, resulted in net income before taxes of € 278 million in the financial year 2014, which, as expected, was a considerable improvement over the previous year (€ – 518 million). After deducting tax effects there remained a Group net profit of € 160 million (previous year: € – 769 million).

In 2014 HSH Nordbank recognised a provision of € 44 million for potential additional tax payments resulting from the ongoing tax audit of previous years in the income taxes line item. Provision expense was offset by tax refunds of € 79 million. The associated interest effects were disclosed under other operating income.

Due to the increase in taxable temporary measurement differences and the decrease in the recoverability of deferred tax assets recognised on loss carryforwards, deferred tax expense of € – 153 million had to be recognised in addition to this. Including current taxes the total tax result therefore amounted to € – 118 million. The effective tax rate as at 31 December 2014 was 43 %.

The return on equity for the Group calculated on the basis of net income before taxes improved clearly to 6 % (previous year: – 10 %). The cost-income ratio was 70 % at the Group level (previous year: 49 %) which means that it increased more strongly than expected compared to the previous year when the value decreased.

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS IN THE STATEMENT OF FINANCIAL POSITION

(€ m)	2014	Following adjustment (see Note 4) 2013	Change in %
Assets			
Cash reserve	5,967	4,851	23
Loans and advances to banks	6,915	5,158	34
Loans and advances to customers	67,336	68,469	–2
Loan loss provisions	–2,061	–3,583	–42
Trading assets	9,163	9,045	1
Financial investments	18,688	21,256	–12
Other assets	4,074	3,915	4
Total assets	**110,082**	**109,111**	**1**
Liabilities			
Liabilities to banks	14,547	18,212	–20
Liabilities to customers	43,165	40,662	6
Securitised liabilities	27,634	28,561	–3
Trading liabilities	9,246	7,103	30
Subordinated capital	5,507	5,288	4
Equity	4,672	4,579	2
Other liabilities	5,311	4,706	13
Total equity and liabilities	**110,082**	**109,111**	**1**

Slight increase in total assets

Total assets increased slightly in the period under review to € 110,082 million (31 December 2013: € 109,111 million). The growth in new business and liquidity reserves were offset by the reduction in risk positions, especially by the increased winding down of positions in the Restructuring Unit. The significant appreciation in the US dollar exchange rate also had an effect of increasing assets compared to the previous year.

The movement in material items on the statement of financial position is as follows: Cash reserve increased from € 4,851 million to € 5,967 million due to higher credit balances held at central banks. Loans and advances to banks also increased to € 6,915 million (31 December 2013: € 5,158 million), particularly as a result of higher call deposits. Loans and advances to customers declined to € 67,336 million (31 December 2013: € 68,469 million), as the increase in new business in the Core Bank and appreciation of the US dollar exchange rate was more than offset by the winding down of loan transactions in the Restructuring Unit and principal repayments in the Core Bank client divisions. Total loan loss provisions (after compensation effects) decreased clearly to € –2,061 million (31 December 2013: € –3,583 million).

The balance sheet compensation effect of the second loss guarantee increased primarily as a result of the waiver of the additional premium by the guarantors. Excluding the compensation, total loan loss provisions decreased slightly to € 6,135 million (31 December 2013: € 6,297 million).

Trading assets of € 9,163 million remained virtually unchanged (31 December 2013: € 9,045 million). Whilst interest-bearing securities held in the trading portfolio decreased significantly as a result of the portfolio reduction, the positive market values of derivatives held in the trading portfolio increased. Financial assets decreased significantly to € 18,688 million (31 December 2013: € 21,256 million). Disposals of equity holdings and the winding down of securities portfolios of the Restructuring Unit, particularly in the CIP, had an impact.

On the liability side, liabilities to banks decreased in particular to € 14,547 million (31 December 2013: € 18,212 million). The main reason for this was lower refinancing volume with central banks in view of the continued winding down of the portfolio. Liabilities to customers increased to € 43,165 million (31 December 2013: € 40,662 million). Whilst deposits continued to decrease due to the discontinuation of the traditional retail business, call deposits from institutional investors in particular and repo transactions increased. Securitised liabilities totalled € 27,634 million (31 December 2013: € 28,561 million). The slight decrease is primarily attributable to a higher level of maturities and a lower volume of new issues.

Trading liabilities composed of negative fair values of derivatives in the trading portfolio also increased significantly in the same way as derivative positions in trading assets.

Subordinated capital increased slightly to € 5,507 million among other things due to the appreciation of the US dollar (31 December 2013: € 5,288 million). Reported equity capital increased to € 4,672 million (31 December 2013: € 4,579 million). Group net income as at the 2014 year end in particular contributed to this and the change in the revaluation reserve was also positive. Losses arising from the remeasurement of pension provisions had an offsetting effect against the backdrop of the very low level of market interest rates.

Slight increase in business volume

Business volume increased moderately to € 119,879 million (31 December 2013: € 118,729 million). Sureties and guarantees were stable at € 2,716 million (31 December 2013: € 2,707 million), whilst irrevocable loan commitments increased slightly to € 7,081 million (31 December 2013: € 6,911 million).

Capital and funding

REGULATORY CAPITAL RATIOS
(SAME PERIOD CALCULATION)

%	**31.12.2014**	31.12.2013 [1]	31.12.2013 Basel II
Total ratio/regulatory capital ratio	18.7	19.7	23.8
Tier 1 capital ratio	14.4	14.3	15.3
CET1 ratio plus buffer from additional premium	10.0 (+ 2.6 pps)	10.0 (+ 3.1 pps)	11.7 (+ 5.2 pps)
CET1 ratio plus buffer from additional premium (full implementation of Basel III)	10.0 (+ 1.3 pps)	10.0 (+ 1.8 pps)	–
Leverage ratio	4.8	4.6	5.0

ELIGIBLE CAPITAL
(SAME PERIOD CALCULATION)

(€ bn)	**31.12.2014**	31.12.2013 [1]	31.12.2013 Basel II [2]
Eligible capital	7.4	7.5	8.6
of which Tier 1 capital (core capital)	5.7	5.4	5.6
of which CET1 capital	4.0	3.8	4.2
of which additional Tier 1 capital	1.7	1.6	–
of which supplementary capital (Tier 2 capital)	1.7	2.1	–
Risk assets (RWA)	39.5	37.9	35.6
of which Risk assets counterparty default risk	30.8	31.1	28.4

[1] According to the same period calculation under the Capital Requirements Regulation (CRR); CRR comparative figures calculated retrospectively (adjusted).

[2] Report pursuant to the German Solvency Regulation (SolvV) in the version valid until 31 December 2013.

CET1 ratio at 10 % plus buffer of 2.6 percentage points

The resilience of the capital position of HSH Nordbank and the effectiveness of the second loss guarantee were confirmed by the Bank's results in the ECB's comprehensive assessment. The capital ratios disclosed as at the 2014 year end remained at a solid level.

As forecast in the previous year, the CET1 ratio (under the Basel III transitional arrangements) was 10.0 % plus a buffer of 2.6 percentage points, which is based on a potential waiver of additional premiums by the guarantors, under which an appropriate CET1 ratio is to be ensured (capital protection clause).

Even based on the assumption of full implementation of the Basel III rules (fully loaded) HSH Nordbank's CET1 ratio of HSH Nordbank of 10.0 % (plus a buffer of 1.3 percentage points from the waiver of additional premiums by the guarantors) is at a solid level.

The traditional Tier 1 ratio reached of 14.4 %, the regulatory capital ratio amounted to 18.7 %. The figures take into account the 2014 consolidated financial statements (same period calculation).

As part of the evaluation process in the Banking Union HSH Nordbank was assigned an individual minimum capital ratio for the first time by the ECB that is based on the assumption of full Basel III implementation. This ratio is clearly exceeded by the CET1 ratio disclosed as at 31 December 2014 (10.0% plus 1.3 percentage points, fully loaded).

The lower CET1 ratio under Basel III compared to the previous year is attributable to the slight increase as planned in RWA to € 39.5 billion (31 December 2013: € 37.9 billion). The reasons for this are the appreciation in the US dollar (EUR/USD 1.21 as at 31 December 2014 vs. EUR/USD 1.38 as at 31 December 2013), significant increase in new business, which, as planned, had a greater impact on RWA despite the better risk parameters than the further winding down of the legacy portfolios in the Restructuring Unit. The guarantee coverage reduced RWA in the legacy portfolios.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. About 0.7% has been calculated as the risk weight as at the 2014 year end. This provides another guarantee buffer in addition to the buffer from the additional premium.

The leverage ratio of HSH Nordbank was a solid 4.8% as at the 2014 year end (31 December 2013: 4.6%). Disclosure of this ratio will be mandatory from 2015 onwards.

Refinancing activities expanded

HSH Nordbank successfully pursued its funding strategy in the financial year and thereby further strengthened its liquidity profile against the backdrop of existing challenges.

The Bank exploited the favourable conditions in the capital markets to issue two mortgage Pfandbriefe, each in the amount of € 500 million, in the course of the year. A Pfandbrief with a five-year term and a Pfandbrief with a term of seven-years were issued in July and September, respectively. There was wide demand for the issues, particularly among domestic and foreign institutional investors. The order books were heavily oversubscribed.

Following the private placement of ship Pfandbriefe with an issue amount of just under € 400 million by HSH Nordbank during the year, the Bank issued a benchmark ship mortgage bond of over € 500 million again for the first time since 2008 in February 2015.

Secured funding using longer-term repo transactions, which contributed more than 1.5 billion US-$ to the primary funding of US dollar transactions, was also encouraging. As part of asset-based funding (ABF) the Bank successfully concluded another transaction with Stratus ABS based on the ABF platform established in 2013. The refinancing of over US-$ 400 million is secured by aircraft loans of the internal Restructuring Unit. This was followed in the first quarter 2015 by Castellum ABF, the third large-volume US-Dollar refinancing executed via the ABF platform. This refinancing with a volume of US-$ 360 million has a term of 3.25 years and is secured by commercial real estate loans. Furthermore, additional transactions based on loans in different asset classes are planned.

By means of the ABF issues the Bank is able to expand the refinancing of US dollar transactions and to reduce the use of EUR/USD basis swaps for derivative foreign currency financing accordingly. The proportion of primary US dollar refinancing for the Core Bank stood at about 63% as at the 2014 year end. A high proportion still had to be refinanced via derivatives for the Overall Bank, including the Restructuring Unit.

An increase in the US dollar requires higher collateral be provided in the form of liquidity in the case of US dollar derivative funding. Accordingly, the appreciation of the US dollar against the euro over the past year assessed in isolation resulted in the liquidity position being adversely impacted.

Another focus was the sales of bond products for the savings banks client business and increasingly also for clients in other associations and financial institutions. The increased placement of bonds with institutional investors is resulting in the further diversification of the investor base. Total volume of uncovered bonds (senior unsecured) issued during the financial year amounted to around € 4.5 billion.

Besides the issuing activities a stable level of deposits contributed to the refinancing of the business. Furthermore, the Bank holds liquidity reserves in the form of collateral eligible for refinancing at central banks and credit balances at central banks, with a total volume of about € 21 billion, which it can access at any time.

HSH Nordbank's solid liquidity position as at the balance sheet date was also reflected in the key liquidity ratios. The liquidity ratio of the German Liquidity Regulation (LiqV) used as the central regulatory indicator for liquidity risk was 1.99 as at the year end and was therefore significantly above the regulatory minimum and, as planned, moderately below the level of the previous year (2.30).

The liquidity coverage ratio (LCR, short-term minimum liquidity ratio), which, in future, must be adhered to for the first time from October 2015 onward under the provisions of the Capital Requirement Regulation (CRR), reaches 143% (preliminary) as at 31 December 2014 within the framework of QIS (regulatory framework under Basel), which is a good value that clearly exceeds the minimum requirements. The LCR compares the portfolio of highly liquid assets to the net outflows over the next 30 days.

The net stable funding ratio (NSFR), which must be adhered to from 2018 at the earliest, is calculated as the ratio of available funding resources across all maturity ranges to the funding required and must also be at least 100% after full implementation. HSH Nordbank's NSFR was 96% (preliminary) as at 31 December 2014 within the framework of the QIS (Quantitative Impact Study).

The longer maturities of the newly taken up funding and the significant asset reduction in the reporting year also had a positive impact on the liquidity profile. This enabled sustainable structural progress to be achieved with regard to the longer-term challenges, which result from a significant number of maturities of issues between 2015 and 2016 against the backdrop of the expiry of the guarantor liability (Gewährträgerhaftung) at the end of 2015.

Bonds covered by the guarantor's liability totalling about € 19 billion will fall due in this entire period.

Further information on liquidity and funding is set out in the "Risk report" section of this management report.

Against the backdrop of the adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) the rating agencies, Fitch (March 2014) and Moody's (May 2014), changed the long-term rating of numerous banks in Europe – irrespective of their financial strength – to a negative outlook as part of an Europe-wide action. The outlook for the HSH Nordbank's rating was changed to Baa3 negative (Moody's) and A– negative (Fitch).

In the middle of March 2015 Moody's announced a global review of bank ratings. As a result of this, the status of the long-term rating of HSH Nordbank at Moody's changed as expected to Baa3, rating watch negative. At the same time the rating agency assumes in its announcement that, in view of an expected positive outcome of the EU proceedings currently still pending and increasing restructuring successes, HSH Nordbank's current long-term rating will be confirmed as investment grade by an improvement in the financial strength rating.

The Fitch rating is also expected to be confirmed as investment grade. The reviews of the ratings by the rating agencies will probably be completed around the middle of 2015. A rating downgrade would have a material negative impact on the funding options available and access to the capital markets. Related opportunities and risks are described in the "Forecast, opportunities and risks report section".

FINAL ASSESSMENT OF HSH NORDBANK'S POSITION

Successes achieved in the client business and the very positive pro forma results of the Core Bank determined on the basis of certain hypothetical assumptions (the shipping loan recovery division, guarantee effects, IFRS measurement effects and income from the disposal of equity holdings were separated out) confirm the good progress made in implementing the business model and overall positive development of the Core Bank.

At the Group level, the passing of the ECB's comprehensive assessment last year was encouraging. Further major progress has been made in winding down of non-strategic business and disposing of equity holdings and successes have also been achieved in the field of cost management. Overall, the positive results before and after taxes should be emphasised. However, it should be pointed out that Group income benefited strongly from the guarantee effect, particularly the debt waiver, although the high premium expense for this guarantee had an offsetting effect.

The negative impacts of the fact that the shipping industry only recovers slowly are continuing to have a noticeable impact on the legacy portfolios. HSH Nordbank is still facing the challenges posed by a very demanding market and competitive environment and the constantly increasing regulatory requirements. Overall, HSH Nordbank assesses the Bank's position as not fully satisfactory.

Against this backdrop the aim is to combine the expected conclusion of the EU proceedings with structural measures in addition to the efficiency improvement programme that can contribute significantly to the further strengthening of the sustainability and viability of the business model. Details regarding this are set out in the "Forecast, opportunities and risks report" section.

SEGMENT REPORTING

Core Bank results adversely impacted by recovery activities and special effects

The Core Bank, in which the forward-looking divisions of HSH Nordbank, including the ship financing recovery unit assigned to the Core Bank, are combined, disclosed net income before taxes of € – 120 million for 2014 compared to € – 123 million in the previous year. The results are strongly affected by exceptional developments. In particular, recovery activities in the ship financing business had an adverse impact. Loan loss provisions in the Core Bank were compensated to a much lesser extent than those in the Restructuring Unit due to a higher proportion of the first loss piece of the guarantee being borne by the Core Bank in the year under review.

The increase in new business in line with the plan had a positive impact on the operating performance of the core divisions. The volume of new business increased by about a quarter to € 9.5 billion (previous year: € 7.6 billion) and thereby achieved the overall 2014 target level. The good performance of the Real Estate Clients and Energy & Infrastructure divisions in particular had a noticeable effect. This was offset by a subdued level of new business in the Corporate Clients division due to market conditions and a decrease in sales of capital market products in view of the very low interest rate environment. Unscheduled principal repayments made by companies with a healthy financial position also had an adverse impact.

Pro forma results of the Core Bank confirm operating progress

Due to the large number of effects not to be allocated to operating business HSH Nordbank calculated a pro forma net income before taxes for the Core Bank based on certain hypothetical assumptions. For this purpose, the effects of the guarantee, troubled assets held in the recovery unit for ship financing, certain measurement effects with high volatility in net interest and net trading income and other effects relating to the restructuring of the Bank were separated out from the calculation.

Taking into account these hypothetical assumptions the pro forma net income before taxes would amount to € 330 million (previous year: € 151 million). This increase in pro-forma net income confirms that progress has been made in developing the core business. Details regarding the calculation of the pro forma results are set out in the ”Earnings, net assets and financial position” section.

Total assets of the Core Bank increased against the backdrop of the increase in new business and a higher cash reserve to € 76 billion as at 31 December 2014 (31 December 2013: € 69 billion). The appreciation of the US dollar exchange rate increased assets by € 1.6 billion. The increase in total assets was offset by higher principal repayments.

Further information is contained in the explanatory comments on the individual segments.

SEGMENT OVERVIEW[1]

(€ m) 2014		Shipping, Project & Real Estate Financing	Corporates & Markets	Corporate Center	Consolidation Core Bank	Total Core Bank	Restructuring Unit	Consolidation Restructuring Unit	Total Restructuring Unit
Total income	**2014**	**592**	**316**	**– 111**	**– 206**	**591**	**324**	**– 6**	**318**
	2013	727	370	– 56	– 143	898	650	– 52	598
Loan loss provisions before currency translation	**2014**	– 444	– 14	–	– 3	– 461	– 25	–	– 25
and compensation	2013	– 659	– 39	–	6	– 692	– 1.021	–	– 1.021
Administrative expenses	**2014**	– 202	– 269	24	12	– 435	– 289	–	– 289
	2013	– 214	– 287	30	6	– 465	– 290	–	– 290
Net income	**2014**	**– 26**	**39**	**– 36**	**– 97**	**– 120**	**104**	**294**	**398**
before taxes	2013	– 134	55	– 50	6	– 123	– 616	221	– 395
Segment assets (€ bn)	**31.12. 2014**	30	26	18	2	76	31	3	34
	31.12. 2013	28	24	16	1	69	37	3	40

[1] Since the 2014 year end the foreign currency translation result of the loan loss provisions is no longer allocated to the segments but disclosed in the consolidation columns for the Core Bank and the Restructuring Unit. The previous year figures have been adjusted for purposes of comparability. Details are set out in Note 49 (Segment report).

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

The Shipping, Project & Real Estate Financing segment covered the business conducted with shipping clients, together with the recovery unit under the responsibility of the Core Bank, real estate clients and clients in the energy and infrastructure industry as at 31 December 2014.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

(€ m)		**Shipping, Project & Real Estate Financing**	Shipping	Energy & Infrastructure	Real Estate Clients
Total income	**2014**	**592**	**282**	**116**	**194**
	2013	727	391	160	176
Loan loss provisions before currency translation and compensation	**2014**	**-444**	**-402**	**-41**	**-1**
	2013	-659	-527	-110	-22
Administrative expenses	**2014**	**-202**	**-111**	**-41**	**-50**
	2013	-214	-116	-45	-53
Other operating income	**2014**	**28**	**3**	**24**	**1**
	2013	12	3	10	-1
Net income before taxes	**2014**	**-26**	**-228**	**58**	**144**
	2013	-134	-249	15	100
Segment assets (€ bn)	**31.12.2014**	**30**	**14**	**5**	**11**
	31.12.2013	28	14	5	9

Successful business activities confirm strong market base

The Shipping, Project & Real Estate Financing segment was characterised on the one hand by the very good operating performance in the client business, particularly with real estate clients and clients in the energy & infrastructure industry, and on the other hand by losses incurred on shipping loans (mainly in the legacy portfolio) assigned to the recovery unit in the Core Bank. Net income for the segment amounted in total to € – 26 million before the relief provided under the guarantee (previous year: € – 134 million).

The Shipping division discloses a net loss of € –228 million (previous year: € – 249 million). This is mainly attributable to loan loss provisions recognised for troubled assets in the ship financing recovery unit. Loan loss provision expense of € – 402 million remained at high level but represented a slight reduction compared to the previous year (€ – 527 million). At the same time the increase in impaired loans had a related adverse impact on net interest income, which affected total income. Nevertheless, the division was able to successfully drive forward its new business. The volume of new business transacted in the past year amounted to € 1.5 billion compared to € 0.9 billion in the previous year. The focus of new business in the Shipping division was on commitments in forward-looking market segments (especially bulk carriers, product and chemical tankers) with reputable clients that contribute to a balanced portfolio.

The Energy & Infrastructure division increased its net income to € 58 million (previous year: € 15 million). The successful conclusion of various structured project financing arrangements in Germany and abroad contributed to this with a volume of € 1.6 billion compared to € 0.9 billion in the previous year. Energy mainly focused on wind and solar projects in the core markets of Germany and France. In addition, first deals were closed in Finland in the wind energy sector. The opening up of new markets will be driven forward against the backdrop of changed subsidy mechanisms.

The Infrastructure division was able to further expand and diversify its portfolio through financing projects in the rail vehicle, road, aircraft and tank storage facility sectors among others in Germany and the rest of Europe. The sale of the Railpool joint venture concluded the disposal of the division's equity holdings. Additions to the loan loss provisions of the Energy & Infrastructure division were recognised for individual problem loans, albeit to a lesser extent than in the previous year.

The largest contribution to earnings (€ 144 million compared to € 100 million in the previous year) in this segment was made by the Real Estate Clients division, which generated new business volume of € 4.1 billion (previous year: € 2.8 billion) on stable margins. In the past year the division benefited from its very strong market position as a major real estate financing partner in Germany and the favourable market environment. Transactions concluded with new clients as well as with international, institutional investors made a substantial contribution to the growth in this division. There were no notable additions to loan loss provisions in the light of the positive trend in the German real estate markets.

CORPORATES & MARKETS SEGMENT

On the one hand, business transacted with corporates and wealth management with a focus on entrepreneurs, foundations and non-profit organisations was combined in the Corporates & Markets segment as at 31 December 2014. On the other hand, development, sales and trading of financial products (Capital Markets) and special financing and consultancy solutions (Corporate Finance) as well as servicing of savings banks, banks and insurance companies are under the responsibility of this segment.

CORPORATES & MARKETS SEGMENT

(€ m)		**Corporates & Markets**	Capital Markets, Corporate Finance, Savings Banks & Institutional Clients	Corporate Clients & Wealth Management
Total income	**2014**	**316**	**88**	**228**
	2013	370	118	252
Loan loss provisions before currency translation	**2014**	**– 14**	**1**	**– 15**
and compensation	2013	– 39	– 2	– 37
Administrative expenses	**2014**	**– 269**	**– 151**	**– 118**
	2013	– 287	– 161	– 126
Other operating income	**2014**	**6**	**–**	**6**
	2013	11	1	10
Net income before taxes	**2014**	**39**	**– 62**	**101**
	2013	55	– 44	99
Segment assets (€ bn)	**31.12.2014**	**26**	**18**	**8**
	31.12.2013	24	16	8

Moderate expansion of business on a subdued loan demand

Significant market trends over the past year were reflected in the performance of the Corporates & Markets segment. Effects of restrained investment activity as well as solid financial resources of many companies became evident. The level of interest rates which decreased even more also had an effect. Against this backdrop the segment generated net income of € 39 million in 2014 compared to € 55 million in the previous year.

The Corporate Clients division together with Wealth Management made a stable contribution (€ 101 million compared to € 99 million) to segment earnings. New transactions of € 2.3 billion concluded at encouragingly stable margins were also a contributory factor. In addition, the drawdown ratio increased significantly. The evident decline in new business compared to the previous year (€ 2.8 billion) to below the target level may be attributed to the generally restrained corporate demand for financing and intensive competition among banks in the German market. In addition, more loans were repaid early due to the healthy financial situation of many companies.

The structured financing business conducted in collaboration with the Corporate Finance division performed noticeably well. Loan notes were successfully issued together with the Capital Markets division. It was possible to improve the market position in this area by these measures.

The Corporates division will further sharpen the profile of its strategy in 2015. The focus will be on a structural improvement of the business portfolio and successful positioning in this business field on a sustained basis.

Only a low level of additions to loan loss provisions had to be recognised in view of the solid business situation of many corporate clients. This reflected the high quality of the corporate clients portfolio.

In Wealth Management the withdrawal from the classical private client business was completed at the end of 2014. By focusing on business conducted with entrepreneurs, foundations and non-profit organisations HSH Nordbank was able to further consolidate its position as one of the leading banks for these groups of clients in Northern Germany. Additional clients were acquired with a mandate to provide advice and support in respect of business and personal financial affairs. The extremely low level of interest rates continued to represent a significant challenge.

The Capital Markets, Corporate Finance and Savings Banks & Institutional Clients divisions together disclosed net income of € – 62 million (previous year: € – 44 million). The Capital Markets division intensified its focus on the sales of the capital markets-oriented product range, primarily interest rate, currency and commodity hedging as well as investment products further. Overall, the business performance reflected restrained client demand against the backdrop of the continued low level of interest rates, although sales of risk hedging products picked up in the second half of the year due to higher volatility in the financial and currency markets.

The Corporate Finance division, which was established in 2014 through the merger of the former Products division with the subsidiary, HSH Corporate Finance GmbH, supported the customer divisions by providing high quality financing solutions and made a significant contribution to the further development of customer relationships. The division was involved in several transactions for companies in the areas of leveraged finance and capital structuring and pressed ahead with its syndication activities.

As part of an organisational and strategic realignment HSH Nordbank combined the whole of transaction banking, which includes services covering payment transactions and foreign trade financing, into a separate division as at 1 December 2014 and assigned it to the Corporate Center segment. It was possible to increase income of this division in the past year.

The Savings Banks & Institutional Clients division focussed on securing and developing cooperation of the Bank further within the Savings Banks Association as well as with insurance companies and public-sector clients. Emphasis was placed on expanding the range of tailor-made solutions for proprietary and client business of institutional investors and broadening the investor base. The placement of bonds, structured issues and Pfandbriefe once again made an important contribution to the Bank's funding in 2014.

CORPORATE CENTER SEGMENT

The net loss of the Corporate Center segment, which includes the Overall Bank positions as well as the administration and service divisions, improved to € – 36 million in 2014 compared to € – 50 million in the previous year. Sales of European government bonds and other securities positions as part of liquidity management had a positive effect, while the special effect arising on the calculation of net income from hybrid financial instruments of the Bank had a negative effect.

NET INCOME FOR THE CORE BANK TAKES CONSOLIDATION EFFECTS INTO ACCOUNT

The compensation effect under the second loss guarantee including the effect of the capital protection clause had a positive impact on the consolidation position of the Core Bank. The currency translation loss arising on loan loss provisions, which is allocated to consolidation items, is also compensated by the guarantee provided that the currency positions relate to amounts covered by the guarantee, while the hedging effect on other currency positions continues to be mapped in the Corporate Center segment. Measurement effects recognised in net trading income and result from hedging adversely impacted net income to the extent these effects were not allocated to the business segments.

Furthermore, the positions result from restructuring and expenses for government guarantees not allocated to the operating business had an impact on the consolidation column. In total, net income of the consolidation position amounted to € –97 million (previous year: € 6 million).

The Core Bank generated net income before taxes of € – 120 million (previous year: € – 123 million). This gives a return on equity of the Core Bank of –6 % (previous year: – 6 %). The cost-income ratio of the Core Bank was 70 % (previous year: 52 %).

RESTRUCTURING UNIT SEGMENT

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

RESTRUCTURING UNIT SEGMENT

(€ m)

Total income	**2014**	**324**
	2013	650
Loan loss provisions before currency translation and compensation	**2014**	**– 25**
	2013	– 1021
Administrative expenses	**2014**	**– 289**
	2013	– 290
Other operating income	**2014**	**94**
	2013	45
Net income before taxes	**2014**	**104**
	2013	– 616
Segment assets (€ bn)	**2014**	**31**
	2013	37

Risk positions successfully reduced

Further progress was made in the past year in implementing the winding down strategy of the Restructuring Unit. The total amount of legacy portfolios under the responsibility of the Restructuring Unit decreased in the 2014 reporting year by € 6 billion to € 31 billion (excluding consolidation items of € 3 billion) compared to € 37 billion as at 31 December 2013 and is therefore at target level in the year under review despite the strong appreciation of the US dollar (portfolio effect: € + 1.4 billion). Active winding down measures made a contribution to this in addition to the reduction resulting from scheduled and early repayments of principal. The largest portfolio decreases were achieved in the past financial year for shipping and international real estate loans.

Total assets of the Restructuring Unit were about € 83 billion after the Restructuring Unit was formed at the end of 2009. Since then reclassifications from the Core Bank totalling about € 8.1 billion that increased assets have been made in order to implement the winding down measures agreed with the EU Commission and as part of the portfolio adjustments in the Core Bank.

Net income benefits from restructuring successes and reversals of impairment losses as well as guarantee effects

The net income before taxes of the segment increased to € 104 million (previous year: € –616 million). Income was positively impacted by reversals of impairment losses, sales of securities in the CIP and the disposal of an equity holding (DMS Semiconductor). This was offset by the winding down of the portfolio according to plan and valuation allowances recognised for shipping loans. Both together resulted in a significant reduction in the interest-bearing loan volume, which was reflected in the decrease in net interest income.

Furthermore, restructuring successes were achieved in the Restructuring Unit in the area of international real estate loans and individual shipping commitments. This enabled higher reversals to be recognised and thereby reduced net loan loss provisions in the Restructuring Unit. Cost savings made in administrative expenses were offset by unscheduled depreciation recognised on companies included in the consolidated financial statements for the first time under IFRS 10, which were allocated to the Restructuring Unit.

Including the effects shown in the consolidation column net income before taxes for the Restructuring Unit increased to € 398 million (previous year: € – 395 million). This reflected the strongly positive guarantee effect including the debt waiver due to a temporary special effect recognised at the expense of the Core Bank as well as the foreign currency translation result.

Due to the large number of effects not to be allocated to operating business HSH Nordbank calculated a pro forma net income before taxes for the Restructuring Unit based on certain hypothetical assumptions.

Effects relating to the guarantee and shipping loan portfolio of the Restructuring Unit, certain measurement effects in net interest income and net trading income that are highly volatile and other effects in connection with the restructuring of the Bank are separated out from income in line with the assumptions made for the Core Bank. Taking into account these hypothetical assumptions net income before taxes would amount to € 91 million (previous year: € 76 million). Details regarding the calculation of the pro forma results are set out in the "Earnings, net assets and financial position" section.

Winding down of portfolio supported by active measures

The material loan portfolios of the Restructuring Unit (real estate loans, shipping loans and corporate loans) were characterised by the following developments.

HSH Nordbank continued to pursue various approaches to reduce risk positions in the shipping loan portfolio of the Restructuring Unit even further (segment assets as at 31 December 2014: € 6.5 billion). These include the implementation of alternative structured solutions in the portfolio, for which there was considerable investor interest in the year under review. Furthermore, HSH Nordbank is also actively supporting the consolidation that is underway in the shipping industry. Both approaches – portfolio solutions and sector consolidation – will continue to be pursued in 2015.

The favourable market environment in the real estate sectors in the USA and Great Britain in the fourth quarter was also exploited in the real estate loan portfolio (segment assets: € 7.1 billion) to additionally reduce the portfolio by an amount equivalent to about € 0.6 billion whilst minimising losses. This includes the disposal of a residential property portfolio in the USA.

Loan volume was reduced further to € 2.1 billion in the foreign corporates/leveraged buyout (LBO) business involving structured financing in light of an improved situation in most sectors – primarily by means of early repayment by other lenders.

Furthermore, the aircraft loan portfolio was also reduced further. This portfolio has been reduced by almost 50 % to € 2.5 billion since being transferred to the Restructuring Unit in 2011.

Positive fair value trend in capital markets portfolios

The capital market portfolios consolidated in the Restructuring Unit (segment assets: € 12.3 billion) primarily include the public sector financing business, the cover pool portfolios for Pfandbrief issues and the credit investment portfolio that mainly contains ABS structures as well as government bonds and bank bonds of individual issuers.

The overall positive mood of the financial markets led to a decline in the risk premiums on high-risk debt instruments held in portfolio in the reporting year. The credit investment portfolio in particular benefited from this, which was also reduced further by active winding down measures to € 4.6 billion (2008: € 22 billion). Sales of securities in the fourth quarter made a more substantial contribution. The recovery of the US residential housing market and other asset classes with a US link resulted in further increases in value of positions held in the ABS portfolio.

The development of commitments in the government financing portfolio, which comprises debt instruments of German local authorities amongst others, was generally stable. The comparatively manageable portfolio of debt instruments issued by euro periphery countries benefited from an overall positive environment.

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the 2014 reporting year that had a material effect on earnings, net assets and the financial position.

FORECAST, OPPORTUNITIES AND RISKS REPORT

FORECAST REPORT INCLUDING OPPORTUNITIES AND RISKS

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

The estimates regarding the long-term trend in loan loss provisions as well as the planning for payment defaults and, consequently, the actual drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon, which can influence the future development of the Bank to a greater degree than expected. The main uncertainty factors result, for example, from the movement in key market parameters such as freight and charter rates as well as the US dollar exchange rate. A key driver of the amount of loan loss provisions is also the breakdown of impaired loan commitments into ”capable of recovery” (and therefore recognition of individual valuation allowance based on the assumption of the continuation of the borrower's business) or ”not capable of recovery” (and therefore recognition of individual valuation allowance based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy and in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant potential for the reversal of impairment losses in the future.

Developments over the past years have shown that the ability to make forecasts in a volatile environment is limited. For example, the difficult market conditions in the shipping industry are lasting longer than expected.

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

ANTICIPATED UNDERLYING CONDITIONS

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

Expectations of slightly faster growth

Global economic growth is expected to accelerate slightly in 2015. The stimuli for this are likely to mainly come from the USA. HSH Nordbank expects a robust rate of expansion for the USA this year following the high growth momentum of the past months. In contrast, economic growth in the eurozone should again be significantly lower. However, the German economy should be able to grow slightly more strongly than other countries in the eurozone. This assumption is supported by the most recent economic forecasts.

Macroeconomic risks result primarily from the geopolitical conflicts surrounding Russia and Ukraine, possible destabilising effect of the falling oil price, generally expected interest rate hikes in the U.S. as well as overvalued financial market segments. Beyond that, the results of the elections in Greece have increased political risk in the eurozone. On the other hand, the low oil price should give a positive stimulus to global growth due to the cost relief provided for companies and consumers.

The US Federal Reserve will possibly increase the base rate during the year, as long as the economy grows as expected, whereas the ECB decided in January 2015 to further ease monetary policy in the form of a comprehensive purchase of government bonds over and above the steps already initiated. An objective of the measures is to counteract risks from a sharp fall in inflation.

Yields on long-term European and US government bonds should increase moderately. Interest rate levels as well as the US dollar should continue to be strongly influenced by central bank policy and could be subject to larger fluctuations accordingly. The Bank's plans are based on the expectation that short-term interest rates will increase significantly from 2017 onwards, and a EUR/USD exchange rate of 1.10 for 2015. A higher exchange rate is used again in the plan for subsequent years. HSH Nordbank assumes an exchange rate of EUR/USD 1.15 for 2016 and EUR/USD 1.20 for 2017.

Continued uneven market developments

Trends in the shipping markets in 2015 should continue to demonstrate that only an overall slower recovery can be expected.

Demand for container ships should increase slightly in the course of the year 2015 and in subsequent years. However, supply should increase faster due to the growth in the fleet in the large ship classes. Overall, with regard to the container shipping industry, HSH Nordbank therefore expects the recovery in charter rates and ship prices to be slower.

The demand trend for bulk carriers should be positive in 2015 while weak demand growth is expected from 2016. Transportation capacity of bulk carriers should increase more sharply in 2015 than in the previous year and slightly more strongly than demand due to a high volume of deliveries. The expected market situation should put pressure on charter rates and ship values in 2015.

The demand trend for tankers has been positive in the past year. An increase in the oil supply at a low level of prices gives rise to additional demand potential. Available capacity will grow faster from 2015 onwards as the order book is large and previously planned deliveries were deferred. In 2015 the fleet should increase at a rate that is still below the growth in demand. Nonetheless, it is likely that the further recovery of charter rates and prices will peter out in 2015. The market situation should result in a slight decrease in charter rates and ship values in 2016.

HSH Nordbank uses a weighted average of itsown and independent, external forecasts of the leading market research institutions, Marsoft and MSI, for the assessment of future developments in the shipping industry.

The performance of the real estate markets in Germany should be largely positive in the year 2015. The excess demand in residential markets in large cities will continue thanks to the continued high influx of migrants and despite the increased construction activity. The retail sector will continue to benefit from the positive consumer sentiment and increasing household income. Nevertheless, an increase in construction activity will slow down sales density of retail stores. Relatively stable vacancy rates are to be expected in the office property markets on a marked increase in the number of completions and a slightly declining demand for space. This should noticeably dampen the rise of rentals for office premises. Rents for commercial and residential property should also increase at a markedly slower rate over the foreseeable future given the growing number of completions. If economic conditions in Germany were to worsen unexpectedly, this would also be reflected in developments in the real estate markets.

The outlook for the expansion of renewable energies in Europe is generally cautious. In the year 2015, the absolute build-up of installations in the solar energy sector should be at the past year’s level. In the wind energy sector completions in 2015 are expected to be slightly below the previous year’s level in Europe. The fear of further limits on government subsidy measures in some countries is still having a dampening effect. In Germany it is likely that the good figure for 2014 will not quite be achieved despite the pull forward effect due to the future reduction in the remuneration for wind power. In transport infrastructure the growth in transport demand on the one hand and rising maintenance requirement on the other are still generating positive stimulus for investment. Institutional investors will become still more important.

Corporate clients business in Germany should remain characterised in 2015 by a subdued level of investment activity against the backdrop of the healthy financial position of many companies, which should also continue to noticeably affect general loan demand at banks.

Ongoing challenging environment for banks

The results of the ECB's comprehensive assessment confirmed that the large German banks have overall a solid capital base, with which they have key requirements for existing in the difficult banking environment. The earnings side of banks is being adversely impacted by the low interest rate environment, intensive competition for German medium-sized clients and only a slow revival in loan demand. In addition, the comprehensive regulatory requirements, which are taking up increasingly more resources, are being translated into administrative expenses of the institutions. The European bank levy for the Single Resolution Fund will be felt noticeably from 2015 and is likely to be significantly higher than the bank levy previously payable.

New challenges result from the Supervisory Review and Evaluation Process (SREP) in the Banking Union, which already entails individual requirements, especially for capital and liquidity. In addition, individual minimum requirements for own funds and eligible liabilities (MREL) are specified for banks supervised by the ECB, which would be applied in the event of a bail-in.

Beyond 2015 additional requirements may arise from the further development of the Basel III Framework (Basel 3.5), for example for securitisations such as HSH Nordbank's second loss guarantee and capital backing under the credit risk standard approach. More focus will probably be placed on preparations for the new requirements for accounting for financial instruments under IFRS 9 that are expected to come into effect from 2018. They will be associated with changes in the classification of financial assets and determination of loan loss provisions. There is uncertainty regarding the scope of the loans that may have to be measured at fair value in the future, which could lead to substantial losses in the lending business in the future. Furthermore, the Basel Standard 239 (BCBS 239) gives rise, for example, to comprehensive future requirements regarding risk data aggregation including the IT architecture and risk reporting by banks. The introduction of a tax on trading in financial instruments (financial transaction tax), which is currently under discussion, would result in a significant reduction in income from the capital markets business.

In view of the various challenges and changing underlying conditions the Banks are required to continually review their business models and constantly improve efficiency to be able to ensure sufficient profitability and thereby maintain the ability to build up capital from their own resources.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

Sound basis for 2015

The business performance of the Core Bank in the past year provides a sound basis for the further expansion of client business in 2015 and successful implementation of the strategy. Of particular importance is the expected positive conclusion of the EU proceedings, including targeted structural measures to further strengthen the sustainability and resilience of the business model, which could not be reflected in the Bank's plan for 2015 due to the fact that the concrete terms are still outstanding. A key objective is a structurally high level of profitability so as to meet the requirements for building up capital from own resources. Furthermore, the programme initiated to reduce costs and increase efficiency will be driven forward in a consistent manner.

Earnings forecast

In 2015 HSH Nordbank expects to be able to build on the overall good performance of the Core Bank and moderately develop new business with clients further. HSH Nordbank is assuming risk-commensurate margins that reflect the competitive environment in the target markets. HSH Nordbank is assuming a slight increase in the volume of interest-bearing loans in the Core Bank taking into account principal repayments and loan loss provisions to be expected for 2015. At the same time, sales of the focused range of services offered are driven forward to exploit the business and earnings potential as well as possible. Overall, HSH Nordbank expects total income of the Core Bank to increase significantly in 2015 compared to 2014. Total income will be mainly sustained by the Real Estate Clients, Corporate Clients, Shipping as well as Energy & Infrastructure divisions.

A further significant reduction of the Restructuring Unit's balance sheet is planned in order to reduce risk positions. The focus will be placed on winding down measures and transactions in the shipping portfolio, for which the aim is the further reduction in risk. Total income in the Restructuring Unit will continue to decrease significantly as planned in 2015 and beyond through the continuous winding down of the portfolio.

The earnings side is strengthened by the increase in new business and product sales. At the Group level, this serves to offset the loss of income resulting from the winding down of non-strategic loan commitments, equity holdings and securities and an increase in impaired shipping loans. Overall, total income is expected to be largely stable at the Group level compared to the previous year.

Opportunities and risks in the earnings forecast

Opportunities

A sharper increase in income of the Core Bank may arise where new business with customers develops better than expected, for example as a result of higher margins achieved in the market, stronger than planned product sales or an unexpectedly high loan demand.

A sharper than planned increase in the US dollar viewed in isolation would have a positive impact on income generated by the US dollar business.

Risks

Any deterioration in the macroeconomic environment and conditions in relevant markets would probably result in a lower demand trend for loan financing than assumed. The competitive situation could also put more pressure on margins than expected. The assumed increase in net interest income could also be lower than expected as a result of a more marked rise in the amount of impaired loans.

Despite the significant reduction in the amount of high-risk securities held higher measurement losses on debt instruments and derivatives held in portfolio arising as a consequence of market developments or tensions in the financial markets also cannot be ruled out. IFRS measurement effects resulting from movements in the US dollar or interest rates as well as basis swaps may have a more adverse impact than expected. In addition a further appreciation of the US dollar – as a result of the implementation of necessary measures – may also lead to a reduction in future planned results and thereby impact the remeasurement of hybrid financial instruments and deferred taxes.

In the event that sales of asset positions should be more extensive than planned and the expansion of new business intentionally reduced, this could lead to a greater decrease in total income at the Group level due to the loss of interest income.

Furthermore, a higher than expected employee turnover in sales divisions could make it more difficult to achieve new business and income objectives.

If the expected increase in interest rates does not occur as planned, this would lead viewed in isolation in lower income from the investment of the liquidity position.

Forecast for administrative expenses

The aim of HSH Nordbank on the cost side is to continue to gradually reduce administrative expenses significantly to a maximum of € 500 million per year by 2018 and achieve an appropriate cost-income ratio on a sustained basis. The plan is based on the cost reduction programme initiated at the end of 2014, which is aimed, inter alia, at the further streamlining of the organisational structure, simplification of key processes, optimisation of the product portfolio and realignment of the Bank's IT, and which should start to show first results in the current year. HSH Nordbank is assuming a significant reduction in administrative expenses for 2015 compared to 2014.

Additional expenses arising from the consolidation of companies upon application of IFRS 10 have to be taken into account again in this context. These additional expenses are largely offset in the Group by income from these companies (Other operating income).

Further extraordinary restructuring expenses will be incurred in 2015 and subsequent years in implementing the cost reduction programme. After mainly provisions for the personnel measures implemented had to be recognised in the 2014 annual financial statements it is expected that in particular restructuring expenses will be incurred in operating expense categories, particularly in the IT area, based on the measures scheduled for 2015 that will be starting this year.

The bank levy, which is harmonised throughout Europe, will result in an appreciable additional cost burden (Other operating income) and will be substantially higher from 2015 than the levy previously payable in Germany.

The number of employees will be gradually reduced further by 2017 as part of the cost reduction measures. A moderate reduction is planned for the year 2015. However, there remains the important task of retaining qualified staff at HSH Nordbank in order to secure key competences and limit operational risk.

Opportunities and risks in the forecast for administrative expenses

Opportunities

HSH Nordbank is confident that the savings targets set will be achieved. These targets may also be exceeded if the measures are implemented consistently and additional savings are identified. Successful implementation of the programme would make a substantial contribution to increasing the efficiency of the Bank on a sustained basis.

The individual measures implemented, such as the organisational changes and the extensive adjustments in the IT area, will be continuously reviewed as part of the measures controlling process to ensure the successful implementation of the cost plan.

Also with regard to the expected reduction in the number of employees the Bank is assuming that measures initiated to reduce costs will be implemented successfully.

Risks

If the cost-saving measures are not implemented as planned, it cannot be ruled out that some costs cannot be reduced to the extent desired or not as quickly as planned. Unexpected cost increases in individual divisions could offset any cost reductions achieved in other areas.

It cannot be excluded that the reduction in headcount associated with the measures is not implemented as planned or results in higher operational risk. The risk of losing key expertise may also be increased as a result of the personnel measures taken.

Furthermore, the constantly increasing regulatory requirements could result in higher expenses than expected.

Forecast for loan loss provisions

HSH Nordbank expects that further loan loss provisions will be required for the legacy portfolios in 2015, although the amount should be lower than in 2014. In 2015 the focus of loan loss provisions will continue to be on problem shipping loan commitments in the Restructuring Unit and the Core Bank. HSH Nordbank's other core business fields should only require a relatively low level of loan loss provision expense in 2015 in view of the stable developments.

The currency translation gain or loss recorded in loan loss provisions is strongly influenced by the movement in the EUR/USD exchange rate and would have a significant impact on loan loss provisions before compensation under the second loss guarantee on an increasing weakness of the euro, although the effect of the exchange rate movement will be gradually reduced accordingly by the further reduction in the U.S. dollar legacy portfolios.

If the currency translation relates to guaranteed portfolios, it is compensated for by the guarantee. For foreign exchange positions held in portfolios not covered by the guarantee hedging instruments continue to be used.

Loan loss provisions to be recognised for legacy portfolios will still be largely compensated for by the guarantee in 2015. The reversal through profit and loss of additional premiums resulting from the temporary debt waiver of the guarantors in particular will have a positive effect. This is recognised in accordance with the guarantee structure to ensure a CET1 capital ratio of 10% (capital protection clause). Overall, it is expected that the reduction in the loan loss provisions will be lower than in the previous year due to a lower compensation effect under the guarantee, including a lower debt waiver, both in the Core Bank and in the Restructuring Unit.

The relieving effect provided by the guarantee will be reduced by the additional premium expense. Furthermore, outside the loan loss provisions plans continue to be based on the assumption of a high current base premium for the guarantee.

In long-term risk provisions HSH Nordbank is still assuming that the payment defaults in the portfolio covered by the second loss guarantee will exceed the amount retained by the Bank of € 3.2 billion starting from 2019 and will then result in actual payments being made under the second loss guarantee. After deducting the amount retained by the Bank, the expected drawdown of the guarantee based on current estimates totals € 2.1 billion by 2025 and is therefore € 0.5 billion higher over the long term than previously expected.

This is mainly attributable to the expected movement in the EUR/USD exchange rate in the planning period and the reduced charter rate forecasts. This has an effect on the amount of the expected payment defaults, as the existing loan loss provisions for the guaranteed portfolio are partially held in US dollar. The largest share of the expected payment defaults is attributable to the Restructuring Unit's portfolios.

The loan loss provision plan is based on valuation models that also take into account the regulatory environment, risk parameters over time as well as the Bank's empirical values in critical situations in addition to portfolio developments and key macroeconomic data. In addition, a key driver of the amount of loan loss provisions is the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of individual valuation allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of a specific loan loss provision based on the assumption of a workout). Furthermore, the estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy and in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant potential to reverse impairment losses in the future. Details on the loan loss provision plan and expected payment defaults are set out in the "Default risk" section ("Planning for loan loss provisions and losses") in the Risk Report.

Opportunities and risks in the forecast for loan loss provisions

Opportunities

A lower need for loan loss provisions could be expected, if the relevant market parameters and the macroeconomic environment developed more favourably than assumed. It is conceivable that the world economy could grow more strongly in 2015 than forecast, which in turn could support a gradual recovery of the shipping markets.

The speedy winding down of the loan portfolios in the Restructuring Unit could reduce loan loss provisions in the future to a greater extent than expected.

An appreciation in the EUR/USD exchange rate would accordingly reduce total loan loss provisions for the guaranteed US dollar portfolio as a result of the currency effect and would tend to reduce the amount of expected payment defaults in future.

Risks

Estimates regarding the long-term trend in loan loss provisions as well as loss planning and, consequently, the final drawdown of the second loss guarantee are subject to considerable uncertainty due to the very long planning horizon. This applies in particular to the movement in the US dollar exchange rate and key market parameters in the shipping industry such as cargo and charter rates, which are key factors for determining the loan loss provisions.

In view of the existing or increasing overcapacity in the shipping markets, also due to low liquidity costs, it cannot be ruled out that the extent and timing of the market recovery and the recoverability of individual commitments may not be achieved in the planning period as assumed in the loan loss provision plan. In the long term, this could have a significant impact on the total expected payment defaults and thereby on the drawdown of the guarantee.

Developments regarding the situation in other sectors may also be worse than expected and require higher loan loss provisions as a result.

A sharper than planned depreciation of the EUR/USD exchange rate would tend to increase the amount of expected payment defaults, as the loan loss provisions for the guaranteed portfolio are partially held in US dollar.

It can also not be ruled out that the euro sovereign debt crisis in Europe will flare up more strongly again, which could lead to a weakening in the Bank's relevant markets. This in turn could result in additional impairment losses having to be recognised in the Bank's high-risk portfolios. Market turbulence in emerging countries as well as geopolitical risks, such as those surrounding Russia and Ukraine, could have a negative impact.

Unscheduled losses may be incurred, if additional assets were to be sold in an unfavourable environment as part of the targeted acceleration of the reduction of risk or the recovery strategy, particularly the Bank's willingness to continue to finance problem loans, is changed. A change in the recovery strategy and, as a result, the recognition of loan loss provisions based on the assumption of the resolution of loan commitments would restrict the recognition of planned future reversals of loan loss provisions due to the planned recovery in the shipping markets.

Other charges would result if the alternative structural solutions for the portfolio were not implemented as planned.

Capital and RWA forecast

The results of the ECB's comprehensive assessment showed that the Bank has a solid capital position and that the guarantee is achieving the intended compensation effect. HSH Nordbank is assuming that the capital ratios will also be at a solid level in 2015. As part of the gradual implementation of Basel III HSH Nordbank expects to be able to again disclose at the 2015 year-end a regulatory CET1 capital ratio of 10% plus a buffer under the guarantee at Group level as well as at the level of the single entity – both under the applicable Basel III transitional rules (phase in) as well as under the assumption of full implementation of the Basel III rules (fully loaded) – despite the increased requirements. This demonstrates that HSH Nordbank is well prepared for any additional regulatory capital requirements in the current year, for example as a result of the Supervisory Review and Evaluation Process (SREP) in the Banking Union.

RWA are influenced primarily by the increase in new business, winding down of portfolios in the Restructuring Unit and movement in the US dollar. The amount of the guarantee facility also affects the RWA under the guarantee. Overall, HSH Nordbank expects that the increase in new business will have a slightly stronger impact than the further reduction in the portfolios. HSH Nordbank is therefore assuming for this year a slight increase in RWA after the guarantee effect for both the Group and the single entity.

A key objective of HSH Nordbank is to reduce the guarantee facility of € 10 billion against the backdrop of the ongoing winding down of the troubled assets on the balance sheet and high premium expense for provision of the guarantee. Gradual reductions up to 2017 are included in the planning period that take the progress made in winding down the high-risk legacy portfolios and the risk situation into consideration.

Opportunities and risks in the capital and RWA forecast

Opportunities

Opportunities for capital ratios and RWA result primarily from favourable trends in the relevant market and risk parameters, the speedy reduction in risk in the Restructuring Unit and a positive outcome of the EU proceedings.

Despite fluctuations in the EUR/USD exchange rate a stable CET1 ratio is expected for 2015 based on the assumed exchange rates. This is attributable to the additional premium buffer and the additional guarantee buffer resulting from the difference between the regulatory minimum risk weight and the significantly lower calculated risk weight, which together give rise to a protection effect for the capital ratio even on larger movements in exchange rates.

Reductions of the guarantee facility could occur at a later date than currently planned if this is required by the risk or capital situation. This would provide a relieving effect for RWA and strengthen the capital ratios.

A more extensive reduction in troubled assets and portfolio adjustments could enable HSH Nordbank to offset any higher capital requirements or reduce the guarantee facility even more in the planning period, if this were to be compatible with the capital and risk situation, for instance with regard to the US dollar trend and expiry of the guarantor's liability (Gewährträgerhaftung).

Risks

Material risks for the capital ratios and RWA result from a potential deterioration in market and risk parameters including the exchange rate trend, a lower than planned reduction in portfolios and the regulatory environment.

It can be expected that additional and changing capital requirements will result from the future SREP process in the Banking Union, given the fact that individual capital ratios have already been assigned to banks, including HSH Nordbank. The capital ratios may also be adversely affected by discretionary decisions made by the supervisory authorities.

The forecast of the medium-term CET1 ratio is also based on the assumption that the operation of the guarantee structure remains unchanged under the regulations currently applicable to securitisations. Any tightening of the regulatory securitisation framework under Basel 3.5, which is expected to be in force from 2018 onwards, may significantly reduce the effectiveness of the guarantee.

The movement in the EUR/USD exchange rate has a marked effect on the RWA trend. A lower than planned exchange rate would tend to reduce the protection effect of the guarantee buffer, as RWA would increase.

New regulatory requirements or accounting rules (such as IFRS 9 from 2018) may also adversely affect the capital ratios in the future.

Funding forecast

Since HSH Nordbank fully achieved its overall refinancing objectives in the past year, the Bank is assuming that its diversified funding strategy will also be successfully implemented in 2015. The Bank's asset business will continue to be refinanced primarily by providing bond products for the client business of savings banks and also increasingly for other financial institutions as well as through the placement of bonds with institutional investors and the deposit business transacted with the Bank's corporate clients.

The funding plan is based on access to the relevant markets including the German Savings Banks Association and other financial networks as well as on a stable rating.

Another focus is on the issuing of covered bonds (Pfandbriefe) as private placements as well as on the public capital market, to the extent permitted by market conditions. An additional form of potential funding is asset-based transactions, to which HSH Nordbank attaches great importance especially for the refinancing of the US dollar asset business.

The expiry of the guarantor's liability at the end of 2015 will pose a special, structural challenge. The significant volume of issues (€ 19 billion) covered by the guarantor's liability (Gewährträgerhaftung) that fall due in the period up to 2016 is to be continued to be refinanced on the one hand as planned via funding measures as part of the defined strategy and will be offset on the other by the ongoing reduction of the assets of the Restructuring Unit.

In this respect, HSH Nordbank has improved its liquidity structure in the past year. Starting from a high level HSH Nordbank expects the regulatory liquidity ratio as defined in the Liquidity Regulation (LiqV) to decrease moderately in the full year 2015 as part of the liquidity management process. At the same time the ratio is expected to be well above the required minimum values at all times. The movement in the EUR/USD exchange rate has a greater impact on the liquidity position. The current low exchange rate of EUR/USD 1.10 is reflected in the plan for 2015.

Opportunities and risks in the funding forecast

Opportunities
The fulfilment of the funding objectives is mainly influenced by external factors. A continued positive capital market environment should support the implementation of the issuing strategy in 2015. A sustained expansive monetary policy on the part of central banks and the associated expansion of liquidity are likely to have a positive impact on the refinancing options and costs in the market.

Access to capital markets which is currently not unlimited, would improve significantly by the expected positive outcome of the EU proceedings, since this would eliminate a significant factor of uncertainty. This is also of key importance for assessments made by the rating agencies. Like this, ratings that are continued to be confirmed as investment grade would significantly underpin the implementation of the funding targets.

Stable access also in unfavourable market conditions to refinancing sources that are not dependent for the most part on the performance of the capital markets such as the German Savings Bank's Association and other financial networks as well as to secured refinancing sources such as Pfandbriefe and asset-based funding, which is also important for refinancing US dollar business, is paramount.

The movement in the EUR/USD exchange rate is also relevant for the liquidity situation, as changes in the US dollar exchange rate have an effect on the amount of liquidity to be provided as cash collateral for derivatives (basis swaps) used partly for US dollar funding purposes. On a depreciation of the US dollar the cash collateral to be provided would decrease, thereby improving the liquidity position.

Risks
Should tensions in the financial markets, which may be caused by a wide range of factors such as geopolitical conflicts, increase again, this would tend to make funding measures more difficult. For example, a more restrictive central bank monetary policy originating from the USA could significantly limit the refinancing options and increase funding costs. Lastly, despite the refinancing successes achieved in the past year, there is no unrestricted access to the capital markets which is particularly due to the fact that the EU proceedings have not yet been concluded.

Should access to other refinancing sources such as the German Savings Bank's Association and other financial networks be hampered, this would severely limit the funding options.

Potential rating downgrades, which cannot be ruled out in view of the renewed scrutiny by Moody's and Fitch due to regulatory changes of numerous banks in Europe, including HSH Nordbank, would make it more difficult to take up funding through the capital markets and also trigger outflows of funds and increase the costs of funding. A rating downgrade by Moody's would result in a rating outside investment grade.

Most of the assets denominated in foreign currency are refinanced via derivatives (for example via EUR/USD basis swaps). An appreciation in the US dollar results in an increase in the cash collateral to be provided and therefore in pressure on the liquidity situation under similar conditions. In the event of an unfavourable exchange rate trend below the planned rate the Bank would have to take additional action to ensure an adequate liquidity position.

The Bank has prepared a series of options for this eventuality, which include, on the one hand, additional funding measures and, on the other, target a sharper reduction in the assets to be refinanced, for instance through the sales of loans and securities and reducing the expansion of new business. These possible measures could have a negative impact on earnings.

It is essential that the planned funding measures be implemented and that the balance sheet can be further reduced as planned in order to offset the issues covered under the guarantor's liability (Gewährträgerhaftung) that are falling due until 2015. In the worse-case scenario balance sheet assets would have to be reduced further at short notice, which could result in unscheduled losses.

The regulatory liquidity ratio of the German Liquidity Regulation (LiqV) would deteriorate as a result of, for example, a decrease in the short-term deposit volume regardless of conscious control decisions taken. Additional liquidity requirements could arise under the ECB's SREP process.

Further information on liquidity risk is set out in the "Risk report" section.

EU state aid proceedings

Since HSH Nordbank passed the comprehensive assessment, HSH Nordbank has focused particularly on the positive and speedy conclusion of the EU proceedings regarding the replenishment of the guarantee facility. The replenishment of the second loss guarantee from € 7 billion to € 10 billion executed by the federal state owners in June 2013 against the backdrop of changed underlying conditions and future regulatory requirements were provisionally approved by the EU Commission. This guarantee measure has considerably strengthened the Bank's CET1 capital ratio and made a decisive contribution to passing the stress test in the ECB's comprehensive assessment. The ECB and EBA fully recognised the second loss guarantee of € 10 billion for the purposes of the comprehensive assessment.

The provisional approval of the replenishment of the guarantee facility and change in the guarantee agreement is valid until the final decision of the EU Commission is issued. Whilst, in the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein as well as HSH Nordbank, the guarantee measure is in line with the framework, under which the provision of the guarantee to HSH Nordbank was approved by the EU Commission in 2011, the latter considers the replenishment of the guarantee facility to be new state aid that requires an assessment to be made of the updated corporate plan in the current market and competitive environment of HSH Nordbank.

Since the successful conclusion of the comprehensive assessment of the ECB discussions between the Management Board of the Bank and the Supervisory Board and the majority federal state owners, Schleswig-Holstein and Hamburg, as well as with the EU Commission are pursued intensively. These go beyond the Bank's current plan and address further structural measures, the aim of which is to improve the sustainability and resilience of the business model against the backdrop of the expected market and competitive conditions and to ensure final approval by the EU Commission of the replenishment of the guarantee. The objective upon conclusion of the EU state aid proceedings is to establish HSH Nordbank as a structurally profitable bank in the market, which can effectively meet current requirements regarding the building up of capital from its own resources.

The restructuring of the guarantee in order to thereby ease the burden on the expense side of HSH Nordbank's income statement and strengthen the capital base is one of the structural measures discussed with the EU Commission and the Bank's federal state owners. The objective is therefore to reduce the amount of the guarantee fees to an appropriate level in the future more in line with the continuing reduction of risk and not only by the planned gradual reduction of the guarantee facility. It is important to note in this connection that HSH Nordbank has already provided substantial compensation for state aid since 2009, which includes, in addition to the premiums paid to the guarantors, the reduction of total assets and discontinuation of business fields in accordance with the conditions imposed.

A further objective is to amend the existing guarantee agreement to facilitate the future reduction or restructuring of the troubled assets. Portfolio adjustments could be made that allow the Bank to reduce risk even more sharply. In this context, particular focus is placed on the shipping portfolio, which accounts for a large part of the remaining troubled assets.

HSH Nordbank should be prepared with the measures described for further increases in capital and liquidity requirements set by the new Supervisory Review and Evaluation Process (SREP) in the Banking Union.

The measures presented that serve to relieve the income statement as described above and/or to strengthen the capital base are supported by the federal states taking due account of their financial interests and actively discussed in the ongoing discussions with the EU Commission. Their implementation requires the consent of the Hamburg City Parliament (Bürgerschaft) and the Schleswig-Holstein Parliament.

In view of the tangible progress made in implementing the business model, rigorous implementation of the EU conditions, including the repayment of state aid in the form of the guarantee premiums paid as well as the recognition of the total amount of the guarantee in the ECB's comprehensive assessment, HSH Nordbank is generally confident that the EU proceedings can be brought to positive conclusion taking the further structural measures into account. HSH Nordbank is seeking final approval by the end of the first half of 2015, whereas the time frame is set solely by the EU Commission.

Opportunities and risks in the EU state aid proceedings

A successful conclusion of the EU state aid proceedings would end a period of uncertainty regarding the outcome of the proceedings for HSH Nordbank employees, clients and capital markets participants. At the same time this would make it possible for the Bank to continue to successfully implement its business model in order to be able to exist in the challenging market environment on a sustained basis.

In the event that the outcome of the EU proceedings should not be positive for HSH Nordbank, this would significantly jeopardise the further implementation of the business model and thereby the Bank's future prospects.

The going concern assumption of the Bank for accounting and measurement purposes is based in particular on the presumed approval by the EU commission, under consideration of further structural measures to be implemented, of the replenishment of the capital relief guarantee and the final clearance to the amendment of the guarantee agreement following the preliminary approval given in June 2013. Furthermore, it is based on the assumption that approval will only be connected to requirements that can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of HSH Nordbank`s business model by market participants and other relevant stakeholders be maintained.

Net income forecast and overall appraisal

With the market successes achieved in the Core Bank, the ongoing winding down of troubled assets in the Restructuring Unit and increased cost savings HSH Nordbank has created an important base for further development. Over and above the Bank's current plan the objective is to implement further structural measures to improve the sustainability and resilience of the business model and Group earnings against the backdrop of the market and competitive conditions to be expected and to secure the final approval of the replenishment of the guarantee by the EU Commission.

Major challenges and uncertainties arise primarily from the ongoing difficult situation in the shipping industry, pending final approval of the replenishment of the guarantee facility within the EU state aid proceedings, changing assessments made by the rating agencies as well as structural challenges in the areas of capital and funding.

These give rise to corresponding uncertainties regarding the achievement of the forecast developments. HSH Nordbank is confident that it will further develop the Bank on a forward-looking basis in line with its demanding plan and be able to meet the challenges facing it.

The expected operating progress made on the income and cost side will make a considerable contribution to strengthening HSH Nordbank. Net income before taxes will also be characterised in 2015 by the loan loss provision trend. It is expected that the debt waiver in particular will have a considerably lower relieving effect than in the previous year. It is nevertheless expected that the Core Bank will generate a significantly improved net income before taxes due to the advanced implementation of the business model. HSH Nordbank is assuming a significant net loss before taxes for the Restructuring Unit due to the lower amount of relief provided by the debt waiver and further reduction in the portfolios. A positive net income before taxes, albeit significantly lower compared to the high pre-tax income for 2014, is again planned for the Group based on these developments.

The plans of HSH Nordbank with respect to the servicing of the hybrid capital reduced by accumulated loss participations, to be able to make coupon payments on silent participations and profit participation capital for the 2017 financial year again, remain unchanged. Risks in this respect remain from the pending conclusion of the EU proceedings. In addition, HSH Nordbank's plan needs to be implemented as intended and the risks described in this Management Report do not materialise.

Return on equity for the Core Bank calculated on the basis of the planned net income before taxes increases significantly, whilst a substantial decrease is expected for the Group after the increase in the year 2014. The operating progress made on the income and cost side will be reflected in the cost-income ratio. A significant improvement in this ratio is expected for the Core Bank, whilst the ratio for the Group should improve slightly.

Overall, HSH Nordbank is confident that a sustainably profitable business model can be established on the basis of the continuation of the successful client business, the restructuring measures initiated and targeted structural adjustments, which will enable the Bank to meet future capital requirements from its own resources.

Details on the bank-specific risk types are explained in the following section "Risk report".

RISK REPORT

RISK MANAGEMENT SYSTEM

Principles of risk management

Active risk management represents a core component of the overall bank management at HSH Nordbank. The current version of the Minimum Requirements for Risk Management (MaRisk) laid down by the Supervisory Authorities serves as the main framework for the design of our risk management system.

HSH Nordbank defines risk as the threat that unfavourable future developments may adversely affect the Bank's assets, earnings or financial position.

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

Risk management objectives and the measures used to achieve these objectives are defined in the risk strategy and sub-risk strategies on the basis of the planned development of the main business activities. The main focus is on ensuring the risk-bearing capacity and liquidity of the Bank. Specifically, this involves the allocation of scarce resources such as risk coverage potential and long-term liquidity taking into account risk tolerance, strategic business goals, the market environment and the existing portfolio. The risk strategy is supplemented by guidelines for granting loans (Credit Standards) and Investment Guidelines which contain detailed rules and regulations concerning the individual business areas of HSH Nordbank.

The major rules on the methods, processes and internal organisation used for risk management are documented in the Credit Manual of HSH Nordbank, in separate process descriptions for the individual risk types as well as in individual illustrations of the internal organisation and are published throughout the Bank.

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

Organisation of risk management

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

The Risk Committee of the Supervisory Board is responsible for reviewing HSH Nordbank's overall risk tolerance and strategy and supports the Supervisory Board in monitoring the implementation of this strategy. The Risk Committee is regularly informed of the Bank's risk position and risk management by the Management Board in meetings.

The responsibility for risk management of HSH Nordbank lies with the Management Board. This also includes the methods and procedures to be applied for measuring, managing and monitoring risk. As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling, including risk monitoring, as well as for the back office functions of the Core Bank. In detail this includes the divisions Group Risk Management, Credit Risk Management (I and II) as well as Loan and Collateral Management.

Group Risk Management develops the methods and tools for identifying, measuring, managing and monitoring risks and is responsible for a significant number of tasks of operative portfolio management.

Among the tasks of Credit Risk Management are the preparation of the credit risk analysis, including the determination of the internal rating and the drawing up of the credit application for normal and intensified loan management cases of the Core Bank as well as the structuring of the processes and regulations for the lending business of HSH Nordbank. Loan and Collateral Management is responsible for the settlement and administration of the lending business as well as for obtaining and ongoing valuation of loan collateral.

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

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

As an internal winding down unit of HSH Nordbank, the Restructuring Unit (RU) existing since 2009 is fully integrated into the Group's risk management process. The risk methods and processes of the Core Bank apply to the Restructuring Unit accordingly. The Restructuring Unit, which is established as a back office department in terms of organisational and operational structure, is responsible for the positions of business areas no longer of strategic importance and all restructuring activities of HSH Nordbank. It is in charge of preparing the credit risk analysis, including determining the internal rating and drawing up the credit application for the business assigned to it as well as for designing and documenting the processes for the securities, restructuring and workout business assigned to the Restructuring Unit. The Core Bank remains responsible for decisions on Core Bank restructuring cases.

Internal Audit reviews the effectiveness and appropriateness of risk management and of the internal control system.

The CRO and the board member responsible for the Restructuring Unit make decisions independently of the members of the Management Board responsible for the market or trading divisions. In this way the separation of functions required under the regulatory rules between the market and trading divisions on the one hand and risk controlling, settlement and control as well as back office on the other is taken into account at all levels of the Bank from an organisational perspective.

Business areas are managed in line with uniform Group standards on the basis of a global head principle. Based on this, the heads of the individual divisions as the respective Global Heads are responsible on a worldwide basis for the strategy of the business areas assigned to them and have the disciplinary responsibility for the employees active in their business area. The Global Heads are supported by the head of the respective foreign branch (General Manager) in the implementation of the strategy on-site in the foreign branches whilst maintaining the separation of duties in accordance with MaRisk. The General Manager is responsible for compliance with local legal and regulatory requirements. The global head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

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

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

Risk management by a central committee structure

The Management Board has established committees that support it in monitoring and managing all material risks. Besides the members of the Management Board the committees are composed of the heads of the risk and other departments in order to ensure that information regarding questions on risk is regularly exchanged. Insofar as internal or external regulations do not permit delegation of decisions to the committees, such decisions are prepared by these committees for approval by the Overall Management Board.

The Asset Liability Committee (ALCO) under the chairmanship of the Chief Financial Officer (CFO) is the central committee responsible for managing capital and liquidity resources. Its tasks include the management of capital, including limit management, as well as making decisions regarding measures for managing the short- and medium-term liquidity position and the strategic liquidity maturity transformation, among other things. This also includes the specification of internal liquidity transfer prices.

The Transaction Committee (TC) is a sub-committee of the ALCO. The utilisation of the resources liquidity, economic and regulatory capital as well as balance sheet volume at the level of material new transactions and principal prolongations is managed by the TC in terms of an active portfolio management process.

The Business Review Meeting (BRM), chaired by the Chairman of the Management Board and with the involvement of the other Board members as well as members of the management of the Bank, monitors on a quarterly basis the achievement of targets by the divisions with regard to new business, income and costs and discusses other general topics of strategic importance. The analysis is used as a basis for identifying any plan variances and initiating any possible measures at an early stage, such as the reallocation of income or cost targets.

The objective of the Group Risk Committee (GRC) is the monitoring and management of all significant risks to HSH Nordbank, in order to secure the risk-bearing capacity at all times, on the basis of the risk tolerance of the Bank. To implement this objective, the GRC under the chair of the CRO in particular deals with reports and analyses on the individual risk types, the results of the stress tests and methodical further development of the risk steering models.

The MaSan Committee formed in 2014 monitors the trend in recovery and early warning indicators defined in HSH Nordbank's recovery plan in accordance with MaSan (Minimum Requirements for the Design of Recovery Plans), performs an assessment of the overall financial situation and reports on this to the Overall Management Board. The objective is to enable the Management Board to take appropriate action if HSH Nordbank's situation deteriorates in order to ensure its financial stability.

The other key committees mainly include the Provisioning Meeting that deals with the loan loss provision trend and material loan loss provision cases (members: CRO, the chief representative (Generalbevollmächtigter, GBV) of the RU, heads of the relevant divisions), the NPNM decision-making committee (members: heads of the relevant divisions), the Project Portfolio Board (members: CFO, GBV of the COO division, heads of the relevant divisions), the OpRisk Committee (members: CRO, GBV of the COO division, heads of the relevant divisions), the Concentration Management Meeting (members: CRO as well as Management Board members/GBV and heads of the relevant divisions) and other committees of foreign branches.

Risk reporting and measurement systems

HSH Nordbank maintains a central data storage system, which takes into account supervisory requirements, for the purposes of analysing, monitoring and reporting risks. Risk reporting for the Restructuring Unit is generally carried out, as for the Core Bank, by means of the management and reporting systems of the Group Risk Management division. The risk management systems put in place ensure effective risk management and are adequate with regard to HSH Nordbank's profile and strategy.

The following key reports are prepared for the overall risk:

- The MaRisk Risk Report constitutes the core element of risk reporting to the Management Board and the Risk Committee. It is prepared quarterly and shows HSH Nordbank's overall risk position together with detailed information on the material risk types.
- Furthermore, the Management Board is informed monthly of HSH Nordbank's overall situation with respect to the key value drivers, especially income, costs, liquidity and risk in the Finance and Risk Report.
- The MaSan Committee and the Overall Management Board are informed of the development of the recovery and early warning indicators by way of regular MaSan reporting.

Other overall risk reports include the Disclosure Report under Part 8 of the Capital Requirements Regulation (CRR), the Risk Report in the Annual Report, the Solvency Report as well as the NPNM MaRisk Report. In addition to reports on the overall risk there are reporting tools based on the risk type, which are described in the following chapters.

Internal control system

Bank-wide internal control system

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

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

- prioritisation of (sub-)processes in accordance with inherent risk
- updating/collecting the process, risk and control documentation
- assessment of the appropriateness of the controls
- assessment of the effectiveness of the controls (testing)
- determination of measures to be taken with regard to weaknesses identified in the controls
- final assessment after implementation of the measures (re-testing)

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

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

In order to ensure that the system is functioning on a sustained basis, the process is closely monitored by means of continuous communication and governance throughout the Bank.

The bank prioritises the processes for running the control cycle annually based on their risk and their last cycle run. Approximately 73 % of the processes were prioritised for a run of the control cycle in 2014. It was possible to remedy all control weaknesses identified for these processes. The management of the outsourcing of material functions to external service providers by the ICS is reported to the Management Board on an annual basis. All defects reported as at 31 December 2013 in this regard were remedied on a timely basis.

Furthermore, subsidiaries of HSH Nordbank are classified annually as to the materiality of their respective processes for the Bank's ICS. The processes of all subsidiaries classified as material are integrated into the ICS management processes of the Bank.

Internal control system with regard to the accounting process

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

The accounting process is reviewed on a regular basis by the responsible member of staff in charge of the process and adjusted to the current framework conditions and requirements. The focus is on the identification of material risks and the implementation of measures to prevent these. In addition the accounting process is audited by the Internal Audit division from a process-independent perspective.

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

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

Regulatory requirements

HSH Nordbank determines the amount of regulatory capital backing required for default, market and operational risks as wells as for risks resulting from credit valuation adjustments (CVA) of OTC derivatives on the basis of the CRR. In this context the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. This means that the Bank takes consistent parameters into account for regulatory reporting and internal default risk management purposes. HSH Nordbank determines the amounts allocated to market risk positions in accordance with the predefined or optional standard procedures. HSH Nordbank takes account of operational risk under the standard approach. HSH Nordbank uses the standard method for CVA.

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

In accordance with the requirements of Part 8 CRR HSH Nordbank publishes material qualitative and quantitative information on equity capital and risks incurred in a separate Disclosure Report. As an institution that uses the IRB Advanced Approach, particular requirements apply to HSH Nordbank in this context. The document provides more information than statements made in this Annual Report on the basis of the accounting principles applied, as it provides a comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The Disclosure Report as at 31 December 2014 is available on our website, www.hsh-nordbank.de, about one month following publication of this Annual Report. With its publication HSH Nordbank complies with the third pillar of the Basel Accord (market discipline). The requirements regarding the disclosure of risk management objectives and policies in accordance with Article 435 (1) CRR and (2) (e) CRR are implemented in this Risk Report.

Risk-bearing capacity

HSH Nordbank has integrated a capital adequacy process (ICAAP) into its risk management pursuant to MaRisk in order to monitor and safeguard its risk-bearing capacity on a sustained basis. The management of the risk-bearing capacity takes place within the context of equity capital, risk and contribution margin management.

As part of the monitoring of our risk-bearing capacity we regularly compare the total economic capital required to cover all major quantifiable types of risk (overall risk) to the available amount of economic risk coverage potential. HSH Nordbank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

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

As at 31 December 2014, risk coverage potential amounted to € 7.7 billion (31 December 2013: € 8.7 billion). The main reason for the decrease is the maturity of subordinated liabilities at the end of 2015, which are no longer eligible as risk cover funds due to the low residual maturity.

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

Overall economic risk decreased by € 0.1 billion compared to the end of 2013 and amounted to € 2.8 billion as at the reporting date (31 December 2013: € 2.9 billion).

The utilisation of risk coverage potential amounted to 36 % as at the reporting date. The risk-bearing capacity was secured at all times during the period under review.

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

RISK-BEARING CAPACITY OF THE GROUP

(€ bn)	31.12.2014	31.12.2013
Economic risk coverage potential[1]	**7.7**	**8.7**
Economic capital required	**2.8**	**2.9**
of which for default risks[2]	1.5	1.5
for market risks	0.8	0.7
for liquidity risks	0.3	0.5
for operational risks	0.2	0.2
Risk coverage potential buffer	**4.9**	**5.9**
Utilisation of risk coverage potential (in %)	**36**	**33**

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

The risk tolerance of HSH Nordbank is determined as part of the annual preparation of the risk strategy and the Bank planning process. Amongst other things this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global limit). The buffer serves to cover any potential increase in the capital required in the event of adverse developments for HSH Nordbank as well as any non-quantified risks. The global limit and therefore the risk tolerance determined in the risk strategy were adhered to at all times during the course of the reporting year.

Stress tests

In addition to stress tests specific to risk types, we regularly conduct stress tests across all risk types in order to be able to better estimate the effects of potential crises on key parameters such as utilisation of the risk-bearing capacity, regulatory capital ratios and liquidity and thus HSH Nordbank's overall risk position. Both, integrated macro-economic scenarios, such as a severe economic downturn, as well as historical scenarios are calculated in this connection. The results are incorporated in HSH Nordbank's internal reporting system every quarter and are analysed on a regular basis by the Management Board within the framework of an action-oriented management dialogue. Besides the review of the appropriateness of the buffer of risk coverage potential, regulatory capital and liquidity maintained to offset stress effects, this analysis serves to discuss the need for options to strengthen the financial stability of the institution.

The framework linked to HSH Nordbank's recovery plan under MaSan has a comparable objective. It serves both the purpose of the early identification of any resource bottlenecks using appropriate indicators and their elimination in crisis situations by means of pre-defined options. The effectiveness of the options identified, the selected recovery and early warning indicators and related processes are reviewed in the recovery plan by means of specific scenarios within stress analyses.

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, HSH Nordbank carries out inverse stress tests at least once a year to identify scenarios which could endanger the Bank's ability to survive. This information is also used by HSH Nordbank's Management Board to discuss and decide upon any action required to ensure that the Bank is adequately capitalised and has sufficient liquidity.

In addition to the stress tests across all risk types HSH Nordbank established procedures for the early identification of negative developments at the level of individual risk types, which are discussed in the following sections.

In November 2014 HSH Nordbank passed the Comprehensive Assessment carried out by the European Central Bank (ECB) prior to the establishment of the European Banking Union. The Bank exceeded the minimum capital ratios in both the Asset Quality Review and the stress test. Further information on the Comprehensive Assessment is set out in the section Business developments.

DEFAULT RISK

HSH Nordbank breaks down its default risk into credit, settlement, country and equity holding risk.

In addition to the traditional credit risk, credit risk also includes counterparty and issuer risk. The conventional credit risk is the risk of complete or partial loss in the lending business as a result of deterioration in the counterparty's credit standing. A counterparty default risk exists in the case of derivatives and refers to the risk that a counterparty defaults during the term of a transaction and HSH Nordbank must cover the shortfall for the residual term by means of a new contract on the market at the price prevailing at that time which might be less favourable. Issuer risk denotes the risk that a loss is incurred on a financial transaction as a result of the default or deterioration in the creditworthiness of the issuer.

Settlement risk consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due, have not been met by both parties. Advance performance risk arises where HSH Nordbank has performed its contractual obligations but consideration from the contracting party is still outstanding.

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

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

All elements of default risk referred to are taken into account within the context of equity capital management. For risk concentrations and equity holding risks additional management measures are in place.

Organisation of default risk management

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

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

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

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

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

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

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

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

Default risk management

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

Key default risk parameters are the expected and unexpected loss. The expected loss is equivalent to the default which is expected within one year on a given probability of default (PD), loss given default (LGD) and exposure at default (EaD) for a borrower. The EaD is the expected loan amount outstanding taking into account a potential (partial) drawdown of commitments and contingent liabilities, that will adversely impact the risk-bearing capacity in the event of a default. The maximum amount, by which an actual loss can exceed the expected loss with a specified probability (99.9%) within a specified time period (one year) is described as the unexpected loss. PD, LGD and EaD are also relevant risk parameters in this context. Economic capital required is determined for internal steering purposes on the basis of the calculation of the equity capital backing in accordance with CRR taking due account of any adjustments that are justified on economic grounds. In addition, institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the CVA risk are taken into account in determining the economic capital required for default risks.

Economic capital required for default risks amounted to € 1.5 billion as at the reporting date after taking account of the second loss guarantee made available by the federal states of Hamburg and Schleswig-Holstein, and was almost unchanged compared to the previous year.

Rating procedures, LGD and CCF

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

HSH Nordbank uses rating modules for banks, corporate clients, international sub-sovereigns, country and transfer risk, insurance companies, leveraged finance, leasing and funds as well as for special financing for ships, real estate, projects and aircraft. These also use qualitative in addition to quantitative characteristics in determining the rating. The result is a probability at default (PD) for each borrower and hence an allocation to a concrete rating category. The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as EaD.

HSH Nordbank uses a differentiated LGD methodology for all rating procedures to forecast loss given default (LGD). Item-specific collateral recovery rates and borrower-specific recovery rates are estimated based on historic loss information. The respective default amount expected is determined from the EaD using the LGD.

As part of the annual validation process the predictive accuracy of the rating modules was reviewed in the reporting year with regard to the predicted probabilities of default using anonymous, aggregated data. In addition, the LGD and CCF processes were also validated and are being continually refined. All reviews have confirmed the full applicability of the models.

Risk concentrations

Within the framework of regular business segment analyses potential counterparty default risk concentrations, for example with regard to groups of connected clients (GcC), regions or industrial sectors in a broader sense, are identified and their systematic reduction is monitored. At the end of 2014 the material risk concentrations of HSH Nordbank were in the shipping portfolios of the Core Bank and Restructuring Unit which accounted for 23% of the overall portfolio as well as in the US dollar business which accounted for 34%. The shipping loan portfolios denominated in US dollars are included in both key figures.

An internal process, which reflects the regulatory requirements, was set up to monitor large exposure limits in accordance with Article 395 CRR. As a supplementary measure, the material counterparty concentrations in the portfolio are identified and reported quarterly to the Management Board and Risk Committee using risk-oriented parameters. Net rating-based upper limits are applied to new business to prevent future counterparty concentrations. Overdrafts under both procedures are discussed in the regular Concentration Management Meetings.

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

Equity holding risk

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

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

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

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

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

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

Default risk exposure

The figures in the following tables showing default risk exposure were converted from loan amount outstanding to EaD as the reporting date. For reasons of better comparability, the figures for the 31 December 2013 reference date were adjusted accordingly. The EaD corresponds to the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance-sheet transactions (taking credit conversion factors into account). The total loan amount outstanding was € 109,803 million as at 31 December 2014.

The EaD broken down by internal rating categories is presented in the following table. The EaD with an investment grade rating (rating category 1 to 5) at Group level accounts for € 60,738 million or 55% of the total exposure (previous year: € 63,462 million or 55%). The loan amount outstanding for investment grade exposures amounts to € 46,690 million or 64% (previous year: € 46,802 million or 66%) for the Core Bank and € 14,048 million or 38% (previous year: € 16,660 million or 38%) for the Restructuring Unit. 48% of the Overall Bank portfolio is covered by the second loss guarantee (previous year: 54%). For the Core Bank a share of 29% is guaranteed (previous year: 34%) and for the Restructuring Unit 85% (previous year: 86%). At 92% (previous year: 91%) the share of the guaranteed portfolio is particularly high in the default categories 16 to 18.

DEFAULT RISK STRUCTURE BY RATING CATEGORY[1)]

(€ m)	2014				2013			
	Core Bank	Restructuring Unit	**Total**	of which guaranteed (in %)	Core Bank	Restructuring Unit	Total	of which guaranteed (in %)
1(AAAA) to 1 (AA+)	20,296	6,829	27,125	24	18,930	7,842	26,772	31
1(AA) to 1 (A–)	10,721	2,738	13,459	27	12,588	3,289	15,877	32
2 to 5	15,673	4,481	20,154	38	15,284	5,529	20,813	47
6 to 9	15,521	4,002	19,523	47	12,923	5,264	18,187	60
10 to 12	2,210	1,423	3,633	83	2,369	2,001	4,370	79
13 to 15	2,149	3,435	5,584	81	2,314	5,418	7,732	87
16 to 18 (default categories)	6,303	13,522	19,825	92	5,783	13,836	19,619	91
Other[2)]	395	105	500	–	603	670	1,273	–
Total	**73,268**	**36,535**	**109,803**	**48**	**70,794**	**43,849**	**114,643**	**54**

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

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

The EaD broken down by sectors important for HSH Nordbank is presented in the following table:

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	2014			2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Industry	8,095	1,597	9,692	7,558	2,293	9,851
Shipping	15,791	8,378	24,169	14,563	9,237	23,800
Trade and transportation	3,867	2,076	5,943	4,422	2,571	6,993
Credit institutions	8,993	1,397	10,390	9,716	2,486	12,202
Other financial institutions	2,884	5,988	8,872	2,948	7,720	10,668
Land and buildings	9,469	6,633	16,102	7,815	8,374	16,189
Other services	6,312	2,588	8,900	5,997	3,377	9,374
Public sector	16,963	7,196	24,159	16,181	6,825	23,006
Private households	894	682	1,576	1,593	966	2,559
Other	–	–	–	1	–	1
Total	**73,268**	**36,535**	**109,803**	**70,794**	**43,849**	**114,643**

The following table shows the EaD broken down by residual maturities:

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES

(€ m)	2014			2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Up to 3 months	11,872	3,373	15,245	9,843	3,588	13,431
> 3 months to 6 months	2,333	1,516	3,849	2,714	1,439	4,153
> 6 months to 1 year	3,882	3,240	7,122	4,200	2,603	6,803
> 1 year to 5 years	32,241	12,834	45,075	31,089	18,945	50,034
> 5 years to 10 years	17,529	7,104	24,633	16,661	8,047	24,708
> 10 years	5,411	8,468	13,879	6,287	9,227	15,514
Total	**73,268**	**36,535**	**109,803**	**70,794**	**43,849**	**114,643**

The following table provides an overview of the foreign exposure by region, which reached € 50,827 million as at 31 December 2014 (previous year: € 57,495 million).

FOREIGN EXPOSURE BY REGION

EaD (€ m)	2014			2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Western Europe	15,229	13,772	29,001	15,906	17,338	33,244
of which eurozone countries	10,191	8,195	18,386	10,492	10,051	20,543
Central and Eastern Europe	1,083	465	1,548	1,098	543	1,641
of which eurozone countries	55	126	181	61	128	189
Africa	852	307	1,159	804	338	1,142
North America	5,636	5,083	10,719	6,675	6,323	12,998
Latin America	684	546	1,230	652	713	1,365
Middle East	56	949	1,005	64	868	932
Asia-Pacific region	3,178	2,046	5,224	2,772	2,411	5,183
International organisations	911	30	941	960	30	990
Total	**27,629**	**23,198**	**50,827**	**28,931**	**28,564**	**57,495**

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

Due to their unfavourable fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular Greece, Ireland, Italy, Portugal, Slovenia, Spain, Hungary and Cyprus. The exposure to Russia is also being monitored more closely as a result of the crisis concerning Ukraine.

The following table shows the EaD of the exposures in the European countries stated. HSH Nordbank's total exposure to these countries has decreased by 7% compared to the previous year and amounted to € 7,113 million in total as at 31 December 2014.

EXPOSURE AT DEFAULT IN SELECTED EUROPEAN COUNTRIES

(€ m)	Country		Banks		Corporates/Other		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Greece	6	7	–	–	1,224	1,118	1,230	1,125
Ireland	–	–	20	22	187	299	207	321
Italy	691	635	1	126	683	708	1,375	1,469
Portugal	270	266	3	3	51	58	324	327
Russia	–	–	6	8	128	102	134	110
Slovenia	90	90	–	–	16	18	106	108
Spain	211	216	134	534	1,592	1,660	1,937	2,410
Hungary	19	17	–	1	77	78	96	96
Cyprus	–	–	21	–	1,683	1,711	1,704	1,711
Total	**1,287**	**1,231**	**185**	**694**	**5,641**	**5,752**	**7,113**	**7,677**

The direct country exposure continues to be manageable. The commitments in the Corporates/Other sector for Greece and Cyprus relate primarily to ship financings, which do not entail transfer risk due to the existing collateral.

Note 55 includes more information on the selected European countries.

There is no exposure to Ukraine and there is no material exposure to Argentina, which has become the focus of public interest due to the current sovereign debt crisis.

Loan loss provisions

Within the framework of risk management, HSH Nordbank pays the most attention to default risk. Impairments of a loan commitment are shielded through the creation of individual valuation allowances for loans and advances or provisions for contingent liabilities in the amount of the potential loss in accordance with Group-wide standards. HSH Nordbank also recognises portfolio valuation allowances for latent default risks that have already occurred but are not yet known to the Bank as at the balance sheet date.

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

The overall trend in loan loss provisions, significant loan loss provision cases and potential changes to the loan loss provisions and the creation of new loan loss provisions are addressed in the monthly Provisioning Meeting, in which the CRO, the chief representative (Generalbevollmächtigter) responsible for the Restructuring Unit and the heads of the relevant departments participate.

The following tables show the loan loss provision trend by segment:

CHANGES IN LOAN LOSS PROVISIONS

(€ m)	01.01.–31.12.2014					
	Individual valuation allowances/ provisions	Portfolio valuation allowances	**Loan loss provisions before currency translation and compensation**	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Shipping, Project & Real Estate Financing	–437	–7	–444	–	–	–444
Corporates & Markets	–18	4	–14	–	–	–14
Corporate Center	–	–	–	63	–	63
Consolidation Core Bank	–3	–	–3	–164	497	330
Total Core Bank	**–458**	**–3**	**–461**	**–101**	**497**	**–65**
Restructuring Unit	–69	44	–25	–	–	–25
Consolidation Restructuring Unit	–	–	–	–238	904	666
Total Restructuring Unit	**–69**	**44**	**–25**	**–238**	**904**	**641**
Group	**–527**	**41**	**–486**	**–339**	**1,401**	**576**

CHANGES IN LOAN LOSS PROVISIONS[1]

(€ m)	01.01.–31.12.2013					
	Individual valuation allowances/ provisions	Portfolio valuation allowances	Loan loss provisions before currency translation and compensation	Net income from foreign currency from loan loss provisions	Compensation item	Total
Shipping, Project & Real Estate Financing	–630	–29	–659	–	–	–659
Corporates & Markets	–37	–2	–39	–	–	–39
Corporate Center	–	–	–	–2	–	–2
Consolidation Core Bank	5	1	6	47	253	306
Total Core Bank	**–662**	**–30**	**–692**	**45**	**253**	**–394**
Restructuring Unit	–1,177	156	–1,021	–	–	–1,021
Consolidation Restructuring Unit	–	–	–	91	491	582
Total Restructuring Unit	**–1,177**	**156**	**–1,021**	**91**	**491**	**–439**
Group	**–1,839**	**126**	**–1,713**	**136**	**744**	**–833**

[1] Since the 2014 year end the net income from foreign currency from the loan loss provisions is no longer allocated to the segments but disclosed in the consolidation of the Core Bank and the Restructuring Unit. The previous year figures have been adjusted for purposes of comparability. For details please refer to Note 49 (Segment reporting).

Net additions to loan loss provisions (before guarantee compensation and currency effects) of € – 486 million compared to € – 1,713 million in the previous year continue to be characterised by additions for problem shipping loans in the legacy portfolios of the Restructuring Unit and restructuring department of the Core Bank. This reflects the assessment that recovery in the shipping sector will be slow. On the other hand, a comparatively small amount of new loan loss provisions had to be recognised for other business fields and asset classes of the Bank.

The Restructuring Unit benefited from successful recoveries of international real estate loans and individual ship financings. This enabled higher reversals to be recognised and thereby reduced net loan loss provisions in the Restructuring Unit.

Against the backdrop of the movement of the US dollar the foreign exchange result to be recognised in loan loss provisions amounted to € – 339 million (previous year: € + 136 million). If the currency translation relates to guaranteed portfolios, it is compensated for by the second loss guarantee. For foreign exchange positions held in portfolios not covered by the guarantee hedging instruments are used.

Loan loss provisions recognised in particular for legacy portfolios were mostly compensated by the balance sheet hedging effect of the second loss guarantee (compensation item). The compensation item for 2014 also includes the relieving effect of the debt waiver by the guarantors of the additional premium.

After taking into account the compensating effects under the guarantee, the total amount disclosed for loan loss provisions was income of € 576 million (previous year: € – 833 million). Due to the determined internal mapping the Restructuring Unit benefited in the past year much more than the restructuring portfolio ship loans of the Core Bank from the guarantee effect despite the lower net loan loss provisions.

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

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

TOTAL LOAN LOSS PROVISIONS

(€ m)	**2014**	2013
Loans and advances to customers	67,336	68,469
Loans and advances to banks	6,915	5,158
Volume of impaired loans	13,303	13,824
Individual valuation allowances for loans and advances to customers	– 5,777	– 5,811
Portfolio valuation allowances for loans and advances to customers	– 343	– 360
Individual valuation allowances for loans and advances to banks	– 14	– 125
Portfolio valuation allowances for loans and advances to banks	– 1	– 1
Total loan loss provisions for balance sheet items	**– 6,135**	**– 6,297**
Provisions for individual risks in the lending business	– 47	– 89
Provisions for portfolio risks in the lending business	– 51	– 56
Total loan loss provisions for off-balance sheet items	**– 98**	**– 145**
Total loan loss provisions (before compensation item)	**– 6,233**	**– 6,442**
Compensation item	4,074	2,714
Total loan loss provisions (including compensation item)	**– 2,159**	**– 3,728**

The loss rate in the Group amounted to 1.00% in the reporting year (previous year: 0.68%). The loss rate is calculated based on the actually realised defaults as a ratio of the credit risk exposure. The total amount of actually realised defaults in 2014 was € 1,136 million (previous year: € 776 million) and the credit risk exposure € 113,255 million (previous year: € 113,507 million). The credit risk exposure includes all balance sheet and off-balance-sheet assets, taking account of the individual and portfolio valuation allowance for loans and advances to customers and banks that are subject to default risk. Total loan loss provisions (including compensation item) for the Group amounted to € – 2,159 million as at 31 December 2014 (previous year: € – 3,728 million).

Total specific loan loss provisions amounted to € – 5,838 million (previous year: € – 6,025 million), comprising individual valuation allowances of € – 5,791 million (previous year: € – 5,936 million) for loans and advances to banks and customers, € – 38 million (previous year: € – 75 million) for contingent liabilities and irrevocable loan commitments, and € – 9 million (previous year: € – 14 million) for other off-balance-sheet transactions.

The portfolio valuation allowances totalled € – 395 million (previous year: € – 417 million) and were composed of portfolio valuation allowances of € – 344 million (previous year: € – 361 million) for loans and advances to banks and customers and € – 51 million (previous year: € – 56 million) for contingent liabilities and irrevocable loan commitments.

Details regarding the total loan loss provisions are presented in Notes 15, 26 and 42.

Planning for loan loss provisions and losses

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

In planning additions to individual valuation allowances HSH Nordbank mainly relies on models that simulate the expected loss at the individual transaction level over the planning period based on parameters specific to the transaction. Scenario analyses based on cash flows and historical data regarding changes in loan loss provisions based on the expected loss or migrations from portfolio valuation allowances to individual valuation allowances are also taken into account.

Utilisation and reversals of loan loss provisions are planned on the basis of a statistical model that determines the general probability of the case being closed in the loss, recovery and direct write-down categories, the average loss per category and the probability of the case being closed based on the length of time that a loan loss provision has been in place using historical loan loss provision and loss data and forecasts future losses. The model is recalibrated on a quarterly basis in line with the actual loss trend.

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

On this basis the payment defaults expected on the planned expiry of the guaranteed portfolio amount to a total of € 5.3 billion as the end of the year 2014, of which a first loss piece of € 3.2 billion remains with HSH Nordbank. Further details on the second loss guarantee can be found in Note 3.

A key driver of the amount of loan loss provisions is the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of a specific loan loss provision based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of a specific loan loss provision based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy, in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant write-up potential in the future. Further information on the loan loss provision forecast and uncertainties associated with the long-term loan loss provision plan is set out in the Forecast, opportunities and risks report section.

Reports on default risk

The Management Board and Risk Committee are regularly informed regarding the risk content and future trend in the individual asset classes and sub-portfolios respectively by means of portfolio batch reports. In this context, particular importance is attached to risk concentrations.

Other regular reports on default risk include the capital and balance sheet assets limit utilisation report, problem loan report, new business and pipeline report, profit centre accounting, report on the rating validation results, rating migration report and the Solvency Report under CoRep (Common Solvency Ratio Reporting). These reports are supplemented with information on the monitoring and management of country risk.

MARKET RISK

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

Organisation of market risk management

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

Market risk was actively managed in the Capital Markets division in the year under review. The Strategic Treasury division performs the central management function for interest and foreign exchange risks in the banking book. The Asset Liability Committee is responsible for selected strategic positions exposed to market risk.

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

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

Market risk management

Market risk measurement and limitation

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

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

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

Where necessary, HSH Nordbank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements (e.g. with regard to interest rates, exchange rates) on its own positions. Derivative financial instruments in particular, such as interest rate and cross-currency interest rate swaps, for example, are used as hedging instruments. Further information on this and the type and categories of the hedging instruments and hedging relationships entered into by HSH Nordbank as well as the type of risks hedged is presented in the Notes. In particular we refer to Section I. F) of Note 8 "Accounting policies", Note 11 "Result from hedging", Note 27 "Positive fair values of hedging derivatives", Note 40 "Negative fair values of hedging derivatives" and Note 60 "Report on business in derivatives".

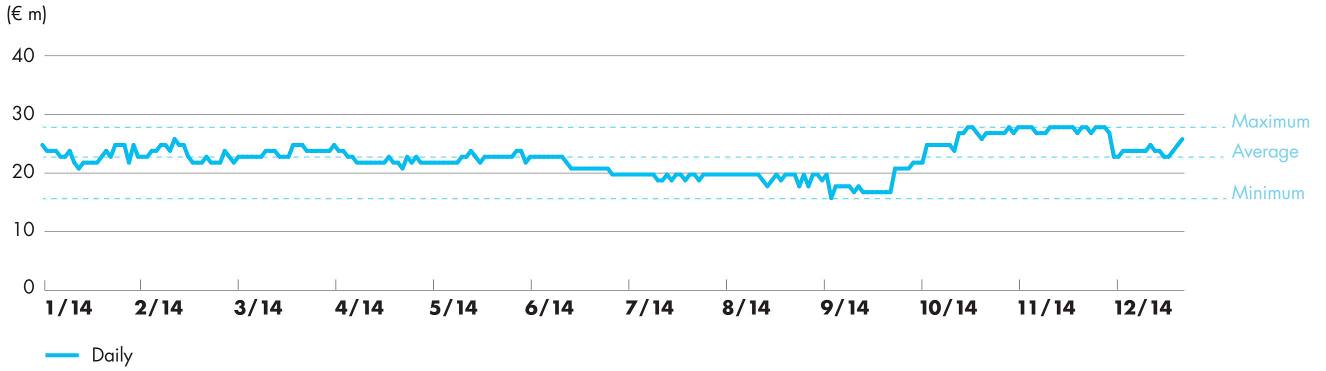
Market risks arising from the lending business and liabilities of the Bank are transferred to the trading divisions and taken into account in the corresponding risk positions. There they are managed as part of a proactive portfolio management process and hedged through external transactions.

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

Daily value-at-risk during the year under review

The following chart illustrates the movement in the daily VaR for the total trading and banking book positions of HSH Nordbank over the course of 2014.

Chart 18
DAILY VALUE-AT-RISK IN THE COURSE OF 2014



Market risk fluctuated between € 16 million and € 28 million. The key driver behind the reduction in the overall VaR in the first nine months of 2014 is the regular exclusion of volatile trading days from the historical simulation review period. The increase observed since October 2014 is attributable to the mapping of new volatile trading days in the historical simulation review period.

The VaR of the trading book positions amounted to € 1 million as at 31 December 2014, while that of the banking book transactions amounted to € 26 million. The overall VaR, which cannot be derived from the total VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 26 million as at the reporting date. This resulted in a limit utilisation of 74% based on a VaR limit of € 35 million.

The following table shows the change in overall VaR and the change in individual market risk types. The maximum and minimum represent the range over which the respective risk amount moved in the course of the year under review.

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]	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Average	9.1	30.6	18.4	31.5	11.3	7.2	2.3	3.2	0.2	0.2	22.7	28.8
Maximum	13.7	47.3	25.3	45.4	16.1	16.0	5.7	5.4	0.5	0.6	28.4	40.8
Minimum	6.2	7.4	15.3	19.0	8.0	2.2	0.8	1.3	–	0.1	16.2	19.9
Period end amount	12.1	7.4	18.4	19.2	9.9	12.2	1.1	4.3	0.1	0.2	26.0	26.0

[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.

Overall VaR remained virtually unchanged compared to the previous year's reporting date at € 26 million. With regard to the risk types there was an increase in the interest rate risk. The main reason for this is the mapping of new volatile trading days in the historical simulation review period.

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

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

The market risk that results on derivative positions from the change in the market's assessment of the creditworthiness of the counterparties is included for the first time in the VaR-amounts disclosed as at 31 December 2014. This did not have any material impact on the overall VaR.

Backtesting

HSH Nordbank performs regular backtests to verify the appropriateness of its VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecasted using historical simulation. Based on the assumption of the confidence level of 99% applied by HSH Nordbank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. In 2014 less than four outliers were recorded at the HSH Nordbank Group level at all times resulting in the quality of the Bank's market risk model being confirmed.

Stress tests

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

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

Reports on market risk

The Management Board is informed on a daily basis with regard to changes in market risk and results as well as limit utilisations and also receives detailed weekly and monthly market risk reports.

LIQUIDITY RISK

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

The risk of insolvency refers to the risk that present or future payment obligations cannot be met in part or in full. This is referred to as liquidity risk in the narrower sense. The key driver of this liquidity risk is the cash flow structure in the liquidity development report which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/currency/investor). In this regard the market liquidity risk, i.e. the danger that transactions cannot be sold or only at unfavourable conditions because of a lack of market depth, is reflected in the liquidity development report as a component of the insolvency risk. Another component of insolvency risk is the refinancing risk, i.e. the danger of not being able to obtain liquidity or not at the expected conditions if required. The refinancing risk is determined by the refinancing structure. Information on the refinancing structure can be found in Note 52 "Residual maturity breakdown of financial instruments" to the consolidated financial statements.

Liquidity maturity transformation risk refers to the risk that a loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge.

Organisation of liquidity risk management

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

The Group Risk Management division is responsible for the methods used to measure and limit liquidity risk within the Group and performs daily risk measurement and limit monitoring. The risk measurement results support Strategic Treasury in managing liquidity for all time buckets and enables it to counter possible risks at an early stage.

The ALCO is the central committee responsible for managing capital and liquidity resources. The utilisation of resources by material individual transactions is managed by the Transaction Committee in terms of an active portfolio management process.

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

Liquidity risk management

Measurement and limitation of liquidity risk

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

In addition to all on-balance-sheet business, loan commitments already granted, guarantees, transactions with forward value dates and other off-balance-sheet transactions are incorporated in the liquidity development report. Maturity scenarios are used for a number of positions to map economic maturities more effectively. In doing so any possible minimum levels of deposits as well as liquidation periods and realisation amounts of assets, for example, are modelled conservatively as a matter of principle. The modelling assumptions are regularly reviewed in accordance with MaRisk.

The liquidity potential available to close the gaps is composed of a securities portfolio held as a crisis precaution measure (liquidity buffer), further highly liquid and liquid securities, according to how liquid they are, unsecured funding options, secured funding potential from the issue of Pfandbriefe and industrial loans eligible for refinancing with central banks. In addition, the long-term funding potential from illiquid assets used as collateral is also taken into account. Most of the portfolio of securities and promissory notes is invested in liquid markets and can be liquidated via the refinancing channels, namely central banks, Eurex repo market, bilateral repo market or the cash market.

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

The liquidity-value-at-risk (LVaR) as a reflection of liquidity maturity transformation risk is calculated monthly through historical simulation (confidence level 99.9%) of the liquidity spreads and their present value effects on transactions, which would be necessary theoretically in order to immediately close the current maturity transformation position. In doing so, it is assumed that these hypothetical close-out transactions could actually be effected in the market and that full funding is therefore possible. LVaR limits are set at Group level and are part of the risk-bearing capacity concept.

Liquidity management

The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Capital Markets division based on general parameters specified by the Strategic Treasury division. In addition to the regulatory requirements the liquidity development reports are relevant amongst other things to determine these general parameters. Any setting of or change to the individual parameters or the framework requirements is decided by the ALCO. This places HSH Nordbank in the position to react flexibly to market developments.

The Strategic Treasury division bases its management of the medium-term liquidity base on the expected case liquidity development report, which includes the expected plan cash flows and is prepared for the over one year period.

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

Stress tests

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

Within the different stress modelling processes additional market-specific scenarios (e.g. severe economic downturn), institution-specific scenarios (e.g. rating downgrade of HSH Nordbank AG, capital market rumours) as well as a combined scenario (severe economic downturn and rating downgrade) are assessed for insolvency risk on a monthly basis in addition to the daily preparation of the stress liquidity development report. A stressed US dollar (gradual appreciation) is taken into account in the scenarios market liquidity crisis, severe economic downturn and the combined scenario.

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

Within the framework of a stress test for the liquidity maturity transformation risk it is analysed how the LVaR moves on increasing liquidity spreads. The stress LVaR serves as an indicator for the sensitivity of the LVaR to an increase in the spread/liquidity costs and constitutes an additional piece of management information.

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

Risk concentrations

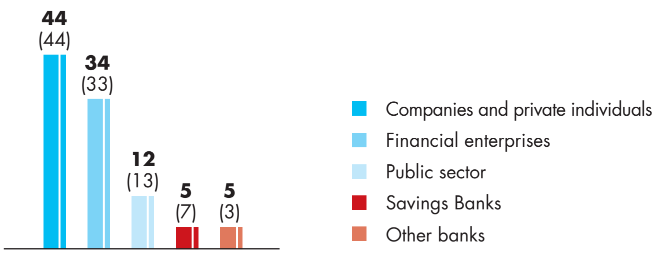
HSH Nordbank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities) and deposit drain risk.

The following chart shows the structure of our deposits by sector:

Chart 19

DEPOSITOR STRUCTURE AS AT 31 DECEMBER 2014[1)]

% (previous year figures)



[1)] In addition to call and term deposits this illustration also includes demand deposits for the first time. For reasons of better comparability, the figures for the 31 December 2013 reference date were adjusted accordingly.

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

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

Quantification of liquidity risk

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 December 2014 as well as at the end of 2013. 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 (in %)	Normal case		Stress case	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013
1st day	22	12	28	16
7th day	29	26	42	36
14th day	32	30	45	40
3rd week	34	35	51	47
4th week	38	36	57	50
2nd month	45	51	72	71
3rd month	51	55	81	79
6th month	65	63	101	95
9th month	71	71	115	110
12th month	94	78	146	126

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

In the normal case assessment that is based on the assumption of business development in an ordinary market environment, the liquidity potential had a peak utilisation of 94% in the 12th month as at the reporting date. All limits within the minimum survival period of 12 months defined by the Bank were thereby adhered to. The stress case liquidity development report (market liquidity crisis scenario – based on the assumption of a gradual increase in the US dollar, among other things) shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking Minimum Requirements for Risk Management (MaRisk) into account. In fact, the limits as at the end of 2014 are even adhered to for a period of five months. Compared to the end of 2013 there was no uniform trend in the utilisation levels in the normal case liquidity development report, whilst the utilisation ratios in the stress case liquidity development report increased across all maturity bands. The increase in utilisation in the 12th month is mainly attributable to the decreasing maturities of liabilities covered by the guarantor's liability (Gewährträgerhaftung). 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. Utilisation increased at the beginning of the year 2015 due to the appreciation of the US dollar against the euro, but did not reach a critical level.

The results of the market-specific and Bank-specific stress scenarios and the combined scenario determined in addition to the stress case liquidity development report show that as at December 2014 the liquidity requirement of HSH Nordbank was covered for four months up to 12 months despite the strict worst case assumptions for each scenario. A minimum survival period of one month is thereby maintained in all scenarios. The results show that HSH Nordbank is prepared accordingly for the crisis scenarios assessed.

In the year under review, the LVaR as an expression of the liquidity maturity transformation risk decreased to € 0.3 billion (31 December 2013: € 0.5 billion). The decrease is attributable to the elimination or reduction of long-term refinancing requirements as well as adjusted historical scenarios.

Regulatory liquidity ratios

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). With values between 1.82 and 2.15, HSH Nordbank's liquidity ratio remained above the regulatory minimum value at all times throughout the reporting year. The average value for 2014 was 1.96 (previous year: 2.06), and 1.99 at the reporting date (31 December 2013: 2.30).

Under Basel III the Liquidity Coverage Ratio (LCR) was specified as an additional ratio to ensure liquidity in an acute stress phase of 30 days. When calculating the LCR the amount of highly liquid assets is compared to the net outflows over the next 30 days. The ratio is to be complied with from October 2015, whereby the compliance rate increases from an initial 60% to 100% in 2018. As at the reporting date the LCR was 143% in the QIS (set of rules under Basel) and was therefore clearly above the future minimum limit.

The Net Stable Funding Ratio (NSFR), which must be adhered to from 2018 at the earliest, is calculated as the ratio of available funding resources across all maturities to the funding required and must also be at least 100% after full implementation. As at the reporting date the NSFR amounted to 96% in the QIS.

The LCR and NSFR figures are preliminary values.

Refinancing situation

The implementation of the funding strategy was successfully driven forward during the course of the year, resulting in the further strengthening of the liquidity profile. Besides the issuing activities a stable level of deposits contributed to the refinancing of the business. However, there exists no unrestricted access to the capital markets. This limitation is especially connected to the fact that the final decision concerning the new EU state aid proceedings is still pending. Future funding and HSH Nordbank's rating continue to be key challenges despite this positive development. The movement in the EUR/USD exchange rate is another influencing factor for the future liquidity situation. In the event of a sustained appreciation in the US dollar HSH Nordbank has prepared measures that, on the one hand, include additional funding activities and, on the other, aim at further reducing the asset volume to be refinanced.

Further information on HSH Nordbank's refinancing situation is set out in the Earnings, net assets and financial position and Forecast, opportunities and risks report sections.

Reports on liquidity risk

The CRO and divisions concerned are informed daily of the change in insolvency risk in the normal case and stress case. In addition, GRC and ALCO receive a liquidity risk report at least every month. In addition to the analysis of insolvency risk and maturity transformation risk in the normal case and stress case this includes an analysis of other stress scenarios, of liquidity risk arising on US dollar positions and depositor concentration risk.

OPERATIONAL RISK

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

Operational risks are determined in accordance with the regulatory standardised approach for the purposes of managing the risk-bearing capacity. The corresponding economic capital required amounted to € 0.2 billion as at 31 December 2014 (31 December 2013: € 0.2 billion).

Organisation of operational risk management

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

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

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

Operational risk management

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

Loss event database

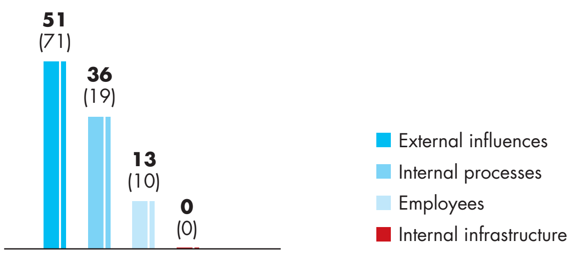
The loss events arising from operational risk are consolidated into a central loss event database for HSH Nordbank and relevant subsidiaries. The loss events are recorded locally by the divisions affected and forwarded to central risk controlling. The results of the analyses of actual loss events provide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

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

Chart 20

SHARE OF RISK CATEGORIES IN GROSS OPERATIONAL LOSSES 2014

% (previous year figures)



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

Risk inventory

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

Control of measures

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

Risk indicators

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

In addition to the methods mentioned above, specific procedures and responsibilities have been instituted within HSH Nordbank for the operational risk elements listed below.

Management of personnel risks

Personnel risk refers to the risk of losses that may occur as a result of the unplanned departure of key personnel of HSH Nordbank, shortage of skilled employees or poor motivation of employees. This risk could materialise particularly in light of the upcoming reduction in staff. The Human Resources division is therefore focusing increasingly on measures to reduce personnel risk. A large number of personnel management tools for employee retention are used to prevent the unscheduled departure of key personnel. In addition, headcount requirements are planned for a period of several years based on future operational needs to avoid bottlenecks by timely recruitment.

IT risk management

The IT division is responsible for IT risk management. In the IT strategy the division has defined as the primary objective of IT risk management to identify IT risks at an early stage, in order to be able to avert or reduce losses that may result, e.g. from an inadequate IT infrastructure on the basis of clear responsibilities. IT-specific risk tools are used by means of which risks are actively managed in projects and in the line functions and reduced by a monitored implementation of measures.

In 2014 IT risk reporting in the OpRisk committee was expanded. In addition it was possible to reduce IT risks further in the year under review by intensive project work.

Business continuity management

HSH Nordbank is exposed to risks arising from unforeseeable events such as severe natural disasters or terrorist attacks that may lead to an interruption of business operations and, as a result, losses and additional costs. Group Risk Management has established with the involvement of the relevant divisions processes to limit the risks arising from unforeseeable events. The objective of the business continuity plans to be prepared and periodically reviewed by each division is to ensure the functional capability of critical business processes and activities even in the event of an emergency. There are individual descriptions within the contingency plans to mitigate risks arising from the failure of IT systems and service providers and the shortfall of personnel.

Internal control system

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

Management of legal risks

Legal risks also fall under operational risks. Legal risks include economic risks arising as a result of non-compliance or incomplete compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law.

The Legal and Taxes divisions are responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff and external consultants.

HSH Nordbank recognised provisions of € 50 million (previous year: € 49 million) for litigation risks and costs as at the reporting date. In addition, contingent liabilities of € 41 million (previous year: € 41 million) arising from legal disputes are disclosed. A major portion of the provisions for litigation risks relates to the three legal proceedings mentioned below.

Since 2005 HSH Nordbank AG has been involved in legal proceedings with a Turkish shipping group and had to pay a total amount of 54 million US dollars in 2013 due to decisions of Turkish courts. The plaintiffs have now filed new claims under which damages are asserted based on the same facts. Appropriate provisions were recognised for this.

In a court judgement of 26 January 2015 HSH Nordbank AG lost a case against a Danish bank, which had sued HSH Nordbank AG for the repayment of a deposit plus interest. In this regard, HSH Nordbank AG recognised loan loss provisions of approximately € 13 million for the claim and approximately € 7 million for legal fees. The impact of the judgement has therefore been included in the consolidated financial statements. A review is currently being carried out to determine whether HSH Nordbank AG will file an appeal against the decision.

In addition, HSH Nordbank AG is being sued for damages in the amount of € 34 million by a service provider and is making a counterclaim thus far of approximately € 33 million in a cross-action.

Contingent liabilities relating to legal disputes result from several individual cases involving claims of up to € 9 million.

HSH Nordbank AG was also sued in January 2015 by a borrower for damages of approximately € 215 million. The underlying facts of the case had already been the subject of several court proceedings between the Bank and the borrower, in which the Bank has always succeeded before different courts apart from relatively small amounts. In the Bank's view, claims newly asserted by the borrower regarding the known facts of the case are unfounded. They do not contain any legally significant changes regarding the known facts and therefore do not provide any grounds for the previous legal assessment of this case to be revised. As the probability of success for the current legal action is assessed as small, no provision or contingent liability has been recognised.

HSH Nordbank AG recognised other provisions relating to legal risks in the amount of € 33 million on the basis of current German case law of the Federal Court of Justice (BGH) regarding the reimbursement of loan processing fees.

Tax risks are a component of legal risks and mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits have not yet been finalised for the years starting from 2003.

HSH Nordbank recognised provisions (including interest) totalling € 159 million (previous year: € 194 million) for tax risks as at the reporting date. A major portion of this relates to tax risks with respect to the tax audits (in connection with internal cost allocations to foreign entities, structured transactions, reimbursement of value-added tax on inputs, and risks resulting from the tax treatment of investment income).

There are also tax risks relating to the currently opposing view taken by the fiscal authorities regarding the deductibility of so-called final permanent establishment losses, which the Bank recognised in its 2012 tax returns in accordance with fiscal case law in connection with the closing down of the Copenhagen branch. A provision was not recognised for this, as it is currently considered to be highly probable that HSH Nordbank's interpretation of the law will prevail.

Management of compliance risk

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

The Compliance division is responsible for compliance risk management. Compliance with the different standards is also ensured by the respective divisions concerned. Compliance monitors adherence to strict codes of conduct with respect to the topics of capital markets compliance, prevention of money laundering, terrorism financing and other criminal offences in accordance with Section 25h KWG as well as compliance with financial sanctions and embargoes. In addition the division performs the compliance function as defined in AT 4.4.2 MaRisk and in this context strives to ensure that the essential legal regulations and HSH Nordbank standards are complied with.

The Code of Conduct summarises the requirements of different legal sources and internal guidelines. It applies to all employees, managers as well as the Management Board of HSH Nordbank AG and is a mandatory part of the target agreements. The behavioural requirements of the Compliance division are explained in detail in internal instructions.

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

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

Reports on operational risk

The OpRisk Committee under the chairmanship of the CRO receives a quarterly report regarding the development of the risk position, material loss events and management measures addressed. The Overall Management Board is informed once a year regarding the capital required, the loss event trend, and material loss events and loss potential as well as any measures required.

Material risk events are also reported on an ad hoc basis to the relevant Management Board member.

OTHER MATERIAL RISKS

Among other material risk types of HSH Nordbank are transformation risk and reputation risk.

Transformation risk

Transformation risk is the risk of a financial loss being incurred as a result of long-term decisions related to the performance of individual areas of business or the banking sector as a whole which are erroneous or based on incorrect assumptions and that could in particular place the whole ongoing restructuring process at risk. Should, for example, HSH Nordbank not be successful in identifying changes in markets relevant for it on a timely basis, this could have a negative impact on its competitiveness. Changes to laws and regulations or new regulatory requirements for instance could also jeopardise the implementation of HSH Nordbank’s business model.

Transformation risk is managed via the periodic review and updating of the business strategy. The responsibility for the strategy rests with the Overall Management Board, while the Strategy division is responsible for the process. An action-oriented management dialogue, including on the strategic business objectives, is conducted during the year in the Business Review Meetings (BRM) that are held at least quarterly.

The strategic realignment of HSH Nordbank was successfully continued during the reporting year. It was possible to reduce the transformation risk further in the year under review by, inter alia, concentrating on the core business areas of the Bank in line with the conditions and commitments imposed under the EU decision, the continued separation and active wind-down of risk-bearing and non-strategic portfolios in the Restructuring Unit, the transfer of portfolios from our international locations to head office and the disposal of additional equity holdings.

The second loss guarantee was replenished to the original amount of € 10 billion as at 30 June 2013 following a partial cancellation in 2011 in order to comply with the increasingly strict regulatory conditions and the requirements of the capital markets concerning capital ratios in a sustainable manner. As the replenishment of the guarantee constitutes a case relevant under state aid law, the European Commission instituted new state aid proceedings. In the event that the outcome of the second EU proceedings is other than the expected positive decision for HSH Nordbank, this would significantly jeopardise the further implementation of the current business model and thereby the Bank’s future prospects. Further information on the EU state aid proceedings are set out in the Forecast, opportunities and risks report section.

Reputation risk

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

Damage to reputation can be directly caused by the behaviour of internal staff, external stakeholders or by the social environment as a whole or indirectly in connection with another risk type. HSH Nordbank can suffer adverse consequences in both cases, for instance due to a loss of clients.

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

SUMMARY OF RISK ASSESSMENT AND OUTLOOK

The 2014 financial year was characterised by the continuing winding down of high-risk, non-strategic lending and capital markets transactions held in the Restructuring Unit portfolio as well as by the progress made in implementing the new "Bank for Entrepreneurs" business model.

The risk-bearing capacity of HSH Nordbank was maintained at all times during the year under review with a maximum utilisation of the risk coverage potential of 36%. The guarantee facility of € 10 billion as well as the ongoing winding down of risk positions as part of the implementation of the EU conditions made a positive contribution in this regard.

In November 2014 HSH Nordbank passed the Comprehensive Assessment carried out by the ECB prior to the establishment of the European Banking Union. The Bank exceeded the minimum capital ratios in both the Asset Quality Review and stress test.

There are still some challenges facing the Bank in particular with regard to risk concentrations in the shipping loan portfolios and the US dollar business of HSH Nordbank. The ongoing difficult conditions on the shipping markets had a particular negative impact in this regard.

The implementation of the new supervisory requirements will continue to be a focus of our activities in 2015. The Basel Standard 239 (BCBS 239) gives rise, for example, to comprehensive future requirements regarding the capacity to aggregate risk data including the IT architecture and risk reporting by banks, which are to be implemented as part of projects.

The risk and bank management systems described in this report are aligned to take account of risk on a systematic basis. This also applies to our expectations regarding future market and business developments. We believe that we have appropriately presented the overall risk profile as well as the opportunities and risks inherent in the future development of our business activities in the Forecast, opportunities and risks report section and in this Risk report in an appropriate and comprehensive manner.

Hamburg/Kiel, 24 March 2015

Constantin von Oesterreich

Stefan Ermisch

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GROUP STATEMENT OF INCOME
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2014

(€ m)	Note	2014	Following adjustment (see Note 4) 2013	Change in %
Interest income		5,119	6,097	– 16
Interest expenses		– 4,326	– 5,021	– 14
Net income from hybrid financial instruments		– 207	– 147	– 41
Net interest income	(9)	**586**	**929**	**– 37**
Net commission income	(10)	130	104	25
Result from hedging	(11)	– 40	9	> – 100
Net trading income	(12)	62	193	– 68
Net income from financial investments	(13)	169	276	– 39
Net income from financial investments accounted for under the equity method	(14)	2	– 15	> 100
Total income		**909**	**1,496**	**– 39**
Loan loss provisions	(15)	576	– 833	> – 100
Administrative expenses	(16)	– 724	– 755	– 4
Other operating income	(17)	122	44	> 100
Net income before restructuring		**883**	**– 48**	**> 100**
Result from restructuring	(18)	– 84	– 56	– 50
Expenses for government guarantees	(19)	– 521	– 414	26
Net income before taxes		**278**	**– 518**	**> 100**
Income taxes	(20)	– 118	– 251	– 53
Group net result		**160**	**– 769**	**> 100**
Group net result attributable to non-controlling interests		1	– 2	> 100
Group net result attributable to HSH Nordbank shareholders		159	– 767	> 100

EARNINGS PER SHARE

(€)	Note	2014	Following adjustment (see Note 4) 2013
Undiluted	(22)	0.53	– 2.54
Diluted	(22)	0.53	– 2.54
Number of shares (millions)		**302**	**302**

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2014

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	2014	Following adjustment (see Note 4) 2013
Group net result	**160**	**-769**
Income and expense that will be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	195	104
of which from exchange rate effects	14	-7
Income taxes recognised	-38	-15
of which from exchange rate effects	1	1
	157	**89**
Currency conversion reserve	44	-5
	44	**-5**
Changes in other net income from financial investments accounted for under the equity method	-3	3
	-3	**3**
Changes in non-current assets held for sale and disposal groups	-3	3
	-3	**3**
Subtotal	**195**	**90**
Income and expense that will not be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	-107	-47
Income taxes recognised	31	16
	-76	**-31**
Actuarial gains/losses (before taxes)	-262	15
Income taxes recognised	83	-5
	-179	**10**
Subtotal	**-255**	**-21**
Other comprehensive income for the period	**-60**	**69**
Total comprehensive income	**100**	**-700**
Total comprehensive income attributable to non-controlling interests	1	-2
Total comprehensive income attributable to HSH Nordbank shareholders	99	-698

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

ASSETS

(€ m)	Note	2014	Following adjustment (see Note 4) 2013	Change in %
Cash reserve	(23)	5,967	4,851	23
Loans and advances to banks	(24)	6,915	5,158	34
Loans and advances to customers	(25)	67,336	68,469	– 2
Loan loss provisions	(26)	– 2,061	– 3,583	– 42
Positive fair values of hedging derivatives	(27)	1,405	1,287	9
Positive adjustment item from portfolio fair value hedges		510	151	> 100
Trading assets	(28)	9,163	9,045	1
Financial investments	(29)	18,688	21,256	– 12
Financial investments accounted for under the equity method	(30)	1	–	> 100
Intangible assets	(31)	27	45	– 40
Property, plant and equipment	(32)	399	480	– 17
Investment property	(32)	185	267	– 31
Non-current assets held for sale and disposal groups	(33)	34	25	36
Current tax assets	(34)	85	59	44
Deferred tax assets	(35)	1,190	1,226	– 3
Other assets	(36)	238	375	– 37
Total assets		**110,082**	**109,111**	**1**

LIABILITIES

(€ m)	Note	**2014**	Following adjustment (see Note 4) 2013	Change in %
Liabilities to banks	(37)	14,547	18,212	– 20
Liabilities to customers	(38)	43,165	40,662	6
Securitised liabilities	(39)	27,634	28,561	– 3
Negative fair values of hedging derivatives	(40)	1,156	934	24
Negative adjustment item from portfolio fair value hedge		1,202	961	25
Trading liabilities	(41)	9,246	7,103	30
Provisions	(42)	1,699	1,394	22
Current tax liabilities	(44)	129	203	– 36
Deferred tax liabilities	(45)	81	39	> 100
Other liabilities	(46)	1,044	1,175	– 11
Subordinated capital	(47)	5,507	5,288	4
Equity	(48)	4,672	4,579	2
Share capital		3,018	3,018	–
Capital reserve		487	594	– 18
Retained earnings		929	1,775	– 48
Revaluation reserve		108	27	> 100
Currency conversion reserve		– 16	– 61	74
Other net income from financial investments accounted for under the equity method		–	3	– 100
Other net income from non-current assets held for sale and disposal groups		–	3	– 100
Group net result		159	– 767	> 100
Total before non-controlling interests		4,685	4,592	2
Non-controlling interests		– 13	– 13	–
Total equity and liabilities		**110,082**	**109,111**	**1**

GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

	Note	Share capital	Capital reserve	Retained earnings	of which actuarial gains/losses acc. to IAS 19
As at 1 January 2013		**3,018**	**594**	**1,876**	**–1**
Changes due to restatements		–	–	14	–
Changes in the scope of consolidation		–	–	–21	–
Adjusted as at 1 January 2013		**3,018**	**594**	**1,869**	**–1**
Group net loss		–	–	–	–
Changes due to restatements		–	–	–	–
Changes not recognised in the income statement		–	–	10	10
Changes recognised in the income statement		–	–	–	–
Exchange rate changes		–	–	–	–
Changes in the scope of consolidation		–	–	–	–
Comprehensive income as at 31 December 2013		**–**	**–**	**10**	**10**
Transfer of Group net loss for the previous year		–	–	–114	–
Changes in retained earnings		–	–	9	1
Changes in the scope of consolidation		–	–	1	–
Adjusted as at 31 December 2013		**3,018**	**594**	**1,775**	**10**
As at 1 January 2014		**3,018**	**594**	**1,775**	**10**
Group net result		–	–	–	–
Changes not recognised in the income statement		–	–	–179	–179
Changes recognised in the income statement		–	–	–	–
Exchange rate changes		–	–	–	–
Changes in the scope of consolidation		–	–	–	–
Comprehensive income as at 31 December 2014		**–**	**–**	**–179**	**–179**
Changes in retained earnings		–	–	–7	–
Transfer of Group net loss for the previous year		–	–107	–660	–
Changes in the scope of consolidation		–	–	–	–
As at 31 December 2014	(48)	**3,018**	**487**	**929**	**–169**

Other changes in equity not recognised in the income statement								
Currency conversion reserve	Revaluation reserve	Financial investments accounted for under the equity method	From non-current assets held for sale and disposal groups	Accumulated other comprehensive income	Group net profit/loss	Total before non-controlling interests	Non-controlling interests	Total
-59	**-31**	**–**	**–**	**-91**	**-120**	**5,278**	**-6**	**5,272**
–	–	–	–	–	6	20	–	20
–	–	–	–	–	–	-21	–	-21
-59	**-31**	**–**	**–**	**-91**	**-114**	**5,277**	**-6**	**5,271**
–	–	–	–	–	-812	-812	-2	-814
–	–	–	–	–	8	8	–	8
–	101	3	3	117	–	117	–	117
–	-37	–	–	-37	–	-37	–	-37
-5	-6	–	–	-11	–	-11	–	-11
3	–	–	–	3	37	40	–	40
-2	**58**	**3**	**3**	**72**	**-767**	**-695**	**-2**	**-697**
–	–	–	–	–	114	–	–	–
–	–	–	–	1	–	9	–	9
–	–	–	–	–	–	1	-5	-4
-61	**27**	**3**	**3**	**-18**	**-767**	**4,592**	**-13**	**4,579**
-61	**27**	**3**	**3**	**-18**	**-767**	**4,592**	**-13**	**4,579**
–	–	–	–	–	159	159	1	160
–	166	-3	–	-16	–	-16	–	-16
–	-99	–	–	-99	–	-99	–	-99
44	14	–	–	58	–	58	–	58
–	–	–	-3	-3	–	-3	–	-3
44	**81**	**-3**	**-3**	**-60**	**159**	**99**	**1**	**100**
–	–	–	–	–	–	-7	–	-7
–	–	–	–	–	767	–	–	–
1	–	–	–	1	–	1	–	1
-16	**108**	**–**	**–**	**-77**	**159**	**4,685**	**-13**	**4,672**

GROUP CASH FLOW STATEMENT

CASH FLOW STATEMENT

(€ m)	2014		Following adjustment 2013	
Net result for the period		160		– 769
Reconciliation with cash flow from operating activities				
Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property		653		2,182
a) Loans and advances to customers and banks	528	–	2,131	–
b) Financial investments	–	–	– 83	–
c) Property, plant and equipment/intangible assets/investment property	125	–	134	–
Changes in provisions		395		– 121
Other non-cash expenses/income		– 379		– 699
Profit/loss from disposal of financial investments and property, plant and equipment/investment property		– 195		– 203
a) Financial investments	– 180		– 194	–
b) Property, plant and equipment/investment property	– 15	–	– 9	–
Other adjustments		– 387		– 706
Subtotal		**247**		**– 316**
Changes in loans and advances		– 1,122		14,005
a) to banks	– 1,924	–	3,276	–
b) to customers	802	–	10,729	–
Changes in trading assets		– 895		3,422
Changes in other assets from continuing operations		207		– 255
Changes in liabilities		– 1,721		– 12,385
a) to banks	– 4,269	–	– 11,830	–
b) to customers	2,548	–	– 555	–
Changes in securitised liabilities		– 903		– 2,841
Changes in trading liabilities		2,666		– 4,735
Changes in other liabilities from continuing operations		– 256		– 416
Interest and dividends received		5,112		6,325
Interest paid		– 4,587		– 5,503
Income tax payments		8		– 102
Cash flow from operating activities		**– 1,244**		**– 2,801**
Receipts from disposals of		6,305		5,918
a) securities	6,212	–	5,735	–
b) interests in affiliated companies and equity holdings	32	–	64	–
c) property, plant and equipment	61	–	119	–
Purchases of		– 3,546		– 4,867
a) securities	– 3,520	–	– 4,708	–
b) interests in affiliated companies and equity holdings	– 15	–	– 113	–
c) property, plant and equipment	– 11	–	– 46	–
Cash flow from investing activities		**2,759**		**1,051**

CASH FLOW STATEMENT

(€ m)	2014	Following adjustment 2013
Payments received from allocations to equity	–	–
Payments received (+) from subordinated capital	37	–
Payments made (–) from subordinated capital	– 49	– 77
Payments received (+) from silent participations	–	–
Payments made (–) from silent participations	–	– 78
Distributions on equity	–	– 1
Cash flow from financing activities	**– 12**	**– 156**
Cash and cash equivalents at the beginning of the period	**4,851**	**6,745**
Cash flow from operating activities	– 1,244	– 2,801
Cash flow from investing activities	2,759	1,051
Cash flow from financing activities	– 12	– 156
Changes in cash and cash equivalents due to exchange rate fluctuations	– 387	12
Cash and cash equivalents at the end of the period	**5,967**	**4,851**

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

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

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

CASH FLOW

(€ m)	Obtaining control	Loss of control
Consideration paid/received	–	16.6
of which cash and cash equivalents	–	16.6
Amount of cash and cash equivalents	0.1	–

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

ASSETS

(€ m)	Obtaining control	Loss of control
Financial investments	–	–
Property, plant and equipment	–	24.3
Investment property	–	–
Non-current assets held for sale and disposal groups	–	21.5
Other assets	–	1.3

LIABILITIES

(€ m)	Obtaining control	Loss of control
Liabilities to banks	–	–
Provisions	–	4.0
Liabilities relating to disposal groups	–	20.3
Current tax liabilities	–	0.3
Other liabilities	–	0.7

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

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

The supplementary provisions of Section 315a HGB are taken into account and are shown individually in Note 68.

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

Apart from the new standards and interpretations stated below, which may have a significant influence on the consolidated financial statements, a number of additional standards and interpretations were adopted which, however, are expected not to have any influence on the consolidated financial statements.

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

IFRS 10 – Consolidated Financial Statements

This standard includes a new, comprehensive definition of the term control. If an entity controls another entity, the parent company must include the subsidiary in its consolidated financial statements. According to the new definition of control, control exists if the potential parent has decision-making authority with respect to the potential subsidiary by means of voting or other rights, it has exposure to positive or negative variable returns from the subsidiary and it has the ability to use its power over the subsidiary to affect the amount of the returns.

Due to immaterial effects a third balance sheet as at the beginning of the previous period in accordance with IAS 1.40A was not disclosed.

More details on the effects of initial application are contained in Notes 4 and 6.

IFRS 11 – Joint Arrangements

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

IFRS 12 – Disclosure of Interests in Other Entities

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

HSH Nordbank has complied with the expanded disclosure obligations in Note 58.

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

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

HSH Nordbank has made use of the relief provided by the transition rules.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

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

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

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

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

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

As part of a subsequent amendment to IFRS 13 a new disclosure requirement was introduced for the goodwill impairment test as defined under IAS 36 for the year 2013: the recoverable amount of the cash-generating units had to be disclosed regardless of whether an impairment loss was actually recognised. As this note disclosure was introduced unintentionally, it is deleted again under this amendment from May 2013 for 2014.

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

HSH Nordbank has complied with its disclosure obligations under the amendment.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

As a result of this amendment derivatives continue to be designated under certain conditions as hedging instruments in existing hedging relationships despite novation of a hedging instrument to a central counterparty as a consequence of legal requirements.

The amendments had no impact on HSH Nordbank accounting unless explicitly stated otherwise.

HSH Nordbank is not planning the early application of the following new or amended Standards or Interpretations for which application is only mandatory in later financial years. To the extent not indicated otherwise, all effects on the financial statements of HSH Nordbank are currently under review.

Already endorsed by the EU:

IFRIC 21 – Levies

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The question as to when does a present obligation arise on levies collected by public authorities and when is a provision or liability to be recognised is clarified in particular. The Interpretation does not apply in particular to fines and penalties resulting under public law contracts or to levies that fall within the scope of other IFRS standards, e.g. IAS 12 Income Taxes. Under IFRIC 21 a liability is to be recognised for levies when the event that triggers payment of the levy occurs. This obligatory event is in turn based on the wording in the underlying standard, the formulation of which is critical for the accounting treatment in this respect.

These amendments have to be applied for the first time in financial years beginning on or after 17 June 2014.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

The amendments clarify the rules relating to the allocation of employer contributions or contributions from third parties to service periods, if the contributions are linked to the service period. Furthermore, exemptions are granted if the contributions are not dependent on the number of completed years of service.

The amendments have to be applied for the first time in financial years beginning on or after 1 February 2015.

Improvements to IFRS 2010–2012

Amendments to seven standards were made as part of the annual improvements project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. There are also amendments that affect the note disclosures. The standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 are affected by this.

The amendments have to be applied for the first time in financial years beginning on or after 1 February 2015.

The changes will not materially affect the accounting of HSH Nordbank.

Improvements to IFRS 2011–2013

Amendments to four standards were made as part of the annual improvements project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. The standards IFRS 1, IFRS 3, IFRS 13 and IAS 40 are affected by this.

The amendments have to be applied for the first time in financial years beginning on or after 1 January 2015.

EU endorsement still pending:

IFRS 9 – Financial Instruments

IFRS 9, published in July 2014, replaces the existing guidelines contained in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines on the classification and measurement of financial instruments, including a new model of the expected loan defaults for calculating the impairment of financial assets, as well as the new general rules for hedge accounting. It also adopts the guidelines on the recognition and derecognition of financial instruments of the former IAS 39.

Subject to the still-pending adoption into EU law – the new standard needs to be applied for the first time in financial years which start on or after 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 sets out a comprehensive framework for determining whether, at what level and when revenue is recognised. It replaces existing guidelines on recognising revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Subject to the still-pending adoption into EU law, IFRS 15 needs to be applied for the first time in financial years which start on or after 1 January 2017. Early application is permitted.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments address a known inconsistency between the provisions in IFRS 10 and those in IAS 28 (2011) in the event of the sale of assets to an associate or joint venture and/or the contribution of assets to an associate or joint venture.

Under IFRS 10 a parent must recognise total profit or loss from the sale of a subsidiary on the income statement when control is lost. In contrast, the currently applicable IAS 28.28 requires that the sale proceeds in the case of sales transactions between an investor and an equity holding measured at equity – whether it is an associate or a joint venture – are only recognised in the amount of the share of the other shareholders in this entity.

In future, the entire profit or loss of a transaction is only to be recognised if the sold or received assets constitute a business operation as defined in IFRS 3. This applies regardless of whether the transaction is structured as a share or asset deal. Conversely, if the assets do not constitute a business operation, it is only permissible to recognise proportionate net income.

Subject to adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments serve to clarify various questions relating to the application of the exemption from the consolidation obligation under IFRS 10, if the parent meets the definition of an “investment entity”. Parents are accordingly also released from the obligation to prepare consolidated financial statements if the higher-level parent does not consolidate its subsidiaries, but accounts for them at fair value in accordance with IFRS 10.

Distinctions are applied as follows concerning the accounting treatment of the subsidiaries of an investment entity: Subsidiaries that themselves are investment entities are to be accounted for at fair value in line with the general principle of the *investment entity exception*. In contrast, those subsidiaries that are not investment entities but provide services relating to the parent company’s investment activities, and so could be regarded as an extension of the parent’s operation, have to be consolidated.

Finally it is clarified that an investor which does not meet the definition of an investment entity and applies the equity method to an associate or joint venture may retain the fair value measurement which the investment company applies to its equity holdings in subsidiaries.

In addition, the amendments envisage that an investment entity which measures all its subsidiaries at fair value must provide the information on investment entities as prescribed by IFRS 12.

Subject to adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

IFRS 11 contains rules on the recognition of joint ventures and joint operations on the balance sheet and income statement. Whilst joint ventures are accounted for using the equity method, the depiction of joint operations as required in IFRS 11 is similar to proportionate consolidation.

With the amendments to IFRS 11, the IASB provides for the accounting treatment of the purchase of shares in a joint operation representing a business entity as defined in IFRS 3 *Business Combinations*. In such cases the purchaser is to apply the principles of accounting for business combinations as set out in IFRS 3. In addition the disclosure requirements of IFRS 3 also apply in these cases.

Subject to adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

Amendments to IAS 1 – Disclosure Initiative

The amendments relate to various disclosure issues. It is made clear that information only needs to be included in the Notes if the content is not immaterial. This explicitly also applies if an IFRS requires a list of minimum disclosures. In addition, explanations concerning the aggregation and disaggregation of items in the statement of financial position and statement of comprehensive income are included. Furthermore, it is clarified how shares in the Other operating income of entities measured at equity are to be recorded in the statement of comprehensive income. Finally, the structure template for the Notes is replaced by a structure that takes account of the relevance of information for the individual entity.

Subject to adoption into EU law the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

With these amendments the IASB provides additional guidelines to define an acceptable method of depreciation and amortisation. Revenue-based methods of depreciation are thus not permitted for property, plant and equipment and are only permitted for intangible assets in certain exceptional cases (refutable presumption of inadequacy).

Subject to adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

Improvements to IFRS 2012–2014

Amendments to four standards were made as part of the *annual improvement project*. Amendments to the wording of the individual IFRS/IAS should serve to clarify the existing rules. The standards IFRS 5, IFRS 7, IAS 19 and IAS 34 are affected by this.

Subject to adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

The consolidated financial statements of HSH Nordbank are prepared in line with IFRS 10 according to uniform Group-wide measurement and accounting policies. The consolidated financial statements include the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the notes, including segment reporting. In addition to the consolidated financial statements a Group management report in accordance with Section 315 of the German Commercial Code (HGB) was prepared.

Accounting and measurement are based on the assumption that the Bank is a going concern. The Bank's corporate planning as well as additional structural measures form the basis for the going concern assumption. Assessments, which form the basis for the corporate planning and in particular the planning for the movement in loan loss provisions over the long term, the payment default plan and the resultant actual drawdown of the second loss guarantee, take information available to us at this point in time into account. These assessments are dependent on factors that are mostly outside the control of the Bank and are therefore subject to a significant degree of uncertainty.

This applies, for example, to expectations regarding macroeconomic trends, exchange rates, freight and charter rates or changes in the regulatory framework. Furthermore, the very long planning horizon for the long-term loan loss provision planning is causing significant uncertainty. Additional assumptions, uncertainties, opportunities and risks of corporate planning as well as the structural measures are discussed in the Management Report in the section Forecast, opportunities and risks report.

The assumption of the Bank as a going concern for accounting and measurement purposes is based in particular on the presumed approval by the EU commission, under consideration of further structural measures to be implemented, of the replenishment of the capital relief guarantee and the final clearance to the amendment of the guarantee agreement following the preliminary approval given in June 2013. Furthermore, it is based on the assumption that approval will only be connected to requirements that can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of HSH Nordbank`s business model by market participants and other relevant stakeholders be maintained.

Group income and expenses are accrued on a pro rata temporis basis in the Group. They are recorded and reported in the period to which they must be assigned economically. Accounting for assets, liabilities, income and expenses takes place on a consistent basis. Deviations are only made in justified exceptional cases which are explained separately in the Notes on the relevant items in the HSH Nordbank consolidated financial statements.

Unless explicitly stated otherwise, all amounts are in millions of euros (€ m).

The reporting year corresponds to the calendar year.

IFRS 7.31 et seq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the consolidated financial statements. Availing itself of this option, HSH Nordbank has published disclosures about financial instruments as permitted by IFRS 7.31 et seq. predominantly in the Group Risk Report within the Group Management Report. Specifically, this relates to the overall qualitative and quantitative risk information disclosed under IFRS 7.33 et seq. and the total market risk reporting under IFRS 7.40–42 as well as the description of how liquidity risk is managed as required by IFRS 7.39 (c).

In addition, as part of the supplementary German commercial regulations the Group observed the following German Accounting Standards (GAS) in preparing these consolidated financial statements and this Group Management Report:

- GAS 20 Management Reporting
- GAS 17 Reporting on the Remuneration of Members of Governing Bodies

2. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date.

3. PROVISION OF A GUARANTEE FACILITY

Basics of the effect of the second loss guarantee

On 2 June 2009 the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee facility in the amount of € 10 billion via the HSH Finanzfonds AöR as the guarantor in order to secure the future of the Bank. This agreement on the provision of a guarantee facility as well as a related recapitalisation of the Bank are subject to approval by the European Commission in accordance with the law regarding state aid. The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on commitments with all the parties involved and imposed conditions. The conditions include a prohibition on the payment of dividends until and including the financial year 2014, among other things. The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee One relates to non-structured financial instruments. Partial guarantee Two relates to structured financial instruments, in particular those that are full or partial derivatives in nature and equity instruments. Partial guarantee One is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee Two is recognised as a credit derivative.

The guarantor guarantees actual rating-related defaults on financial instruments selected based on certain defined criteria that form part of the assets of HSH Nordbank AG.

The amount of default on a specific commitment is determined by the amount outstanding, taking into account the specific loan loss provision existing as at 31 March 2009. The amount outstanding is at the most the amount repayable as at 31 March 2009, plus all interest owed and other ancillary payments. Losses may only be allocated under the guarantee once the guarantee case has been examined and approved by the guarantor.

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee case for the full amount. Since 2014 it is possible for HSH Nordbank AG to terminate the guarantee in full.

2011 the guarantee was reduced by a total of € 3 billion to € 7 billion. The guarantee facility was replenished as at 30 June 2013 by € 3 billion to the original amount of € 10 billion. The guarantee agreement was adjusted by way of an appropriate amendment agreement. Under this agreement the fee provisions for the replenished guarantee remain essentially unchanged. A one-off payment of € 275 million becomes payable, however, on the coming into force of the amendment agreement. Through this the guarantor is put in a position as if the guarantee had never been reduced. The one-off payment represents a fee for a time-related service and is amortised over the period of the expected benefit. In 2014 € 116 million was recognised through profit or loss in the Expenses for government guarantees line item (previous year: € 69 million). The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process, which can probably be concluded in 2015.

The amendment agreement also includes revised stipulations concerning the capital protection clause which took effect on 1 January 2014. Insofar as the obligation to pay the additional premium would have the effect of decreasing the Tier 1 capital ratio (both from an expost and exante perspective) excluding hybrid capital (common equity ratio) of HSH Nordbank to below 10% (minimum common equity ratio) or of increasing an already existing shortfall, the guarantor is obliged to waive the portion of the entitlement that would result in the ratio falling below the minimum common equity ratio against the issue of a debtor warrant (so-called capital protection clause).

Since January 2014, HSH Nordbank calculates the supervisory capital ratio on the basis of IFRS data (until 31 December 2013 HGB data were used). In the event that the common equity ratio falls below 10%, a waiver by the guarantor HSH Finanzfonds AöR will be recognised to income from the additional premium. However, according to the revision of the capital protection clause, the debtor warrant will not be issued immediately upon the declaration of the debt waiver, but it is subject to specific conditions. Only when these conditions are met does the obligation from the debtor warrant arise. A debt waiver was recognised as at 31 December 2014. The conditions for the debtor warrant have not been met as at the reporting date. The debt waiver increases the compensation item and thus the hedging effect by € 781 million.

In exchange for the guarantee HSH Nordbank AG pays a contractually agreed base premium of 4% p.a. on the guarantee volume outstanding at the time. Drawdowns do not reduce the calculation basis of the premium. The recurring base premium payable is recognised through profit or loss on an accrual basis in the Expenses for government guarantees line item.

As long as and insofar as a cash drawdown of the guarantee is not yet made through the invoicing of losses that in total exceed the first loss piece of € 3.2 billion to be borne by the Bank, a claim for compensation against HSH Finanzfonds AöR cannot be recognised. Against this background the hedging effect of the guarantee recognised in the balance sheet is accounted for on a net basis. The Bank initially determines specific and general loan loss provisions without taking the hedging effect of the second loss guarantee into account and then records the balance sheet hedging effect through the use of a compensation item that reduces the loan loss provision amount disclosed on the balance sheet accordingly. The actual individual and general loan loss provisions recognised are not changed by the accounting applied to the hedging effect.

The compensation item is reduced by the additional premium imposed by the EU Commission in the amount of 3.85% p.a. This additional premium is only paid to HSH Finanzfonds AöR in the case of an actual drawdown of the guarantee. The additional premium is payable at the latest until 31 December 2019 and ceases to apply retroactively in the event that the guarantee is not drawn down. For the compensation item deduction the Bank calculates the additional premium (ex post) on the actual balance sheet hedging effect (compensation item). The additional premium also results in the recognition of a contingent liability in equity with a corresponding recourse claim against HSH Finanzfonds AöR, as the latter may only use the funds on an actual drawdown of the guarantee. The contingent liability resulting from this additional premium is calculated based on the outstanding guarantee facility not yet cancelled. This calculation has been performed since 1 April 2009.

If it is more likely than not that the guarantee will be drawn down, the premiums to be paid in the future also need to be recognised (on a present value basis) as loan collateral expense, as, according to the guarantee agreement, drawdowns do not reduce the basis for calculating the guarantee premiums. The future premiums result in a reduction of the compensation item as does the additional premium. The present value calculation gives rise to an interest effect, which is disclosed under Net interest income.

If, during the restructuring and workout programme, measures consistent with the guarantee are implemented in respect of hedged commitments that conflict with recognition of the hedging instrument in the financial statements as a financial guarantee under IAS 39.9, commitments may be transferred to the partial guarantee Two under the framework agreement that falls under the definition of a credit derivative under IFRS, subject to approval from the trustee appointed by the guarantor. The maximum guarantee amount is not altered by the revival of partial guarantee Two, as the sum of the individual amounts remains the same. The hedging effect of the partial guarantee Two amounted to € 13.9 million as at 31 December 2014. An additional premium in the amount of € 1.6 million was allocated to this amount (previous year: € 1.7 million).

In 2011 HSH Nordbank AG was obliged to make a one-off payment in the amount of € 500 million to the guarantor of the second loss guarantee that had to be raised by means of a contribution in kind. The Annual General Meeting in an extraordinary meeting held on 18 January 2012 resolved to increase capital by means of a mixture of cash and non-cash contributions. This increase became effective on the entry of the capital increase in the commercial registers on 20 February 2012.

Accounting impact of the second loss guarantee in the 2014 financial year

The hedging effect of the guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the face of the balance sheet for the first time as at 31 December 2010, amounted to € 4,999 million as at 31 December 2014 (previous year: € 4,039 million).

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion. Future expected fees (base and additional premium) for the second loss guarantee were recognised for the first time starting in the 2012 reporting year in loan loss provisions on the basis of this. These amounted to € 575 million at the end of the 2014 financial year and are offset against the compensation item. An amount of € 384 million (previous year: € 328 million) is attributable to the future additional premium (ex ante additional premium) and € 191million (previous year: € 240 million) to future base premium (ex ante base premium).

The common equity ratio fell below the benchmark of 10 % during the financial year 2014 with the effect that a debt waiver in the amount of € 781 million was disclosed.

An amount of € 4,999 million was initially offset in the Loan loss provisions line item as at 31 December 2014. An additional premium of 3.85 % p.a. was calculated on this amount for the period between 1 April 2009 to 31 December 2014 and an amount of € 1,123 million recognised as an expense in loan loss provisions (€ 373 million of which is attributable to the financial year 2014). In addition a claim for compensation of interest of € 8 million was calculated. The future premiums of € 575 million were also determined (of which expenses of € 7 million related to the 2014 financial year). As settlement would be made on a net basis with HSH Finanzfonds AöR in the event of an actual drawdown of the guarantee, the compensation item and the attributable additional postings under the additional premium (ex post and ex ante), the claim for compensation of interest, the base premium (ex ante) as well as the debt waiver and the debtor warrant are netted. After taking into account all components to be offset under the agreement the compensation item in the loan loss provisions on the balance sheet is € 4,074 million (previous year: € 2,714 million). The corresponding compensation effect in loan loss provisions in the income statement amounts to € 1,401 million (previous year: € 744 million).

HEDGING EFFECT OF THE GUARANTEE

(€ m)	**2014**	2013	**2014**		2013	
	Balance sheet	Balance sheet	Income statement		Income statement	
	Loan loss provisions	Loan loss provisions	Loan loss provisions	Net interest income	Loan loss provisions	Net interest income
Hedging effect before guarantee costs	4,999	4,039	960	–	1,232	–
Additional premium ex post	– 1,123	– 750	– 373	–	– 338	–
Debt waiver	781	–	781	–	– 718	–
Debtor warrant	–	–	–	–	713	–
Base and additional premium ex ante	– 575	– 568	33	– 40	– 145	50
Claim for compensation of interest	– 8	– 7	–	– 1	–	– 4
Compensation under the second loss guarantee	**4,074**	**2,714**	**1,401**	**–41**	**744**	**46**

Since the 2009 reporting year the Bank has recorded premium expense totalling approx. € 3,671 million for the provision of the second loss guarantee. € 2,733 million has been paid to date, of which € 1,958 million is attributable to the current base premium and € 775 million to one-off payments.

4. 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 correction of errors in accordance with IAS 8.41 et seq. and changes due to changed methods in accordance with IAS 8.14 et seq.

The following adjustments have an impact on the Group statement of financial position, the Group income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and segment reporting as on the explanatory notes as described below.

I. Changes in accordance with IAS 8.41 et seq.

In the debt consolidation of intragroup receivables for which an individual valuation allowance was recorded, an error in data collection resulted in the understatement of deferred tax liabilities, loans and advances to customers, equity and net interest income, and the overstatement of income taxes.

II. Changes in accordance with IAS 8.14 et seq.

The introduction of the new consolidation standard IFRS 10 leads to an adjustment of the income statement as well as to an adjustment of the statement of financial position. For further information on the new companies to be included in the scope of consolidation due to the introduction of IFRS 10, see Note 5.

During the reporting period the presentation of deferred tax assets and liabilities attributable to the items Loans and advances to customers or Loan loss provisions was modified. Such adjustments enable a truer and fairer view of the net assets, financial position and earnings of the Group to be presented. This adjustment has no effect on the statement of financial position nor the income statement, but only affects the Notes disclosures. The comparative figures were adjusted accordingly (see Notes 34 and 44).

Disclosures for the previous year period were adjusted. The following tables show the effects of the adjustments on the income statement, the earnings per share and the reconciliation with total comprehensive income, as well as the effects of the adjustments on the statement of financial position.

ADJUSTMENT 2013

STATEMENT OF INCOME

(€ m)	2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	**Following adjustment**	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	**Total following adjustment**
Interest income	6,105	11	6,116	–19	6,097
Interest expenses	–5,022	–	–5,022	1	–5,021
Net income from hybrid financial instruments	–147	–	–147	–	–147
Net interest income	**936**	**11**	**947**	**–18**	**929**
Net commission income	104	–	104	–	104
Result from hedging	9	–	9	–	9
Net trading income	189	–	189	4	193
Net income from financial investments	276	–	276	–	276
Net income from financial investments accounted for under the equity method	–15	–	–15	–	–15
Total income	**1,499**	**11**	**1,510**	**–14**	**1,496**
Loan loss provisions	–882	–	–882	49	–833
Administrative expenses	–732	–	–732	–23	–755
Other operating income	22	–	22	22	44
Net income before restructuring	**–93**	**11**	**–82**	**34**	**–48**
Result from restructuring	–56	–	–56	–	–56
Expenses for government guarantees	–414	–	–414	–	–414
Net income before taxes	**–563**	**11**	**–552**	**34**	**–518**
Income taxes	–251	–3	–254	3	–251
Group net result	**–814**	**8**	**–806**	**37**	**–769**
Group net income attributable to non-controlling interests	–2	–	–2	–	–2
Group net result attributable to HSH Nordbank shareholders	–812	8	–804	37	–767

EARNINGS PER SHARE

(€)	2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	**Following adjustment**	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	**Total following adjustment**
Undiluted	–2.69	0.03	–2.66	0.12	–2.54
Diluted	–2.69	0.03	–2.66	0.12	–2.54
Number of shares (millions)	**302**	**–**	**302**	**–**	**302**

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	**Following adjustment**	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	**Total following adjustment**
Group net result	**–814**	**8**	**–806**	**37**	**–769**
Income and expense that will be reclassified to the income statement at a later date					
Changes in					
Revaluation reserve (before taxes)	104	–	104	–	104
of which from exchange rate effects	–7	–	–7	–	–7
Income taxes recognised	–15	–	–15	–	–15
of which from exchange rate effects	1	–	1	–	1
	89	**–**	**89**	**–**	**89**
Currency conversion reserve	–5	–	–5	–	–5
	–5	**–**	**–5**	**–**	**–5**
Changes in other net income from financial investments accounted for under the equity method	3	–	3	–	3
	3	**–**	**3**	**–**	**3**
Changes in non-current assets held for sale and disposal groups	3	–	3	–	3
	3	**–**	**3**	**–**	**3**
Subtotal	**90**	**–**	**90**	**–**	**90**
Income and expense that will not be reclassified to the income statement at a later date					
Changes in					
Revaluation reserve (before taxes)	–47	–	–47	–	–47
Income taxes recognised	16	–	16	–	16
	–31	**–**	**–31**	**–**	**–31**
Actuarial gains/losses (before taxes)	15	–	15	–	15
Income taxes recognised	–5	–	–5	–	–5
	10	**–**	**10**	**–**	**10**
Subtotal	**–21**	**–**	**–21**	**–**	**–21**
Other comprehensive income for the period	**69**	**–**	**69**	**–**	**69**
Total comprehensive income	**–745**	**8**	**–737**	**37**	**–700**
Total comprehensive income attributable to non-controlling interests	–2	–	–2	–	–2
Total comprehensive income attributable to HSH Nordbank shareholders	–743	8	–735	37	–698

ADJUSTMENT 2013 BALANCE SHEET

ASSETS

(€ m)	2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	**Following adjustment**	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	**Total following adjustment**
Loans and advances to banks	5,156	–	5,156	2	5,158
Loans and advances to customers	69,079	39	69,118	–649	68,469
Loan loss provisions	–3,804	–	–3,804	221	–3,583
Trading assets	9,049	–	9,049	–4	9,045
Financial investments	21,255	–	21,255	1	21,256
Property, plant and equipment	215	–	215	265	480
Investment property	68	–	68	199	267
Deferred tax assets	1,222	–	1,222	4	1,226
Other assets	364	–	364	11	375
Other items (without adjustment)	6,418	–	6,418	–	6,418
Total assets	**109,022**	**39**	**109,061**	**50**	**109,111**

ADJUSTMENT 2013 BALANCE SHEET

LIABILITIES

(€ m)	2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	**Following adjustment**	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	**Total following adjustment**
Liabilities to customers	40,697	–	40,697	–35	40,662
Trading liabilities	7,102	–	7,102	1	7,103
Provisions	1,360	–	1,360	34	1,394
Current tax liabilities	202	–	202	1	203
Deferred tax liabilities	27	12	39	–	39
Other liabilities	1,154	–	1,154	21	1,175
Equity	4,524	27	4,551	28	4,579
Share capital	3,018	–	3,018	–	3,018
Capital reserve	594	–	594	–	594
Retained earnings	1,768	19	1,787	–12	1,775
Revaluation reserve	27	–	27	–	27
Currency conversion reserve	–64	–	–64	3	–61
Other net income from financial investments accounted for under the equity method	3	–	3	–	3
Other net income from non-current assets held for sale and disposal groups	3	–	3	–	3
Group net result	–812	8	–804	37	–767
Total before non-controlling interests	4,537	27	4,564	28	4,592
Non-controlling interests	–13	–	–13	–	–13
Other items (without adjustment)	53,956	–	53,956	–	53,956
Total equity and liabilities	**109,022**	**39**	**109,061**	**50**	**109,111**

5. CONSOLIDATION PRINCIPLES

The consolidated financial statements present the parent company HSH Nordbank AG together with the consolidated subsidiaries as an economic unit. Subsidiaries also include structured entities that are controlled by HSH Nordbank. Structured entities are entities in which voting rights and similar rights do not constitute the dominant factor in assessing control. These also include entities whose relevant activities are predetermined by a narrow objective defined in the articles of association/partnership agreement or in other contractual agreements or in which there is a lasting restriction of the decision-making powers of the management. HSH Nordbank mainly includes ABS conduits and other securitisation and refinancing vehicles as well as investment funds (including private equity funds) within structured entities. Structured entities are included in the scope of consolidation if they are subsidiaries and are material to the presentation of the net assets, financial condition and earnings or to the assessment of the risk situation of the HSH Nordbank Group. Disclosures of the nature of the risks in connection with shares in consolidated structured entities are included in Note 6. Reference is made to Note 58 with regard to unconsolidated structured entities.

Control over a subsidiary prevails when HSH Nordbank is exposed to variable incoming cash flows from the exposure to this entity or has rights to such cash flows and is able to influence the cash flows through its decision-making power over the entity. HSH Nordbank possesses decision-making power over an entity if it has rights that confer on it, either directly or indirectly via third parties, the current possibility of controlling the entitys relevant activities. Relevant activities are deemed to be those which materially affect the entitys incoming cash flows depending on the nature and purpose of the entity. Variable incoming cash flows are all those which can vary depending on the entitys performance. Incoming cash flows from the exposure to another entity may accordingly be positive as well as negative. Variable incoming cash flows include dividends, fixed and variable interest, remuneration and fees, fluctuations in the value of investments and other financial advantages.

The assessment as to whether decision-making power exists is made on the basis of the relevant activities of the entity and the powers of HSH Nordbank to influence them. Voting rights as well as other contractual rights are considered in reviewing the control of relevant activities provided there are no economic or other obstacles to the exercise of the existing rights and HSH Nordbank would benefit from exercising those rights. The Bank has decision-making power based on voting rights if as a result of equity instruments or contractual agreements HSH Nordbank holds more than 50% of the voting rights and this proportion of the voting rights is allied to a substantial decision-making right with regard to the relevant activities. Other contractual rights that may facilitate a controlling influence are primarily rights to appoint members of executive bodies, recall them, to liquidate and to make other decisions. Contractual agreements that do not grant HSH Nordbank any rights of influence but only serve to protect its interests as a creditor and to this extent serve the protection of a loan, are not taken into account when assessing the decision-making power. HSH Nordbank controls a subsidiary if based on the total contractual rights it has the possibility to control the relevant activities of the entity.

A subsidiary is also controlled by HSH Nordbank if the decision-making power is exercised by third parties in the interests of and for the benefit of HSH Nordbank. Whether such delegated decision-making power exists is judged by considering the existing powers to appoint members of executive bodies, the legal and de facto scope for making decisions and the structure of the economic incentives. HSH Nordbank itself does not exercise any delegated powers to make decisions that would benefit third parties.

Due to agreements ceding control and ongoing insolvency proceedings, HSH Nordbank in individual cases holds voting rights in companies exceeding 50% which do not result in a corresponding degree of control. In such cases, for purposes of defining the scope of consolidation as well as for purposes of preparing the list of shareholdings, the voting rights ratios were adjusted to the extent deemed reasonable under the special circumstances described above. Conversely, HSH Nordbank possesses a controlling influence in individual cases based on contractual rights, although it holds less than 50% of the voting rights.

Shares held by third parties in the equity of the subsidiary are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Non-controlling equity shares in subsidiaries and the resulting profit or loss as well as summarised financial information on subsidiaries with material non-controlling shares are presented in Note 5. Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are to be classified as debt in the consolidated financial statements under IAS 32 and disclosed under Other liabilities. Changes in value are recognised in Other operating income/expenses in the consolidated income statement.

Subsidiaries are included by way of full consolidation in the consolidated financial statements of HSH Nordbank. In consolidating the capital the carrying amount of the equity holding in each subsidiary is set off against the share of HSH Nordbank in the subsidiarys equity capital. Goodwill connected to this is accounted for using the acquisition method in accordance with IFRS 3. Intra-Group receivables, liabilities and income are eliminated within the framework of debt and/or expense and income consolidation for the purpose of the consolidated financial statements. Expenses and gains arising from the transfer of assets within the Group are eliminated as well.

Shares in subsidiaries which were not consolidated because of their subordinate importance for HSH Nordbank Groups net assets, financial condition and earnings are accounted for as available for sale (AfS) financial instruments using the recognition and measurement guidelines of IAS 39.

Structured entities within the meaning of IFRS 12 are entities designed so that voting rights or similar rights do not represent the dominant factor in terms of assessing whether control is being exercised. Voting rights in such entities only relate to contractually specified administrative functions. Similar rights would refer, for example, to potential voting rights such as options on voting rights.

HSH Nordbank does not classify single asset companies and project companies as structured entities, because as a rule they are not designed to ensure that holding voting rights is only for the purpose of performing contractually governed administrative functions. Structured entities are also characterised by a narrowly defined business purpose, a limited field of activity and comparatively low equity capital. If a company is not controlled by voting rights but by means of contractual arrangements, they are classified as a structured entity.

Joint arrangements are based on contractual agreements under which two or more partners establish an economic activity under shared management. Joint management is present if the partners have to cooperate in order to steer the relevant activities of the joint arrangement and decisions require unanimous approval from the participating partners. Such a joint arrangement is a joint venture if the partners who exercise joint management hold rights and obligations to the net assets of the arrangement. If, conversely, the partners have direct rights to the assets or liabilities attributable to the joint arrangement for their debts, the arrangement is a joint operation. If a joint arrangement is embodied in a legally independent partnership or corporation with its own assets, so that HSH Nordbank only has a proportionate claim to the net assets of the company based on its shares in the company, this entity is normally a joint venture. In the case of joint arrangements in the form of German civil law partnerships (Gesellschaft bürgerlichen Rechts) (e.g. working groups) in which as a result of the legal form the asset and financial structure is not separate from the partners, then in addition the contractual provisions and the purpose of the joint arrangement are used as the basis for determining whether it is a joint venture or a joint operation. If neither the legal form nor the contractual provisions or other facts and circumstances provide an indication that HSH Nordbank has direct rights to the assets and/or obligations for the debts of the joint arrangement, it is a joint venture.

Associates are companies where HSH Nordbank AG can exercise a significant but not controlling influence directly or indirectly via subsidiaries. Significant influence refers to the possibility of influencing decisions affecting the financial and business policy of another entity but not controlling it. Significant influence is found in principle if HSH Nordbank as an investor directly or indirectly holds 20% or more of the voting rights through subsidiaries. It may also be an associate if HSH Nordbank has less than 20% of the voting rights but because of other factors has the possibility of influencing the companys decisions concerning financial and business policy. This in particular includes the representation of HSH Nordbank in the entitys decision-making body and contractual rights to manage or dispose of assets including investment decisions in the case of investment funds. If HSH Nordbank only holds rights to approve, agree or veto, significant influence is not presumed to exist.

Interests in joint ventures and associates that are material to the proper presentation of the Groups net assets, financial position and results of operations are consolidated under the equity method. In doing so, the Groups interest in a joint venture/share in an associate is initially measured at cost of acquisition and thereafter increased or decreased depending on the Groups share in the joint venture's/associate's profit or loss. The relevant shares are stated in the statement of financial position under a separate line item. Details of the risks associated with the shares of HSH Nordbank in joint ventures and associates as well as summarised financial information on these entities are presented in Note 6. With regard to joint ventures and associates that in themselves are not material, the summarised financial information is presented in aggregate form.

Interest in joint ventures and associates, respectively, which were not consolidated under the equity method because of their subordinate importance for HSH Nordbank Groups net assets, financial conditions and earnings have been stated in the statement of financial position as AfS instruments using the reporting and measurement guidelines of IAS 39 and are reported under financial investments. Where HSH Nordbank has no information as of the reporting date which would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost analogously to the practice for unconsolidated subsidiaries.

6. SCOPE OF CONSOLIDATION

The scope of consolidation defined taking IFRS 10 into consideration for the first time in the 2014 reporting year includes 64 fully consolidated subsidiaries in addition to the parent company HSH Nordbank AG, Hamburg/Kiel (31 December 2013: 74; without consideration of IFRS 10: 59).

Three associates consolidated under the equity method as at the balance sheet date (31 December 2013: three, without consideration of IFRS 10: seven) and one joint venture (31 December 2013: one) are included in the consolidated financial statements.

The following subsidiaries, associates and joint ventures are included in the consolidated financial statements of HSH Nordbank AG:

CONSOLIDATED COMPANIES

Subsidiaries of which HSH Nordbank directly or indirectly holds 100 % of the equity interests	Registered office	**2014 Share of equity capital in %**	2013 Share of equity capital in %
1. Avia Management S.à.r.l.	Luxembourg	100.0	100.0
2. Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
3. CAPCELLENCE Erste Fondsbeteiligung GmbH[3)]	Hamburg	100.0	100.0
4. CAPCELLENCE Holding GmbH & Co. KG (former: Capcellence Private Equity Beteiligungen GmbH & Co. KG[6)]	Hamburg	100.0	100.0
5. CAPCELLENCE Zweite Fondsbeteiligung GmbH[4)]	Hamburg	100.0	100.0
6. CHIOS GmbH	Hamburg	100.0	100.0
7. DEERS Green Power Development Company S.L.[8)]	Madrid	100.0	100.0
8. GODAN GmbH	Hamburg	100.0	100.0
9. HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
10. HSH Facility Management GmbH	Hamburg	100.0	100.0
11. HSH Gastro+Event GmbH[5)]	Hamburg	100.0	100.0
12. HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
13. HSH N Financial Securities LLC	New York	100.0	100.0
14. HSH N Funding I[9)]	George Town	100.0	66.3
15. HSH N Residual Value Ltd.	Hamilton	100.0	100.0
16. HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
17. HSH Private Equity GmbH	Hamburg	100.0	100.0
18. Ilex Integra GmbH (former: DMS Beteiligungs GmbH[1)]	Hamburg	100.0	100.0
19. ISM Agency LLC[7)]	New York	100.0	100.0
20. Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
21. Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0
22. Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0	100.0
23. Solar Holding S.à.r.l.	Luxembourg	100.0	100.0
24. Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
25. 2200 Victory LLC	Dover	100.0	100.0

CONSOLIDATED COMPANIES

Subsidiaries with non-controlling interests	Registered office	2014 Share of equity capital in %	2013 Share of equity capital in %
26. Adessa Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG	Wiesbaden	–	–
27. AGV Irish Equipment Leasing No. 1 unlimited	Dublin	99.6	99.6
28. Amentum Aircraft Leasing No. Five Limited[9]	Dublin	49.0	49.0
29. Amentum Aircraft Leasing No. Six Limited[9]	Dublin	49.0	49.0
30. Amentum Aircraft Leasing No. Ten Limited[9]	Dublin	49.0	49.0
31. Amentum Aircraft Leasing No. Three Limited[9]	Dublin	49.0	49.0
32. Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
33. Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
34. Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
35. Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
36. Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
37. Capcellence Vintage Year 12 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
38. Capcellence Vintage Year 13 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	83.3
39. CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG[2]	Hamburg	83.3	–
40. Franz Portfolio 2 GmbH & Co. KG[9]	Hamburg	–	–
41. HSH Care+Clean GmbH[5]	Hamburg	51.0	51.0
42. HSH Move+More GmbH[5]	Kiel	51.0	51.0
43. HSH N Funding II[9]	George Town	56.3	56.3
44. Kontora Family Office GmbH	Hamburg	75.0	75.0
45. K/S Angered	Hellerup	–	–
46. LCG Finance II B.V.[9]	Vught	–	–
47. Life Insurance Fund Elite LLC[9]	New York	–	–
48. Life Insurance Fund Elite LLC Trust[9]	New York	–	–
49. Mitco Real Estate A S.à.r.l.[9]	Luxembourg	–	–
50. Mitco Resolution 1 S.à.r.l.[9]	Luxembourg	–	–
51. Mitco Resolution 2 S.à.r.l.[9]	Luxembourg	–	–
52. Mitco Resolution 3 S.à.r.l.[9]	Luxembourg	–	–
53. Mitco Resolution 4 S.à.r.l.[9]	Luxembourg	–	–
54. Mitco Resolution 5 S.à.r.l.[9]	Luxembourg	–	–
55. Next Generation Aircraft Finance 2 S.à.r.l.[9]	Munsbach	49.0	49.0
56. Next Generation Aircraft Finance 3 S.à.r.l.[9]	Munsbach	49.0	49.0
57. OCEAN Funding 2013 GmbH[9]	Frankfurt a.M.	–	–
58. RDM Limited[9]	George Town	–	–
59. RESPARCS Funding Limited Partnership I[9]	Hong Kong	0.0	0.0
60. RESPARCS Funding II Limited Partnership[9]	St. Helier	0.0	0.0
61. Senior Assured Investment S.A.[9]	Luxembourg	–	–
62. Senior Preferred Investments S.A.[9]	Luxembourg	–	–
63. SPE II Pissarro SAS[9]	Paris	–	–
64. Stratus ABF S.A.[9]	Luxembourg	–	–

COMPANIES CONSOLIDATED AT EQUITY

	Registered office	2014 Share of equity capital in %	2013 Share of equity capital in %
Associates consolidated under the equity method			
1. Belgravia Shipping Ltd.	London	33.3	33.3
2. Relacom Management AB	Stockholm	21.2	21.2
3. SITUS NORDIC SERVICES ApS	Copenhagen	40.0	40.0
Joint ventures consolidated under the equity method			
4. PRIME 2006-1 Funding Limited Partnership[9]	St. Helier	47.5	47.5

[1] Subsidiary of Bu Wi Beteiligungsholding GmbH.
[2] Subsidiaries of Capcellence Holding GmbH & Co. KG.
[3] Subsidiaries of Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG.
[4] Subsidiaries of Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG.
[5] Subsidiaries of HSH Facility Management GmbH.
[6] Subsidiary of HSH Private Equity GmbH.
[7] Subsidiary of Life Insurance Fund Elite LLC.
[8] Subsidiary of Solar Holdings S.à.r.l.
[9] Structured entities

I. Information on subsidiaries – changes to the scope of consolidation

A) Additions

The reassessment of the control relationships pursuant to IFRS 10 resulted in a different classification of five companies of Amentum group mentioned in the following list, which have thus far been classified as associates based on a share of 49 % of the voting rights held by HSH Nordbank. These now represent subsidiaries as defined in IFRS 10 as the decision-making power is exercised by third parties (agents) in the interest and to the benefit of HSH Nordbank. This control situation is also the reason for the inclusion of ten further companies listed below by means of a full consolidation pursuant to IFRS 10.

- Amentum Aircraft Leasing No. Five Limited, Dublin
- Amentum Aircraft Leasing No. Six Limited, Dublin
- Amentum Aircraft Leasing No. Ten Limited, Dublin
- Amentum Aircraft Leasing No. Three Limited, Dublin
- Amentum Aircraft Leasing No. Two Limited, Dublin
- Franz Portfolio 2 GmbH & Co. KG, Hamburg
- LCG Finance II B.V., Vught, Luxembourg
- Mitco Real Estate A S.à.r.l., Luxembourg
- Mitco Resolution 1 S.à.r.l., Luxembourg
- Mitco Resolution 2 S.à.r.l., Luxembourg
- Mitco Resolution 3 S.à.r.l., Luxembourg
- Mitco Resolution 4 S.à.r.l., Luxembourg
- Mitco Resolution 5 S.à.r.l., Luxembourg
- RDM Limited, George Town
- SPE II Pissarro SAS, Paris

The structured entities OCEAN Funding 2013 GmbH, Frankfurt a.M., as well as Stratus ABF S.A., Luxembourg, are included for the first time in the scope of consolidation in the period under review by means of a full consolidation. The companies have started business in the period under review and are controlled by HSH Nordbank AG through contractual rights.

In addition, the following three companies, in which HSH Nordbank AG holds the majority of voting rights, are included for the first time in the scope of consolidation in the period under review by means of a full consolidation.

- CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg
- CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG, Hamburg
- CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg

The interim report as at 30 June 2014 reported on a change in the method of consolidation used for Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG and Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG. These companies have since been included in the consolidated financial statements under the equity method in accordance with the 33.3 % share of the voting rights held in each of them. As a result of an increase in the capital and voting rights during the fourth quarter, both companies are now included as subsidiaries by way of full consolidation, as they were at the start of the period. The change of the consolidation method in the course of the year did not result in any major effect on earnings.

There were no business combinations within the meaning of IFRS 3 in the period under review.

B) Disposals

Contrary to the inclusion as at 31 December 2013, the following companies are no longer included in the scope of fully consolidated companies:

- AGV Irish Equipment Leasing No. 4 Limited, Dublin
- Anthracite Rated Investments (Jersey) Ltd., St. Helier
- CPM Luxembourg S.A., Luxembourg
- CPM Securitisation Fonds S.A., Luxembourg
- DMS Dynamic Micro Systems Semiconductor Equipment GmbH, Radolfzell
- Feronia GmbH, Hamburg
- GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg
- HSH Corporate Finance GmbH, Hamburg
- HSH Debt Advisory ApS, Copenhagen
- HSH Kunden- und Kontenservice GmbH, Hamburg
- HSH Restructuring Advisory ApS, Copenhagen
- HSH Security GmbH, Kiel
- Sotis S.à.r.l., Luxembourg
- Teukros GmbH, Hamburg

As part of an agreement dated 23 May 2014, the preference shares which HSH Nordbank AG held until that date in AGV Irish Equipment Leasing No. 4 Limited were withdrawn by the company. The loss of control resulting from this change entailed the deconsolidation of the company. This resulted in a loss in the amount of € 1.4 million, which is recognised under the item Other operating income. Based on contractual arrangements, the company now is to be classified as a joint venture as of 31 December 2014 and is not included in the consolidated financial statements owing to lack of materiality.

The deconsolidation of Anthracite Rated Investments (Jersey) Ltd. is based on the return of the note in the company held up to then by HSH Nordbank AG on 5 September 2014. The possession of the note was linked to the contractual right to control the relevant activities of Anthracite Rated Investments (Jersey) Ltd. The deconsolidation did not have any major effect on earnings.

The companies CPM Luxembourg S.A. and CPM Securitisation Fonds S.A. were deconsolidated due to their liquidation with effect from 28 November 2014. The deconsolidation did not give rise to any material income effect.

With effect from 30 April 2014, HSH Nordbank AG disposed of its shares indirectly held until that date in DMS Dynamic Micro Systems Semiconductor Equipment GmbH and consequently lost its control over the company. Income in the amount of € 15 million resulted from the deconsolidation, which is recognised under the item Other operating income.

The companies Feronia GmbH, HSH Kunden- und Kontenservice GmbH as well as Teukros GmbH were merged with the fully consolidated subsidiary HSH Auffang- und Holdinggesellschaft mbH & Co. KG with effect from 1 June 2014, 1 February 2014 and 1 December 2014, respectively. These mergers were entered in the commercial Register on 24 June 2014, 9 May 2014 and 12 January 2015, respectively.

The company GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG was expanded to the unconsolidated subsidiary Arbutus GmbH with effect from 27 March 2014 before Arbutus GmbH itself grew to HSH Auffang- und Holdinggesellschaft mbH & Co. KG on 9 May 2014.

Furthermore, the company HSH Corporate Finance GmbH was merged with HSH Nordbank AG with economic effect from 1 April 2014. The entry in the commercial register took place on 1 September 2014.

The companies HSH Debt Advisory ApS and HSH Restructuring Advisory ApS were deconsolidated due to their liquidation with effect from 8 December 2014. The deconsolidation did not have any major effect on earnings.

Furthermore, the company HSH Security GmbH was merged with HSH Facility Management GmbH with economic effect from 1 January 2014. The entry in the commercial register took place on 1 September 2014.

The company Sotis S.á.r.l. was no longer consolidated following its liquidation on 18 June 2014. The deconsolidation did not have any major effect on earnings.

The company Amentum Aircraft Leasing No. Two Limited was classified as a subsidiary within the framework of the reassessment of the control situation in line with IFRS 10 and as a result was included in the consolidated financial statements by way of full consolidation (see additions). As of 23 December 2014, HSH Nordbank sold all its shares in this company held up to then through Avia Management S.à.r.l., and as a result it lost control of Amentum Aircraft Leasing No. Two Limited. A loss of € 4.7 million resulted from the deconsolidation, which is disclosed under Other operating income. Within the framework of the transaction in which the loan relationship between HSH Nordbank AG and Amentum Aircraft Leasing No. Two Limited was also terminated, there were additional effects on the operating result which almost compensate for the loss through deconsolidation.

C) Modification of holdings in subsidiaries

There were no material changes in ownership interests by HSH Nordbank in a subsidiary in the period under review which lead to a loss of control.

D) Significant restrictions

Assets are held within the Group that are subject to contractual, statutory or regulatory disposal restrictions, which restrict the Groups ability to access these assets and use them to meet its liabilities.

Collateral used as security for over-the-counter derivatives, borrowings from central banks and other credit institutions as well as for securities repurchase agreements is described in Note 62.

II. Details of subsidiaries with material non-controlling shares

There are no subsidiaries with non-controlling shares material to HSH Nordbank as of the reporting date.

III. Information on the shares in associates and joint ventures accounted for under the equity method

A) General information

The following companies included in the scope of consolidation as at 31 December 2013 will no longer be consolidated under the equity method:

- Amentum Aircraft Leasing No. Five Limited, Dublin
- Amentum Aircraft Leasing No. Six Limited, Dublin
- Amentum Aircraft Leasing No. Three Limited, Dublin
- Amentum Aircraft Leasing No. Two Limited, Dublin

The shares of the associates Railpool Holding GmbH & Co. KG and Nobis Asset Management S.A. disclosed in accordance with IFRS 5 for financial year 2013 were all sold as of 20 May 2014 and 16 December 2014 respectively.

Although HSH Nordbank does not hold any voting rights in Prime 2006-1 Funding Limited Partnership, joint control is exercised in this case with other shareholders, because important decisions have to be made explicitly on a unanimous basis.

The following overview shows the material associates and joint ventures accounted for under the equity method. As at the reporting date HSH Nordbank does not hold shares in joint ventures material to the Bank that are accounted for under the equity method.

(in %)			Share of equity capital (share of voting rights)	
	Business activity	Registered office	**2014**	2013
Relacom Management AB	Holding company for a Scandinavian telco service provider group	Stockholm, Sweden	21.2 (21.2)	21.2 (21.2)

The company Relacom Management AB is a non-strategic investment of HSH Nordbank AG.

B) Changes in equity holdings

There were no changes in ownership interests by HSH Nordbank in an associate or joint venture in the period under review that caused a loss of joint control or of significant influence.

A) Summarised financial information

The following table shows the summarised financial information for Relacom Management AB, a material associate of HSH Nordbank, and a reconciliation to the carrying amount measured under the equity method of the share held by HSH Nordbank AG as of 31 December 2014 and 31 December 2013:

(€ m) **31.12.2014**	**Relacom Management AB**
Revenue/Sales revenue	522
Net loss for the year	– 10
Other income or loss	– 10
Total comprehensive income	**– 20**
Total current assets	142
Total non-current assets	344
Total current liabilities	143
Total non-current liabilities	203
Net assets of the associate	**140**
HSH Nordbank AG's share (%)	21.2
in the net assets of the associate	30
Goodwill	–
Other adjustments from the measurement at fair value upon addition of the equity holding accounted for under the equity method	– 40
Accumulated loss no longer recognised	– 10
Carrying amount of HSH Nordbank AG's share accounted for under the equity method	**–**

(€ m) **31.12.2013**	Relacom Management AB
Revenue/Sales revenue	69
Net loss for the year	– 68
Other income or loss	3
Total comprehensive income	**– 65**
Total current assets	133
Total non-current assets	319
Total current liabilities	132
Total non-current liabilities	195
Net assets of the associate	**125**
HSH Nordbank AG's share (%)	21.2
in the net assets of the associate	27
Goodwill	–
Other adjustments from the measurement at fair value upon addition of the equity holding accounted for under the equity method	– 40
Accumulated loss no longer recognised	– 13
Carrying amount of HSH Nordbank AG's share accounted for under the equity method	**–**

The summarised financial disclosures relating to the remaining associates and joint ventures included in the consolidated financial statements under the equity method, which in themselves are not material to HSH Nordbank, amount in the case of all components to individual values of less than € 1 million and are therefore not considered here due to the lack of materiality. The effects of entities no longer consolidated under the equity method can be found in Note 14.

Financial statements of Belgravia Shipping Ltd. prepared as at 30 June 2014 were used to consolidate Belgravia Shipping Limited as at 31 December 2014. There are no findings indicating that material transactions or other material events between this reporting date and the reporting date of HSH Nordbank would have to be taken into account.

The balance sheet date of Prime 2006-1 Funding Limited Partnership deviates by three months from the balance sheet date of HSH Nordbank (financial years ends on 30 September). The financial statements as at the 30 September 2014 reporting date were used for inclusion of the company in the present consolidated financial statements. There were no material events that would require an adjustment to the reporting date of the consolidated financial statements.

B) Risks and restrictions

In connection with companies consolidated under the equity method, HSH Nordbank is neither exposed to risks from unrecognised obligations to this company nor are there any restrictions within the meaning of IFRS 12.22 vis-à-vis these companies.

Additional information on companies to be accounted for under the equity method may be found under Notes 14 and 30.

IV. Information on consolidated structured entities

HSH Nordbank's scope of consolidation includes 27 fully consolidated structured entities. This results in 19 fully-consolidated structured entities based on a principal-agent relationship or contractual rights.

The following disclosures represent the type of risks in connection with business relationships with consolidated structured entities:

HSH Nordbank AG is the sponsor of a consolidated structured entity and benefits from this company through the expanded funding volume. For this asset-based funding transaction, HSH Nordbank AG has transferred claims to the company for which, because of the opportunities and risks remaining with HSH Nordbank AG there has been no derecognition of the assets on the balance sheet. In addition to the granting of a junior loan by HSH Nordbank AG, the structured entity is funded in particular through the issuance of a senior promissory note bond. HSH Nordbank AG has guaranteed to the holder of the senior promissory note bond that its payment claims will be serviced in the event that the structured entity defaults. In the case of the structured entity HSH Nordbank AG has a repurchase obligation applying to the receivables being transferred should specific contractually defined events occur.

HSH Nordbank AG is the sponsor of securitisation vehicles whose business purpose is the placement of acquired Silent Participations of HSH Nordbank AG through the issuance of securities on the capital market. HSH Nordbank has provided these consolidated structured entities with a guarantee facility. This guarantee facility serves to hedge the payment obligations of the structured entities in respect of the holders of the securities. These payment obligations arise if payment claims result for the structured entities against HSH Nordbank AG from the Silent Participations held by them.

HSH Nordbank AG has granted liquidity and credit facilities to consolidated structured entities. In terms of the amounts, these are of minor significance for the Groups financial position.

HSH Nordbank AG has a contractual obligation to bear the operating expenses for consolidated structured entities.

During the reporting year, HSH Nordbank did not provide consolidated or unconsolidated structured entities with any non-contractual support.

As of the balance sheet date there is no intention to provide a consolidated structured entity any financial or other support within the definition of IFRS 12.17.

7. MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS

As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the consolidated financial statements of HSH Nordbank. All estimates and judgments necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, are continuously reassessed and are based on past experience and other factors including expectations of future events which appear reasonable under the circumstances. Specifically, the determination of the loan loss provisions taking into account the effects of the guarantee (see Note 8.I.C), future cash flows of hybrid financial instruments (see Note 8.I.E.), deferred taxes (see Note 8.III.6), determination of fair values (see Note 8.I.D.), provisions and pensions and similar obligations and other provisions (see Note 8.III.5) and goodwill (see Note 8.III.1) are affected by uncertainty. Where estimates were necessary on a large scale, the underlying assumptions are presented in greater detail in the relevant note.

With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods include:

- use of the fair value option for financial instruments (see Note 8.I.A);
- not classifying financial instruments as held to maturity (HtM);
- applying the current reclassification rules under IAS 39 (see Note 51);
- determining fair values for certain financial instruments, including a judgement regarding the existence of an active or inactive market.

8. ACCOUNTING POLICIES

I. Financial instruments

A) Categorisation of financial assets and liabilities

A financial instrument is an agreement which simultaneously creates a financial asset for one company and a financial liability or equity instrument for the other company. Under IAS 39 all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Financial assets and liabilities are stated in the statement of financial position if HSH Nordbank is counterparty under the contract for the corresponding financial instrument. Expected future transactions or contracts are not recognised.

Provided that they fulfil the criteria of IAS 39, pending transactions in the form of derivatives must always be stated in the statement of financial position as financial assets or liabilities and measured at fair value on the trading date. Spot transactions in non-derivative financial assets (so-called regular way contracts) are recognised as of the settlement date. The change in fair value between the trading date and settlement date is recognised according to the measurement rules for the category of asset. This means that changes in value of financial instruments in the category available for sale must be recognised in the revaluation reserve, while changes in value for the categories designated at fair value and held for trading are recognised in the income statement in Net trading income.

Other non-derivative financial assets which do not result from spot transactions, for example loans granted, are recognised as of the settlement date.

Non-derivative financial liabilities are recognised if one of the two parties to the contract has fulfilled the contract (settlement date).

Initial recognition is measured at fair value, which generally corresponds to the acquisition cost of the financial instrument.

Derecognition of a financial asset takes place on the settlement date. In the case of derivatives, derecognition takes place on the trading date.

Subsequent measurement of financial assets and liabilities depends on which IAS 39 category they were assigned to at the time of acquisition. The following distinctions are made here:

1. Financial assets and liabilities which are financial instruments at fair value recognised in profit or loss include both instruments held for trading (HfT) as well as instruments which are voluntarily and irrevocably designated at fair value (DFV) at the time of first recognition:

   a. All financial instruments held for trading and derivatives which are not part of a hedge accounting transaction are classified as held for trading (HfT).

   They are initially and subsequently measured at fair value. Transaction costs are recognised through profit or loss on acquisition date. In accordance with IAS 39.43, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value and recognised in profit or loss. Where a market price exists in the form of an exchange quotation, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.

   These trading instruments and derivatives are stated under trading assets or trading liabilities on the statement of financial position. Ongoing measurement gains and losses and realised gains and losses on these financial instruments are incorporated into Net trading income. Interest income and expenses as well as dividends arising from HfT transactions are recorded under Net interest income.

   b. In addition, certain complex structures arising from issued instruments and assets that contain derivatives requiring separation, as well as certain financial instruments which are a component of an economic hedge without satisfying the requirements of IAS 39 for hedge accounting, are also classified as designated at fair value (DFV). Furthermore, the fair value option may be applied at HSH Nordbank to portfolios whose management and performance measurement is done on a fair value basis in accordance with the documented risk management strategy. This is possible, for example, with special funds and similar assets to be consolidated.

   The designation at HSH Nordbank serves to avoid or reduce accounting mismatches from securities and loans hedged with interest rate derivatives. In addition, the fair value option is generally applied to any structures otherwise required to be segregated.

   Financial assets designated as DFV primarily relate to positions in the credit investment portfolio (asset-backed securities, synthetic collateralized debt obligations, credit linked notes) and convertible bonds. Financial liabilities designated as DFV specifically comprise structured registered and bearer instruments with imbedded interest, currency, equity and other risks.

   Financial instruments in the fair value option are stated at fair value. These financial instruments are stated under Loans and advances to banks, Loans and advances to customers, Financial investments and Liabilities to banks, Liabilities to customers, Securitised liabilities and Subordinated capital. Gains or losses arising from ongoing measurement and realised gains or losses are stated under Net trading income. Interest income and expenses for these financial instruments are stated under Net interest income. To the extent dividend income is received, it is disclosed under Net interest income.

2. Loans and receivables, which are stated in the statement of financial position at amortised cost:

   Non-derivative financial assets with fixed or determinable payments not traded on an active market when first recognised are shown under IAS 39.9 as loans and receivables (LaR). Exceptionally, this category also includes financial instruments which originally complied with the classification requirements as LaR and which have been reclassified from the HfT and AfS categories in accordance with the rules in IAS 39 (rev. 2008) because there was no longer any active market and there is an intention and ability to hold the financial asset for the foreseeable future or to maturity.

   An active market exists when quoted prices are regularly provided, e.g. by an exchange or a broker, and these prices are representative of actual transactions between arms-length third parties.

   Financial instruments in this category are stated at cost of acquisition, equivalent to fair value at the time of initial recognition and taking transaction costs into account. They are measured subsequently at amortised cost; whereby premiums or discounts are amortised according to the effective interest method over the term and recognised in Net Interest Income. Financial instruments in the LAR category are shown under Cash reserves, Loans and advances to banks and Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups or Other assets.

3. Financial assets available for sale (AfS) recognised at fair value under OCI and not taken through the income statement:

   The category available for sale (AfS) encompasses all non-derivative assets which cannot be assigned to any of the other categories. The Groups AfS holdings relate primarily to marketable fixed income securities, investment fund units and equity instruments such as interests in affiliated companies and equity holdings which are recognised in accordance with IAS 39. They are recognised under Cash reserves, Loans and advances to banks, Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups or Other assets.

   The initial measurement of financial assets available for sale is at the fair value at the time of acquisition plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. Subsequently, financial instruments AfS are measured at fair value in accordance with IAS 39.46, to the extent that this can be reliably determined. Particularly for equity securities which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39.A81. These are primarily equity instruments of unlisted companies for which no active market exists and realistic estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

   Changes in value to AfS instruments stated at fair value are not attributable to impairment, they are recorded in the revaluation surplus under Other comprehensive income (OCI) in equity (after allowing for deferred taxes), without affecting net income. By contrast, where hedged AfS instruments are concerned, the fluctuation relating to the hedged risk is recognised in the income statement under net income from hedges and is separately disclosed as an adjustment item arising from the portfolio fair value hedge.

   When an asset is sold and impaired the revaluation reserve is released through the income statement, so that the profit or loss is reflected in the income statement. Any write-ups required after impairment are recognised directly in equity in Other comprehensive income (OCI) for equity securities and recognised in profit or loss for debt securities.

   Amortisation of the difference between costs of acquisition and repayment amount for interest-bearing securities is stated under Net interest income, using the effective interest method.

4. Other liabilities (LIA):

   Other liabilities (LIA) include liabilities which are neither part of the trading portfolio nor classified as DFV.

   Financial liabilities are recognised at fair value at the time of issue plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. In subsequent periods, they are measured at amortised cost using the effective interest method.

B) Classification of financial instruments

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IAS 39 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The table below shows the classes of financial instruments at HSH Nordbank:

Measurement method	**Classes**	
	IAS 39 category	Statement of financial position item/sub-item
Financial instruments measured at amortised cost	Loans and Receivables (LaR)	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	Other liabilities (LIA)	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
Financial instruments measured at cost	Available for Sale (AfS)	Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
Financial instruments measured at fair value	Held for Trading (HfT)	Trading assets
		Non-current assets held for sale and disposal groups
		Trading liabilities
		Liabilities relating to disposal groups
	Designated at Fair Value (DFV)	Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
	Available for Sale (AfS)	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
	n/a	Positive fair value of hedging derivatives
		Negative fair values of hedging derivatives
Financial instruments measured on the basis of other standards	n/a	Receivables under finance leases
Off-balance-sheet transactions	n/a	Contingent liabilities
		Irrevocable loan commitments
		Other obligations

The 2014 classification for disclosures under IFRS 13 relating to the previous year is the same as that presented above.

In addition to the holding categories a distinction is also made with regard to the substance, characteristics and risk of the financial instruments for the classification of line items and sub-items in the statement of financial position as listed above that fall within the scope of IFRS 13 for disclosures under IFRS 13 relating to the reporting year. These are defined in each case for non-derivative instruments and derivatives and comprise the following:

Non-derivative financial instruments	Debt instruments
	Contractually linked instruments
	Equity or near-equity instruments
	Other trading portfolios
Derivatives	Interest rate derivatives
	Cross-currency interest rate derivatives
	Currency derivatives
	Credit derivatives
	Structured derivatives
	Other derivatives

Debt instruments are classified as follows for quantitative disclosures under IFRS 13 relating to financial instruments classified as Loans and receivables in the Loans and advances to banks and Loans and advances to customers balance sheet line items.

Statement of financial position item/sub-item	IAS 39 category	Classes
Loans and advances to banks	Loans and Receivables (LaR)	Debt instruments Payable on demand
		Debt instruments Other loans and advances
Loans and advances to customers	Loans and Receivables (LaR)	Debt instruments
		Retail customers
		Corporate clients
		Public authorities

C) Loan loss provision and impairment of financial instruments

At every reporting date, a check is performed to establish whether there is objective evidence for the impairment of a financial asset which is not measured at fair value recognised in profit or loss.

An impairment test is performed if, after initial recognition of a financial instrument, there is objective evidence of an impairment which would have an impact on the anticipated future cash flows from the financial instrument.

Criteria for impairment are essentially major financial difficulties for the borrower and indications that, based on current information, interest payments cannot be made and an improvement in the financial situation cannot be demonstrated. These also particularly include deferrals of interest and/or principal payments, concessions such as the granting of restructuring loans in particular for the purposes of supporting the liquidity of the borrower as well as the threat of insolvency.

In the case of securities, an initial check is performed as to whether the market value has decreased in the last twelve months, either permanently by at least 10 % or once in the last six months by 20 % below the cost of acquisition. This applies to both equity and debt instruments. If an equity instrument is involved, it must be written down to fair value in such a case.

However, if debt instruments meet either of these criteria, they are checked as part of a multi-step risk assessment process to see if there are any indicators for impairment. An indicator for an impairment of a security is, for example, a downgrade to non-investment grade. Where a security is already non-investment grade and the rating deteriorates by another three categories, this would be another indicator. Asset-backed security (ABS) transactions are checked to see if the over-collateralisation mechanisms have seen a significant deterioration since purchase or issue. For collateralised debt obligations (CDOs) the par value and interest cover tests can normally be used, for example.

Individual valuation allowances for fixed income are generally recognised in the amount of the difference between acquisition cost and fair value.

Identifiable risks from the lending business are dealt with by making individual valuation allowances for the loan or advance in question. To calculate the amount of the individual valuation allowance, the net present value of the anticipated cash flows arising from the loan or advance – that is achievable amount – is compared to its carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. If the carrying amount is greater than the realisable amount, an individual valuation allowance is created in the amount of the difference.

Assessments as to the need for loan loss provisions are frequently made on the basis of information which is partly provisional in nature (e.g. planned restructuring of borrowers, draft reorganisation reports) or are subject to increased volatility (e.g. collateral value of real estate and ships). This results in increased uncertainty regarding estimates of key parameters of loan loss provisions. In such cases the large degree of uncertainty is mainly due to the assessment of expected cash flows which are dependent on borrowers, industries, the assessment of the overall economy among other factors. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary.

With respect to risks which have already occurred but have not yet been identified, portfolio valuation allowances are created for groups of assets which are comparable on the basis of their default risk. When determining the portfolio valuation allowance, current developments in the economic environment are taken into account through parameters from an expected loss approach. The portfolio valuation allowances are determined as of the reporting date on the basis of risk parameters derived from the determination of internal economic counterparty default risk. For the calculation the parameters probability of default (PD), loss given default (LGD) and for off-balance-sheet items the credit conversion factor (CCF) are used. The loss identification period (LIP) in the calculation represents the interval between the occurrence of a default event and its announcement, transforming the expected loss approach to an incurred loss approach.

As key risk parameters respond with a time lag to developments in the real economy, this time lag is assessed to determine whether a collateral premium is to be recognised on the general loan loss provisions ("management adjustment").

Risks of uncertainties in assessment for the hedged portfolio are assumed by the guarantor under the second loss guarantee.

As the posting of the valuation allowance depends on the category of financial assets, the following distinctions must be made with regard to measurement:

a. Financial instruments belonging to the category LaR which are measured at amortised cost

   Impairments to loans and advances to banks and customers are recorded in separate valuation allowance accounts under the item Loan loss provisions. Loan loss provisions thus created are written off at the time when the amount of the actual default of the receivable is determined or the receivable defaults. Irrecoverable receivables for which no individual valuation allowance existed are written off directly as well as losses in the case of impaired receivables which exceed the recorded loan loss provisions. Impairments to LaR securities are recorded by means of direct write-downs to the securities. Recoveries on receivables written-off are recognised in profit or loss.

b. Financial instruments belonging to the AfS category which are measured at fair value in OCI and not recognised in the income statement

   In the case of permanent or significant impairment to an AfS equity financial instrument, a direct write-down is recognised in profit or loss. In the process, the cumulative gains taken through the income statement and recognised as equity are rebooked to net income from financial investments. This approach is used for AfS debt instruments accordingly. In the case of debt securities only, if the reasons for impairment no longer apply a write-up to the maximum of amortised cost is made in profit or loss. Amounts beyond this and write-ups to equity securities are recognised directly in the revaluation reserve in OCI.

c. Equity securities belonging to the AfS category not quoted on an active market and measured at the cost of acquisition as their fair value cannot be reliably determined

   In the case of impairment to an AfS financial instrument measured at acquisition cost depreciation to the financial instrument is made, which is recognised in profit or loss.

Individual and portfolio valuation allowances are also made for off-balance-sheet transactions and carried on the statement of financial position as provisions in the lending business.

The individual and portfolio valuation allowances are determined at first without taking the hedging effect of the second loss guarantee into account. The hedging effect is then mapped in the balance sheet through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 3).

D) Determining fair value

Under IFRS 13 the fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into for a similar financial instrument as at the measurement date. This is generally the case for shares traded on liquid markets. Such an unadjusted market price at the measurement date for the identical instrument is classified as level 1 of the valuation hierarchy under IFRS 13.

If such a market price is not available for the identical instrument, the measurement is carried out using valuation techniques or models.

1. Valuation techniques and models

When using valuation techniques the market approach is the preferable method for determining the fair value. The fair value is determined to the extent possible on the basis of prices that come from transactions executed on the measurement date. If the fair value cannot be determined from market or transaction prices for the identical financial instrument, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary (mark-to-matrix method). The fair value is assigned to level 2 of the fair value hierarchy if the adjustment to the prices or parameters observable in the market is not material. However, if the adjustment is material and affects unobservable input parameters, the fair value is assigned to level 3.

The fair value is determined based on an income approach using an appropriate model (e.g. option price model, discounted cash flow method, collateralized debt obligation model (Gauss-Copula)), if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. Observable market data 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 market data, and which therefore require assumptions concerning the relevant parameters, are often necessary for structured securities – or more generally for securities whose markets are illiquid and for complex OTC derivatives.

The fair value of receivables and liabilities measured at amortised cost is mainly determined by discounting the cash flows of the financial instruments. In the case of receivables with a default rating, the fair values are determined based on the still to be expected future cash flows.

A portion of the liabilities measured at fair value comes under the guarantee obligation (Gewährträgerhaftung) (credit enhancements). Lower credit spreads are applied in determining the fair values for such liabilities than is the case for liabilities for which similar obligations of third parties do not exist.

The following section gives an overview of the parameters and assumptions used and the valuation procedures they are based on.

2. Parameters used in valuation techniques and models

The following are the parameters used to determine the fair value for each class of financial assets and liabilities. We refer to the information set out in Note 53 regarding the quantitative disclosures on significant, unobservable parameters.

a. Trading assets/trading liabilities (HfT)

Securities in the trading portfolio are valued using quoted market prices and prices from the liquid OTC market to a large extent. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

Exchange-traded derivatives are also valued using market prices. If no current price is available, recognised valuation models (such as Black-Scholes for European options) that are based on unobservable parameters to an insignificant extent at most are used.

OTC derivatives are valued using valuation techniques and models. A distinction is drawn between plain vanilla derivatives traded in liquid markets, such as interest rate swaps, cross-currency interest rate swaps, FX forwards, FX options, single-name and index credit default swaps and complex derivatives where markets are illiquid. The former are valued using recognised techniques and models that are based on unobservable market parameters to an insignificant extent at most, while the latter require a significant number of judgements to be made with regard to the selection of both the model and the parameter estimates.

The financial crisis has resulted in derivatives being increasingly concluded on a secured basis in the interbank market (under a collateral agreement, e.g. CSA). At the same time the collateral is also explicitly taken into account in the valuation of OTC derivatives.

b. Positive/negative fair values of hedging derivatives

This class contains exclusively plain vanilla interest rate and cross-currency interest rate swaps which can be measured using recognised techniques and models.

c. Financial investments (AfS)

HSH Nordbank's financial investments comprise mainly fixed income securities. Substantial parts are valued using liquid market prices, such as prices from the liquid OTC market. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

The financial investments also include ABS as partial holdings in the credit investment business. These are valued using the pricing hierarchy described previously.

Fair value is not calculated for unlisted equity instruments (holdings in affiliated companies and equity holdings treated under IAS 39 or IFRS 5) as there is no active market for them and the necessary estimates cannot be made within an acceptable range of variation and suitable probability of occurrence. Therefore these financial instruments are recognised at cost of acquisition.

d. Assets/liabilities designated at fair value (DFV)

Assets designated at fair value carried under financial investments and loans and advances to customers or banks primarily comprise holdings in the credit investment business (ABS, synthetic CDOs, CLNs). For measuring CDOs, a standard market model (Gauss-Copula) is used which includes both observable and unobservable market parameters. The pricing hierarchy described previously is used for the other products.

Liabilities designated at fair value disclosed under Securitised liabilities, Liabilities to customers or Liabilities to banks and Subordinated capital include complex structured registered and bearer securities with embedded interest, currency, equity and other risks, which are mainly directly hedged by corresponding derivatives (so-called back-to-back transactions), so that there are offsetting positions with respect to model risk and parameter uncertainty. Where current market prices or OTC market prices are available for securitised liabilities on liquid markets, these are used. However, the vast majority of DFV liabilities are measured using valuation techniques and models. These make extensive use of complex techniques and models which also use market parameters which are not directly observable.

The components of the change in fair value of the DFV positions attributable to the credit rating are determined on the basis of the spreads ascertainable in the market for instruments in the respective rating category. For liabilities categorised as DFV, a distinction is made in assigning an appropriate spread between instruments with and without guarantee obligation (Gewährträgerhaftung).

e. Assets not measured at fair value on the balance sheet (LaR)

Cash flows are discounted using the discounted cash flow method to determine the fair value of loans and advances to customers and loans and advances to banks. Sectoral-dependent market interest rate curves as well as rating- and ratio-dependent credit spreads are used as significant parameters in this regard.

Financial instruments in the LaR category disclosed under financial investments are mainly interest-bearing securities. If a stock exchange price or a price from the liquid OTC market is not available, prices obtained from pricing services are used or the discounted cash flow method is applied, whereby rating- and sector-dependent interest rate curves derived from market data for interest-bearing securities are used as parameters for discounting the cash flows.

For current receivables (e.g. current accounts) the carrying amount is taken as the fair value. This also applies to most of the cash reserve, as this comprises credit balances at central banks.

f. Liabilities not measured at fair value on the balance sheet (LIA)

The majority of financial instruments disclosed under the Liabilities to banks, Liabilities to customers, Securitised liabilities, Other liabilities and Subordinated capital balance sheet line items is allocated to the LIA category. These mainly comprise non-complex structured loan notes and bearer bonds as well as deposits. If a liquid stock exchange price or a price from the liquid OTC market is not available, mixed prices obtained from pricing services are used or the discounted cash flow method is applied, in order to determine the fair value. The spreads used for this are derived from the type of collateral and the ranking of the financial instrument in relation to other liabilities of the Bank. If a liquid stock exchange price or a price from the liquid OTC market is not available, mixed prices obtained from pricing services are used or the discounted cash flow method is applied, in order to determine the fair value. The spreads used for this are derived from the type of collateral and the ranking of the financial instrument in relation to other liabilities of the Bank. Any existing cancellation options are also taken into account.

For current liabilities (e.g. current accounts) the carrying amount is shown at fair value.

3. Value adjustments

If the value of a financial instrument as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, parameter uncertainties 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 parameters in the form of estimates.

Hedge relationships (back-to-back transactions) and corresponding risk-compensating effects are taken into account when determining value adjustments to be made for model risks and uncertainties regarding parameters. The value adjustment for credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment is allocated to assets or liabilities in proportion to the fair value of the assets or liabilities before taking the valuation adjustment into account. This is only allocated to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called "relative fair value approach" – net approach).

4. Day One Profit and Loss

The use of a valuation model may give rise to differences between the transaction price and the fair value determined using such a valuation model on the initial recognition date. If the applicable market on which the determination of the fair value is to be based differs from the market, in which the transaction was concluded and the valuation model is not based to any great extent on observable parameters, such differences (so-called day one profits and losses) are accrued to day one profit and loss reserve. This reserve is reversed over the term.

5. Measurement processes

The Bank has implemented various processes and controls for the purpose of determining the fair values of financial instruments and has embedded principles regarding the use of measurement methods in a guideline in the written rules of procedure. These measures also ensure that financial instruments to be assigned to level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Group Risk Management division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.

Fair vales of financial instruments assigned to level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation.

Information purchased from pricing service companies is also used. Where possible, the prices and procedures of these service companies are periodically checked for plausibility and reviewed in order to assess the quality of the information provided.

The measurement procedures and models as well as the estimation technique used to determine the level 3 inputs and their parameterisation are periodically reviewed and, if applicable, developed further, recalibrated or replaced by new measurement procedures or models.

E) Hybrid financial instruments

IAS 39.A8 states that for financial instruments, not to be measured at fair value, the carrying amount of financial assets and liabilities must be adjusted and recognised in profit or loss if the estimated future cash flows associated with the instrument change. The new carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting. In subsequent years the discount effect reduces with constant effective interest rate, leading to a write-up for financial liabilities which is recognised in Net interest income.

Application of IAS 39.A8 had an effect in the year under review on valuation of the hybrid financial instruments issued by HSH Nordbank, as the estimated future cash flows differ from the contractual cash flows.

The term "hybrid financial instruments" covers silent participations, profit participations and bonds issued by consolidated subsidiaries measured at amortised acquisition cost. A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank.

The future cash flows whose amount and payment dates have to be estimated are payments of interest and principal which take into account:

- participations in loss by investors, where these will probably not be made up by the expected redemption date of an instrument;
- any contractually agreed retrospective coupon payments.

The loss situation of the reporting period is not viewed in isolation on the measurement of hybrid instruments in accordance with IAS 39.A8. Specifically, it involves more than assigning the prorated loss in the period under review. In addition, the possible effects of possible future assignment of loss and the cancellation or postponement of future interest payments must be recognised in profit or loss in the period in which the estimate is changed. This can mean that in future loss-making periods no further loss participations will be recognised in profit or loss, if these future losses correspond to the estimates made previously. The loss participation recognised in profit or loss is accordingly anticipated, rather than being left to the period in which the loss arises. Future loss-related reductions in interest also do not result in full relief to interest expenses, if the reduction in interest has already been taken into account in the estimate. Instead, the reversal of the effect of discounting applied in the year the estimate was changed is recognised in expenses (write-up of the liability due to the passage of time).

The estimation of future cash flows from hybrid financial instruments required in applying IAS 39.A8 requires material assumptions which are associated with uncertainties. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary. Among the key sources of uncertainty in estimation are the future income of HSH Nordbank, which depends specifically on the development of the economy. Assumptions are also required about the exercise of termination or extension options associated with the individual transactions. Based on the degree of knowledge about uncertainties at the time financial statements are drawn up, the possibility cannot be excluded that changing information in subsequent periods will require departure from previous assumptions, which would require new adjustments to the carrying amount of hybrid financial instruments recognised in profit or loss. In the case of declining expectations of loss, the participation in loss of investors would also decrease, which would be associated with an increase in our repayment obligations recognised in expenses. The same considerations apply to the reverse case.

Net income from hybrid financial instruments is shown as a separate item under Net interest income, and in addition to current interest expenses it includes the effects of applying IAS 39.A8 (see Note 9). Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the consolidated financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as securitised liabilities or as subordinated capital (see Notes 39 and 47).

F) Hedge accounting

Under IFRS, changes in value of items in IAS 39 categories AfS, LaR and LIA are not recognised in profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions in IAS 39 category AfS, LaR or LIA are hedged with derivatives, the result is to distort the income statement so that it does not correspond to the economic reality. One possibility to avoid these distortions is to use fair value hedge accounting. In fair value hedge accounting the changes in value of hedged items, which are attributable to the hedged risk, are recognised in profit or loss.

HSH Nordbank uses derivatives to hedge market risks resulting from loans, issues and securities portfolios. Individual loans, issues and securities items as well as entire portfolios of such financial instruments are hedged in this way.

Micro and portfolio fair value hedge accounting are used to avoid distortions in the income statement. Currently only hedges of fair value against interest rate risk are taken into account. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only interest rate and interest rate currency swaps are designated as hedging instruments.

Where individual lending, issuing or securities transactions are hedged by derivatives with non-Group counterparties and this hedging arrangement satisfies the requirements of IAS 39, micro fair value hedge accounting is applied. Where portfolios of hedged items are hedged, the hedging of these items with matching external derivatives is shown under portfolio fair value hedge accounting to the extent that this meets the requirements of IAS 39.

In the case of a micro fair value hedge, the carrying value of the underlying transaction is adjusted through the income statement for the fair value change attributable to the hedged risk. The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

In the case of a portfolio fair value hedge for interest rate risks, portfolios of assets and liabilities hedged for interest rate risks are taken into account. This involves an iterative procedure. At the start of a hedging period, the financial instruments in the portfolios are allocated to maturity ranges on the basis of their anticipated maturity or interest adjustment dates, and the hedged amount is then determined for each maturity range. The hedging transactions are also allocated at the start of the hedging period. At the end of the hedging period, the hedge is recognised and measured and a new hedge is designated. The changes in the fair value of the hedged amounts of the underlying transactions due to the hedged risk are recognised in a separate item in the statement of financial position (asset or liability reconciling items from the portfolio fair value hedge). The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

Using fair value hedge accounting requires a series of conditions to be met. These principally relate to the documentation of the hedge and its effectiveness. HSH Nordbank documents all hedging relationships in accordance with the requirements of IAS 39, including the hedging instrument, the hedged item (underlying transaction), the hedged risk and the result and method of measuring effectiveness.

Future changes in value of underlying and hedging transactions are simulated using a regression model within the framework of the prospective effectiveness test. Any actual changes in value are used in retrospective effectiveness testing. The results of retrospective and prospective effectiveness measurement in micro fair value hedge accounting are analysed using regression analyses. In portfolio fair value hedge accounting, HSH Nordbank uses the dollar offset method to measure effectiveness retrospectively. This tests whether the relationship between the changes in value of underlying and hedging transactions lies within an interval of 80% to 125%.

Changes in value of underlyings and hedging transactions in effective hedges which are attributable to the hedged risk are recognised in the Result from hedging.

Income and expenses from the depreciation of reconciling items for the fair value hedge portfolio and proceeds from the closing of the underlying transactions which contributed to reconciliation items are reported as part of the Net interest income.

G) Derecognition

A financial asset is derecognised when all material risks and opportunities associated with ownership of the asset have been transferred, i.e. when contractual claims on cash flows from the asset have been extinguished. Where not all risks and opportunities are transferred, the HSH Nordbank carries out a control test to ensure that no continuing involvement due to opportunities and risks retained prevents it from being derecognised. Financial assets are also derecognised if the contractual rights to cash flows have expired. If the material contractual elements of an asset, particularly a loan, are altered as part of restructuring, this also results in a derecognition. Financial liabilities are derecognised when they are repaid, i.e. when the associated liability is settled or lifted, or when due respectively.

H) Repurchase agreements and securities lending transactions

HSH Nordbank only enters into genuine repo transactions. Genuine repo transactions, repo agreements or sell-and-buy-back transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being the same in both cases.

For genuine repo transactions with assets sold under repurchase agreements, the securities continue to be recognised by HSH Nordbank, as the interest, credit rating and other material risks associated with the securities continue to be borne by HSH Nordbank. According to counterparty, the inflow of liquidity from the repo transaction is shown in the statement of financial position as a liability either to banks or customers. Interest payments are recognised under interest expense over the term of the transaction. Outflows of liquidity caused by reverse repos are reported as loans and advances to banks or customers. Correspondingly, the securities bought under repurchase agreements are not carried or measured in the statement of financial position. Agreed interest payments are booked as interest income over the term of the transaction. Receivables arising from repos are not netted against liabilities from repos involving the same counterparty, since the criteria for netting are not met.

The emphasis in repo transactions is on bonds from German public sector issuers and from bank issuers and the Bank's own bonds. Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalized on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out in equities with the emphasis being on bonds.

I) Financial guarantee contracts

Pursuant to IAS 39.9, a financial guarantee is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for the loss that the holder incurs because a specified debtor fails to make payment when due under the original or amended terms of a debt instrument. A credit derivative is treated as a financial guarantee based on the provisions of IAS 39 if the requirements of IAS 39.9 for the financial guarantee are met. Credit derivatives that do not meet the definition of a financial guarantee are allocated in accordance with the general valuation rules for the HfT category and valued at fair value.

Financial guarantees at HSH Nordbank are provided in the form of warranties, bank guarantees and letters of credit. Corresponding contingent liabilities are based on past events that may result in possible liabilities in the future. These liabilities arise as a result of the occurrence of unspecified future events where the amount required to meet them cannot be estimated with sufficient reliability. Financial guarantees are stated in accordance with the net method. If an adequately reliable estimate of the settlement amount is possible, a provision is recognised. If the premium payment to HSH Nordbank is distributed over the term of the financial guarantee, the guarantee will be stated as zero and the premium payment recognised on an accrual basis. If HSH Nordbank is the holder of a contract, the financial guarantee will be presented as collateral for the Group.

II. Notes on selected items relating to financial instruments in the statement of financial position

1. Cash reserve

Cash on hand, balances with central banks, treasury bills and discounted treasury notes are stated under cash reserve.

Both initial and subsequent measurement of assets (LaR) stated under cash reserve takes place at nominal value, which is equivalent to fair value due to its short-term nature.

Treasury bills and discounted treasury notes recognised under AfS are measured at fair value.

2. Loans and advances

Primarily assets from the loans and receivables (LaR) category are recognised in the statement of financial position under loans and advances to banks and loans and advances to customers. In addition, financial instruments in the categories DFV and AfS are recognised here. Carrying amounts of receivables which are an element of micro fair value hedge accounting are adjusted by the change in value attributed to the hedged risk.

Loans and receivables of the category LaR are stated gross (before deduction of impairments). Allowances for impairments are stated in a separate item Loan loss provisions, shown under Loans and advances as a deduction. Financial instruments in the DFV and AfS categories are stated net. Where loans and receivables have been acquired or incurred with the intention of trading, they are stated under trading assets.

Interest income from loans and advances to banks and customers is recorded under Interest income from lending and money market transactions. This also includes early repayment penalties from premature repayment of receivables. Premiums and discounts are accrued using the effective interest rate method. Accrued interest is also allocated to this item in the statement of financial position.

If, in the case of non-genuine securitisation transactions, our loans and advances are not derecognised and the risk on such loans and advances remains fully with HSH Nordbank, we recognise any necessary loan loss provisions solely on our original loans and advances.

3. Positive and negative market value of hedging derivatives

This item shows the market value of derivatives which have a positive or negative fair value and which are used in hedge accounting. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets or Trading liabilities.

4. Reconciling asset and liability items from the fair value hedge portfolio

The asset-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for assets. Similarly, the liability-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for liabilities.

5. Trading assets and trading liabilities

Only financial assets classified as HfT are stated under Trading assets. These include primary financial instruments held for trading purposes, particularly fixed income securities and pro rata interest, and also equities and other trading portfolios such as precious metals. Loans and loan commitments with hard syndication conditions are also reported here. A significant component continues to be derivatives with a positive market value which are either trading derivatives or not designated as a hedging derivative because they do not meet the requirements of hedge accounting.

Measurement gains and losses are recognised in Net trading income. Interest income and expenses as well as dividend income are recognised as net interest income and commission income and expenses are recognised in Net commission income.

In a similar way to trading assets, trading liabilities only include financial obligations belonging to the category held for trading (HfT), which includes derivatives with a negative market value which are either trading derivatives or which have not been designated as a hedging derivatives because they do not meet the requirements of hedge accounting. Delivery commitments from short sales of securities and pro rata interest from these are also stated in this category.

6. Financial investments

Financial investments include particularly portfolios in the AfS category, and also securities or holdings in the categories LaR and to a lesser extent in the DFV category. This item includes fixed-interest securities including accrued interest, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, and holdings in joint ventures and associates not carried at equity. Realised gains and losses from financial investments are shown in the income statement in net income from financial investments to the extent they are not DFV holdings. Net interest income from financial investments is shown in Net interest income. If the disposal of equity holdings or interests in affiliated companies was decided and initiated at the balance sheet date and it is highly probable that it can be completed within the following twelve months, they are reclassified as Non-current assets held for sale and disposal groups.

7. Financial investments accounted for under the equity method

Shares in associates included in the consolidated financial statements under the equity method are reported in this item. Such ownership interests are measured in accordance with the guidelines of IAS 28 in conjunction with IFRS 11.

For the impairment testing of financial investments accounted for under the equity method the total carrying amount of the investment measured under the equity method is assessed for impairment as a single asset in accordance with IAS 36. Its realisable amount is always compared with the carrying amount for this purpose, if there are indications on applying IAS 39 that the investment could be impaired.

The realisable amount is defined as the greater of fair value less costs to sell and value in use. (See also Note 8.III.1 for details on the calculation of the value in use).

8. Liabilities

Liabilities include financial liabilities in categories LIA and DFV. They are recognised as Liabilities to banks, Liabilities to customers and Securitised liabilities.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods securities categorised as LIA are measured pursuant to IAS 39.47 at amortised cost applying the effective interest method. Changes in the measurement of LIA financial instruments are only recorded when the relevant instrument is sold. Differences between acquisition costs and repayment amount (e.g. premiums and discounts) are allocated according to the effective interest rate method and taken to net interest income. Current gains and losses from measuring DFV financial instruments are stated under Net trading income.

The carrying amount of hedged liabilities which fulfil the requirements of micro fair value hedge accounting are adjusted by the gains and losses arising from fluctuations in fair value attributable to the hedged risk.

Repurchased own debentures are set off against securitised liabilities.

9. Subordinated capital

Subordinated liabilities, silent participations and profit-sharing certificates are shown under subordinated capital, due to their different nature from other liabilities. Silent participations are structured as so-called hybrid financial instruments without exception and so are some profit-sharing certificates (cf. Note 8.I.E.). No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

Based on their contractual structure and financial character, the participations of the typical silent partner represent debt, which is why they are stated under subordinated capital.

Subordinated capital categorised as LIA is recognised and measured initially at fair value (taking the transaction costs into account) and at amortised acquisition cost subsequently. Premiums and discounts are allocated on a constant effective interest rate basis.

Current gains and losses from measuring subordinated capital categorised as DFV are stated under Net trading income.

See Note 8.I.E. with regard to the treatment of hybrid financial instruments in the year under review.

III. Notes on other items in the statement of financial position

1. Intangible assets

Software acquired or developed in-house and acquired goodwill are accounted for under Intangible assets. In accordance with IAS 38.21, HSH Nordbank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss immediately in the year they are incurred. Subsequent costs are only to be capitalised if they lead to a significant improvement of the software in the form of an expansion of the software's functionality. Since HSH Nordbank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Groups share in the remeasured net assets (shareholders' equity) of the company acquired.

The initial measurement of intangible assets is made at acquisition or production costs in accordance with IAS 38.24. They are subsequently measured at amortised acquisition or production cost.

Software developed in-house is subject to linear depreciation over two to ten years.

If there are indications of impairment, intangible assets are subject to an impairment test. For this test the carrying amount of these intangible assets is compared with the realisable amount. The realisable amount is defined as the greater of fair value less costs to sell and value in use. An asset is impaired if its carrying amount exceeds its realisable amount. Intangible assets with an indefinite useful life, intangible assets not ready for use as well as goodwill are subject to an annual impairment test even if there are no signs which suggest impairment.

Examination of the value of goodwill is carried out on the basis of cash-generating units. Cash-generating units of HSH Nordbank for non-strategic investments are defined based on the internal management level (global head structure). Each global head unit forms an own cash-generating unit. A company is regarded as a non-strategic investment if underlying subsidiaries are integrally involved in the business activities of the respective global heads. However, if the value in use is expected to be realised by cash inflows or an increase in value of a subsidiary alone, then the subsidiary itself continues to be a cash-generating unit (so-called strategic investment). Where the anticipated benefit can no longer be determined, a write-down is made.

The value in use of a cash generating unit is determined on the basis of forecasted and discounted net cash flows. Net cash flows are determined on the basis of Group planning for a five-year period, allowing for a trend for subsequent periods. The planned cash flows are based on a risk-adequate discount rate.

2. Property, plant and equipment

Land and buildings, plant and equipment and leasing assets under operating leases where HSH Nordbank acts as lessor are stated under this item. Property, plant and equipment is stated at cost of acquisition or production less linear depreciation in line with its expected useful life. Subsequent costs of acquisition or production are capitalised provided they increase the economic utility of the asset concerned. Interest paid to finance acquisition costs of property, plant and equipment is recorded as an expense in the period concerned.

Physical wear and tear, technical obsolescence and legal and contractual restrictions are taken into consideration when determining useful life. For property, plant and equipment, linear depreciation is calculated over the following periods:

CATEGORY OF PROPERTY, PLANT AND EQUIPMENT

	Useful life in years
Buildings	50
Leasehold improvements	Calculation of residual life is based on the remaining term of the rental agreement.
Other operating equipment	3–13
Leasing assets	Customary useful life

Property, plant and equipment is reviewed at each reporting date for signs which suggest impairment.

Gains and losses from the disposal of property, plant and equipment are shown under Other operating income in the income statement. Repairs, servicing and other maintenance costs are recorded as an expense in the period concerned.

3. Investment property

Under the item Investment property properties are disclosed that are held to earn rental income or make capital gains but are not used for own operations. For mixed use properties a percentage allocation of carrying amount is made. Own-used properties are reported under property, plant and equipment; rented-out or empty parts are reported as investment property. The properties are recognised at acquisition cost and depreciated on a straight-line basis. A useful life of 50 years is used for depreciation purposes. The capitalised income method is used in determining the fair value of investment properties, using market data of internal certified appraisers. The fair value is disclosed in Note 32.

4. Non-current assets held for sale and disposal groups and liabilities relating to disposal groups

Non-current assets whose carrying amounts will be predominantly or primarily realised through a sale and not through continuing use must be classified as held for sale in accordance with IFRS 5 on the condition that a sale has already been decided on and initiated as of the reporting date, and is extremely likely to be completed within the following twelve months.

A disposal group is a group of assets which are sold to the same purchaser in a single transaction and at a single price. A disposal group can also include liabilities, if these are taken over by the purchaser together with the assets. HSH Nordbank recognises as disposal groups and liabilities relating to disposal groups specifically the assets and liabilities of consolidated subsidiaries which meet the requirements of IFRS for classification as held for sale.

Non-current assets and disposal groups held for sale are to be measured at the lower of carrying amount or fair value less sale costs. Financial instruments continue to be measured according to the requirements of IAS 39.

5. Provisions

Provisions are created where the Group has existing legal and actual obligations resulting from previous events and it is likely that meeting the obligation will require an outflow of resources and a reliable assessment of the amount of the obligation can be made. Provisions are examined and redetermined at least quarterly.

Pension provisions

The majority of employees of HSH Nordbank AG as well as employees of several domestic subsidiaries are entitled to benefits from different staff pension plans, which include both defined contribution and defined benefit plans.

In the case of defined contribution plans, contractual relationships with Provinzial NordWest Lebensversicherung AG for direct insurance policies partly financed by employees exist. As the insurance company is required to be a member of Protektor Lebensversicherungs-AG, the insured employees are protected against its insolvency, so that HSH Nordbank AG is not burdened even in the event of Provinzial NordWest Lebensversicherung AG's insolvency. These direct insurance policies represent insured benefits and are treated as defined contribution plans.

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and Section 2 (4) of the Investment Bank Act in the version of 23 January 1998. The pension payment amount depends on the final salary paid immediately prior to retirement, the salary trend up to retirement is irrelevant (no performance components). The pension plans provide for on-going pension payments and no capital payments. Minimum guarantees are not provided for. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

These defined benefit plans were closed in 2002.

HSH Nordbank AG also participates in a multi-employer plan which is run by BVV Versorgungskasse des Bankgewerbes e. V. Contributions are regularly paid with participation from the employees. The BVV tariffs provide for fixed pension payments with profit participation. For BVV, employers have a subsidiary liability for the liabilities of their employees. HSH Nordbank AG classifies the BVV plan as a defined-benefit joint pension scheme provided by a number of employers. As the BVV does not fully allocate its assets to the beneficiaries nor member companies and as the information available for its accounting treatment as a defined benefit plan is insufficient to be able to allocate the assets and pension commitments to the current and former employees of the individual member companies, the plan is treated as a defined contribution plan for accounting purposes. It appears unlikely that there will be any call based on the statutory subsidiary liability.

Actuarial gains and losses are recognised under Other net income and under Equity in Retained earnings in the year in which they arise. Pension provisions are discounted as long-term liabilities. The interest expense included in expense for retirement pensions is recognised as part of Net interest income.

The following assumptions are made in calculating direct benefit pension liabilities:

ACTUARIAL ASSUMPTIONS

	2014	2013
Discount rate		
Domestic	1.89 %	3.59 %
Foreign (weighted)	1.89 %	3.59 %
Salary growth (weighted)	2.0 %	2.0 %
Adjustment rate for pensions		
Domestic		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules (weighted)	2.0 %	2.0 %
Employment contract 4 (weighted)	2.0 %	2.0 %
Mortality, disability, etc.	Based on the 2005 G tables of K. Heubeck	Based on the 2005 G tables of K. Heubeck

Actuarial assumptions are subject to a sensitivity analysis as described in Note 43.

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions.

Other provisions

Other provisions include provisions in the lending business, for restructuring, litigation risks and costs, for personnel expenses (without pensions) and other provisions.

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation are presented in the section Loan loss provisions and impairment of financial instruments (Note 8.I.C).

Provisions for restructuring include restructuring expenses. Provisions were created to the extent HSH Nordbank had developed and communicated a sufficiently detailed plan for such measures and had started to implement such plan. As soon as the obligation is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to other liabilities or provisions for pensions and similar obligations as a matter of principle.

Aside from additions to the relevant provisions, restructuring expense also includes expenses for additional measures that do not meet the requirements for the creation of a provision under the liability recognition provisions of IAS 37. This affects in particular expenses for the restructuring of future business activities and depreciation of assets recognised in the balance sheet the value in use of which has declined for the Bank.

Provisions for litigation costs comprise expected payments for court costs as well as for non-court costs in connection with litigation such as, e.g. Attorneys' fees and other costs. For litigation in progress, only costs for the current jurisdictional level may be included within the provision.

Provision for litigation risks are to be created when HSH Nordbank AG is the defendant in an action and the probability that the Bank will lose the action is presumed to be greater than 50%. Provisions include only payments for probable liability for damages and fines as well as costs of litigation at the current level of appeal. The general measurement rules on provisions apply. The mandatory disclosures defined in IAS 37.86 are made for litigation risks that are not considered likely to arise, but which cannot be entirely excluded.

Under provisions for personnel expenses, in general all outstanding benefits within the personnel expenses are presented with the exception of pension obligations. In the HSH Nordbank, these are in particular provisions for variable performance-related pay, anniversary payments, partial retirement and long-term credits for hours. Provisions for personnel expenses likewise include benefits in connection with the termination of employment explicitly set out in IAS 19.

In accordance with IAS 37, provisions are mainly determined based on the best estimate of management. The most likely amounts necessary to meet the obligations identifiable on the reporting date is used. Long-term provisions are reported at present value to the extent discounting effects are significant. For discounting purposes, interest rates that are valid on the reporting date and are term-appropriate are used based on risk-free interest curves. Addition of accrued interest to be performed during the reporting year is reported under Net interest income.

6. Income taxes

Current tax assets and liabilities are stated at the amount of the anticipated refund from, or payment to, the tax authorities, applying the tax provisions of the countries in question.

Deferred tax assets are created for all deductible timing differences between the value of an asset or liability as measured by IFRS standards and its assigned value in tax terms, provided it is probable that taxable income will be available against which such differences can be utilised. Deferred tax liabilities are created for all taxable temporary differences. Deferred taxes on tax loss carryforwards are stated as the amount likely to be used in future. Deferred taxes are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendment. Deferred tax assets are recognised and measured as deferred income tax claims and deferred tax liabilities as Deferred income tax liabilities.

HSH Nordbank prepares tax results planning for the purpose of assessing deferred tax asset impairment.

Expenses and income from deferred taxes are in principle recognised on an accrual basis in the income statement under Income taxes, separate from actual tax expenses and income. In doing so, the accounting treatment of the underlying situation is taken into account. Deferred taxes are recognised in the income statement if the item in the statement of financial position itself is recognised in profit or loss. Deferred taxes are charged or credited directly to equity in OCI, if the underlying item itself is charged or credited directly to equity (IAS 12.61A).

At each reporting date HSH Nordbank makes an assessment as to whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. Amongst other things, this requires a management assessment of the tax benefits that arise from the existing tax strategies and future taxable income as well as the consideration of other positive and negative factors. The deferred tax assets disclosed could decrease, if the estimates of the planned taxable income and the tax benefits achievable under the existing tax strategies are revised downwards or if changes to current tax legislation restrict the timing and extent of the recognition of future tax benefits.

7. Other assets and other liabilities

   All remaining assets and liabilities not allocable to any other item are stated under Other assets or Other liabilities. These include accrued expenses and income amongst other things.

   The general recognition and measurement criteria for assets are observed. Initial recognition is at cost. For financial instruments included in this item the provisions of IAS 39 apply.

IV. Leasing transactions

In accordance with IAS 17 a distinction is made between finance and operating leases. The allocation depends on whether substantially all risks and rewards are transferred to the lessee or not.

A finance lease is considered to be present where the economic risks and rewards as defined by IAS 17 lie with the lessee; consequently, the leased asset is reported in the latter's statement of financial position. All other leasing arrangements are classified as operating leases. The classification is made at the beginning of each lease.

1. Finance leases

   In the case of finance leases, HSH Nordbank acts solely as lessor and recognises a receivable in the amount of the net investment value either under Loans and advances to banks or Loans and advances to customers, depending on the lessee.

   Leasing rates due are divided into a repayment part which is not recognised in profit or loss and an interest part which is. The part taken to profit or loss is recognised in Net interest income.

2. Operating leases

   As lessor HSH Nordbank states leasing objects as assets measured at amortised cost under Property, plant and equipment or as Investment properties. Leasing instalments received are stated under Other operating income, and the corresponding depreciation stated in Administrative expenses. HSH Nordbank reports rental expenses from contracts where HSH Nordbank acts as lessee as rental expenses under Administrative expenses.

V. Currency translation

The consolidated financial statements of HSH Nordbank are drawn up in euros. The euro is the functional currency of the overwhelming majority of the individual financial statements included in the consolidated statements. However some Group companies have another functional currency.

The following principles are applied when translating foreign currency items within single entity financial statements and for translating the financial statements of Group companies which do not draw up their accounts in euro.

1. Presentation of foreign currency transactions in the consolidated financial statements

   Initial measurement of assets and liabilities from all foreign currency transactions takes place at the spot rate for the transaction.

   In subsequent measurement, monetary items are translated based on the spot mid-rate as of the reporting date. Non-monetary items that are stated in the statement of financial position at fair value are translated using the spot mid-rate applicable at the time of measurement and any other non-monetary items at the historical rate.

   Expenses and income in foreign currency arising from the measurement of items in the statement of financial position are translated using the rates applied for translating the items in question. The transaction rates are used for all other expenses and income.

   For monetary and non-monetary items measured at fair value, currency translation differences are always recognised in the income statement of the period when the result arose. An exception is currency translation gains and losses from the measurement of non-monetary AFS financial instruments recognised at fair value, which are recognised in OCI.

2. Translation of financial statements prepared in foreign currency for inclusion in the consolidated financial statements

   Assets and liabilities from financial statements denominated in foreign currencies are translated at the period-end rate. Average rates for the reporting period are used to translate expenses and income. With the exception of the revaluation reserve reported to be included in the financial statements, which is translated at the closing rate, equity is translated at historic rates (date of the transaction).

   Any differences arising from this method of translation are reported under OCI and under Equity in the currency reserve.

NOTES ON THE GROUP INCOME STATEMENT

9. NET INTEREST INCOME

NET INTEREST INCOME

(€ m)	2014	2013
Interest income from		
Lending and money market transactions	1,684	2,035
Fixed-interest securities	399	474
Trading transactions	14	11
Derivative financial instruments	2,782	3,341
Unwinding	215	203
Disposal of receivables	–	4
Current income from		
Equities and other non-fixed-interest securities	9	10
Affiliated companies	1	1
Equity holdings in non-affiliated companies	6	6
Other holdings	9	12
Interest income	**5,119**	**6,097**
of which attributable to financial instruments not classified as HFT or DFV	2,076	2,480
Interest expenses for		
Liabilities to banks	286	392
Liabilities to customers	764	847
Securitised liabilities	511	670
Subordinated capital	89	92
Other liabilities	71	4
Disposal of receivables	6	9
Derivative financial instruments	2,599	3,007
Interest expenses	**4,326**	**5,021**
of which attributable to financial instruments not classified as HFT or DFV	1,172	1,339
Net income from re-estimating interest and repayment cash flows	6	3
Net income from discounting and compounding	– 213	– 150
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	**– 207**	**– 147**
of which attributable to financial instruments not classified as HFT or DFV	– 207	– 147
Total	**586**	**929**

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.

The net interest income from impaired loans and advances is determined by compounding the present value of the expected cash flows at the original effective rate of interest (unwinding).

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised acquisition cost. Their interest depends on the profit or loss of the Bank.

The total of current participation in losses (not allowing for anticipated reversals of impairment losses) relating to the 2014 financial year was € 121 million (previous year: € 159 million).

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 € 357 million as at 31 December 2014 (previous year: € 564 million). € 1,430 million are attributable to the result from re-estimating interest and repayment cash flows (previous year:€ 1,424 million) and € – 1,073 million are attributable to the income/loss from discounting and compounding (previous year: € – 860 million).

The difference between the valuation for tax purposes and the measurement under IAS 39.A8 results in deferred tax assets of € 33 million (previous year: € 42 million deferred tax assets).

10. NET COMMISSION INCOME

NET COMMISSION INCOME

(€ m)	2014	2013
Commission income from		
Lending business	97	78
Securities business	27	65
Guarantee business	19	19
Payments and account transactions as well as documentary business	22	22
Other commission income	14	10
Commission income	**179**	**194**
Commission expenses from		
Lending business	8	15
Securities business	24	56
Guarantee business	7	7
Payments and account transactions as well as documentary business	4	4
Other commission expenses	6	8
Commission expenses	**49**	**90**
Total	**130**	**104**

Financial instruments not classified as HfT or DFV accounted for € 129 million (previous year: € 107 million) of Net commission income.

11. 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)	2014	2013
Fair value changes from hedging transactions	18	– 120
Micro fair value hedge	– 44	– 64
Portfolio fair value hedge	62	– 56
Fair value changes from underlyings	– 58	129
Micro fair value hedge	43	64
Portfolio fair value hedge	– 101	65
Total	**– 40**	**9**

12. 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**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Realised net income								
HfT	265	304	3	– 20	– 56	41	212	325
DFV	10	2	– 2	15	–	–	8	17
Subtotal	**275**	**306**	**1**	**- 5**	**- 56**	**41**	**220**	**342**
Valuation result								
HfT	– 423	– 176	17	121	11	– 33	– 395	– 88
DFV	259	76	– 22	– 137	–	–	237	– 61
Subtotal	**- 164**	**- 100**	**- 5**	**- 16**	**11**	**- 33**	**- 158**	**- 149**
Total	**111**	**206**	**- 4**	**- 21**	**- 45**	**8**	**62**	**193**

Net trading income includes net income from foreign currency of € – 55 million (previous year: € 16 million).

During the reporting period € 28 million (previous year: € 144 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 € – 2 million (previous year: € – 11 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 € – 54 million (previous year: € – 68 million). In cumulative terms, a total of € – 30 million (previous year: € 24 million) is attributable to changes in the credit spread.

As a result of the further development (change in estimate) of the value adjustment for credit risk on OTC derivatives, the impact on income of € – 43 million affected the trading result.

13. 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)	**2014**	2013
Classified as AfS		
+ Realised gains/losses (–)	135	129
– Write-downs	3	27
+ Write-ups	2	10
Subtotal	**134**	**112**
Classified as LaR		
+ Realised gains/losses (–)	37	48
– Write-downs	92	8
+ Write-ups	70	113
Subtotal	**15**	**153**
+ Reversal of portfolio valuation allowances (LaR portfolios)	20	11
Subtotal	**20**	**11**
Total	**169**	**276**

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 27 million (previous year: € 151 million) were disposed of. This resulted in realised income of € 11 million (previous year: € 62 million). Remaining instruments of this kind were written down by € 1 million (previous year: € 8 million).

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

As at the 31 December 2014 balance sheet date, HSH Nordbank owns shares in three associates and one joint venture (previous year: three associates – without consideration of IFRS 10: seven – and one joint venture) that are included in the consolidated financial statements under the equity method (see Note 6).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 31 December 2014 is summed up below.

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	**2014**	2013
Pro rata net income for the period	2	–
Impairments	–	– 15
Total	**2**	**– 15**

A review of the value of the remaining shares measured using the equity method under IAS 36 as at 31 December 2014 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 € – 18 million (previous year: € – 13 million), was no longer recorded in the current period. The accumulated non-recognised pro rata share in the losses of these companies amounts to € – 32 million (previous year: € – 27 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 main results of the investments accounted for under the equity method are shown in the segment Restructuring Unit (Relacom Management AB).

15. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	**2014**	2013
– Expenses from additions to valuation allowances	1,559	2,631
+ Income from the reversal of valuation allowances	1,028	639
Result from changes in valuation allowances	**-531**	**-1,992**
– Expenses from allocations to provisions in the lending business	18	68
+ Income from reversal of provisions in the lending business	66	350
Result from changes in provisions in the lending business	**48**	**282**
– Direct write-downs	201	106
+ Payments received on loans and advances previously written down	198	103
Result from other changes in loan loss provisions	**-3**	**-3**
Result from changes in loan loss provisions before compensation	**-486**	**-1,713**
Foreign currency income from loan loss provisions denominated in foreign currency	**-339**	**136**
Compensation under the second loss guarantee	**1,401**	**744**
Total loan loss provisions	**576**	**-833**

With regard to the compensation item related to HSH Finanzfonds AöR please refer to Note 3.

Direct write-downs of € 201 million (previous year: € 106 million) relate entirely to Loans and advances to customers.

Loan loss provisions in on-balance-sheet lending business relate exclusively to loans and advances classified as LaR. The following table shows the net changes:

NET CHANGES IN LOAN LOSS PROVISIONS

(€ m)	**2014**	2013
Individual valuation allowances	-566	-2,117
Portfolio valuation allowances	35	125
Net change in valuation allowances	**-531**	**-1,992**
Provisions for specific risks	42	281
Provisions for portfolio risks	6	1
Net change in provisions in the lending business	**48**	**282**

16. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)	2014	2013
Personnel expenses	296	327
Operating expenses	303	333
Depreciation on property, plant and equipment and amortisation on intangible assets	125	95
Total	**724**	**755**

PERSONNEL EXPENSES

(€ m)	2014	2013
Wages and salaries	238	260
Social security contributions	34	41
Of which employer contributions to government-sponsored pension plans	16	17
Expenses for pensions and support	24	26
Total	**296**	**327**

Please refer to Note 43 for detailed information on expenses for pensions and support as well as expenses for defined contribution plans.

OPERATING EXPENSES

(€ m)	2014	2013
IT costs	98	110
Costs for external services and project work	62	75
Legal service costs	37	43
Expenses for land and buildings	31	36
Obligatory contributions and expenses related to corporate law	6	6
Costs of advertising, PR and promotional work	8	8
Expenses on plant and equipment	1	1
Other expenses	60	54
Total	**303**	**333**

Depreciation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

DEPRECIATION

(€ m)	2014	2013
Scheduled depreciation on		
Plant and equipment	8	5
Property	6	4
Acquired software	8	10
Software developed in-house	14	15
Leasing assets	21	23
Technical equipment and machinery	1	3
Unscheduled depreciation on		
Plant and equipment	–	–
Property	50	3
Leasing assets	6	–
Technical equipment and machinery	11	32
Total	**125**	**95**

Of the scheduled depreciation on property € 4 million (previous year: € 3 million) relate to investment property. Of the unscheduled depreciation on property € 50 million (previous year: € 3 million) relate to investment property.

The unscheduled depreciation on leasing assets results from the unscheduled depreciation on the freight aircraft of RDM Limited in the amount of € 6 million due to a permanent impairment. The realisable amount for this type of cargo plane has been declining for years and no change in the trend can be foreseen.

The unscheduled depreciation on investment properties results from the unscheduled depreciation (€ 14 million) of the commercial properties held by LCG Finance II B.V., based on the expectation of a lasting deterioration of market value on the Dutch property market. In addition, the valuation of the office building of SPE II Pissarro SAS is reduced by unscheduled depreciation of € 19 million due to a lasting deterioration of the market for French office property. Moreover, the retail properties of Mitco Real Estate A, which are mainly located in towns and smaller municipalities in Germany, were subjected to scheduled depreciation of € 17 million. The permanent decline in value originates from existing inherited burdens relating to the properties and a rise in vacancies in conjunction with an expected increase in vacancies.

The unscheduled depreciation on technical equipment and machinery amounting to € 11 million mainly is the result of an asset belonging to Amentum Aircraft Leasing No. Five Limited whose lease agreement concluded as part of an operating lease transaction expired during the year under review and was not extended. The cash flow from the use of the asset is therefore no longer generated and a permanent impairment loss of the stated amount applies to the asset.

The total unscheduled depreciations are attributable to the Restructuring Unit segment.

17. OTHER OPERATING INCOME

OTHER OPERATING INCOME

(€ m)	**2014**	2013
Income		
from leasing transactions	33	33
from reversal of other provisions and release of liabilities	29	49
from interest on receivables from the tax office	25	–
from investment property (rental income)	23	19
from legal disputes	15	58
Other income	94	113
Total income	**219**	**272**
Expenses		
From additions to provisions for processing fees due to a judgment of the Federal Court of Justice	33	–
from additions to other provisions	20	81
interest expenses pursuant to Section 233 AO	34	39
from the amortisation of goodwill	–	39
from unscheduled depreciation on assets	–	18
for investment property	14	14
Other expenses	41	77
Total expenses	**142**	**268**
Income from disposal of property, plant and equipment	15	9
Income/loss arising on the deconsolidation of companies	30	31
Total	**122**	**44**

The item Income arising on the deconsolidation of companies includes income from the sale of financial investments held for sale in accordance with IFRS 5 in the amount of € 20 million. An amount of € 15 million from the disposal of the indirectly held shares in DMS Dynamic Micro Systems Semiconductor Equipment GmbH is also included. In contrast there is an expense of € 5 million mainly for the sale of Amentum Aircraft Leasing No. Two Limited.

18. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING

(€ m)	2014	2013
Personnel expenses	99	20
Operating expenses	37	56
Income from reversal of provisions and the release of liabilities	52	20
Total	**-84**	**-56**

In the fourth quarter of 2014 a new programme for the reduction of operating expenses and personnel costs was initiated as a follow-on from the programme already started the previous year. For the measures adopted provisions were created in the 2014 consolidated financial statements. Provisions from previous restructuring programmes were reversed.

19. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES

(€ m)	2014	2013
HSH Finanzfonds AöR	521	414
Total	**521**	**414**

In June 2013 the guarantee granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg was replenished to € 10 billion. € 116 million of the one-off payment for the replenishment of the second loss guarantee was recognised on a pro rata temporis basis in the reporting year (see Note3).

20. INCOME TAXES

INCOME TAXES

(€ m)	2014	2013
Corporate tax and solidarity surcharge		
Domestic	–	1
Foreign	–	3
Current income tax	**–**	**4**
Income tax from previous years	-35	194
Subtotal current income tax	**-35**	**198**
Income from deferred tax		
from temporary differences	128	3
from losses carried forward	25	42
from consolidation	–	8
Subtotal deferred income tax	**153**	**53**
Income tax expense (+)/income (-)	**118**	**251**

The tax expense during the 2014 year is marked by deferred tax expense as a result of the change in temporary differences.

In addition, tax income from previous years compensates for the tax expense from the balance sheet provisions for tax risks as a result of the altered risk assessment.

RECONCILIATION INCOME TAXES

(€ m/%)	2014	2013
Group net result	160	-769
Income taxes	118	251
Income before taxes incl. income from transfer of losses	278	-518
Domestic income tax rate to be applied in %	31.69	31.68
Imputed income tax expenses in the financial year	**88**	**-164**
Tax effects due to		
Appreciation/depreciation of deferred taxes on losses carried forward	50	148
Differing effective tax rates in Germany and abroad	-154	10
Non-deductible expenses	197	67
Corrections to trade taxes	7	–
Changes in tax rate	–	-2
Taxes for previous years	-10	375
Tax-free income	-60	-183
Total tax expense (+)/income (-)	**118**	**251**

In calculating taxes for 2014, a rate of 31.69 % (previous year: 31.68 %) was used for domestic taxes.

Deferred tax assets on loss carryforwards are written down on the basis of a recoverability analysis.

Further major impacts result from non-deductible expenses, tax-exempt income and different tax rates in foreign jurisdictions.

21. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

Net gains and losses from financial instruments include both realised gains and measurement gains within Net trading income and Net income from financial investments together loan loss provisions with regard to business shown on the statement of financial position, broken down into IAS 39 categories. Neither Net interest nor Net commission income is included in this item.

Derecognition of the fair value changes cumulated in equity associated with value adjustments and sales of financial instruments categorised as AfS is shown in Note 48.

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

(€ m)	**2014**	2013
DFV	245	– 44
AfS	134	112
LaR	564	– 952
HfT	– 183	237
Total	**760**	**– 647**

22. EARNINGS PER SHARE

To calculate Earnings per share, the Group net result attributable to HSH Nordbank AG shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, HSH Nordbank AG has not issued any dilutive forms of capital as at 31 December 2014, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

EARNINGS PER SHARE

Earnings per share	**2014**	2013
Attributable Group net result (€ m) – undiluted/diluted	159	– 767
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.53	– 2.54
Diluted	0.53	– 2.54

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

23. CASH RESERVE

CASH RESERVE

(€ m)	**2014**	2013
Cash on hand	12	14
Balances at central banks	5,542	4,455
of which at the Deutsche Bundesbank	2,071	1,593
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	413	382
of which eligible for refinancing at the Deutsche Bundesbank	406	375
Total	**5,967**	**4,851**

24. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)	**2014**			2013		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Payable on demand	908	3,568	4,476	679	2,556	3,235
Other loans and advances	2,259	180	2,439	1,556	367	1,923
Total before loan loss provisions	**3,167**	**3,748**	**6,915**	**2,235**	**2,923**	**5,158**
Loan loss provisions	–	15	15	–	126	126
Total after loan loss provisions	**3,167**	**3,733**	**6,900**	**2,235**	**2,797**	**5,032**

€ 790 million (previous year: € 851 million) of Loans and advances to banks have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 4,448 million (previous year: € 3,136 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

25. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)	2014			2013		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Retail customers	1,452	155	1,607	1,648	196	1,844
Corporate clients	28,699	31,021	59,720	29,231	31,676	60,907
Public authorities	5,398	611	6,009	5,105	613	5,718
Total before loan loss provisions	**35,549**	**31,787**	**67,336**	**35,984**	**32,485**	**68,469**
Loan loss provisions	2,926	3,194	6,120	3,042	3,129	6,171
Total after loan loss provisions	**32,623**	**28,593**	**61,216**	**32,942**	**29,356**	**62,298**

Of Loans and advances to customers, holdings of € 41,295 million (previous year: € 43,118 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 1,498 million (previous year: € 1,445 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 111 million (previous year: € 131 million). The gross investment value of the leasing transactions is € 120 million (previous year: € 115 million). Further details on leasing transactions can be found in Note 61.

During the reporting period the classification of customer groups (Retails customers, Corporate clients and Public authorities) was switched to the definition as applied to the new supervisory and internal management. The allocation of the previous year figures to customer groups was adjusted for purposes of better comparability.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

26. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	**2014**	2013
Valuation allowances for loans and advances to banks	15	126
Valuation allowances for loans and advances to customers	6,120	6,171
Valuation allowances in the lending business	**6,135**	**6,297**
Compensation under the second loss guarantee	–4,074	–2,714
Loan loss provisions for items in the statement of financial position	**2,061**	**3,583**
Provisions in the lending business	98	145
Loan loss provisions for items in the statement of financial position and off-balance-sheet risks in the lending business	**2,159**	**3,728**

The individual and portfolio valuation allowances are determined without taking the hedging effect of the second loss guarantee into account, to start with. The hedging effect is then mapped in the statement of financial position through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 3).

The development of loan loss provisions for banks during the period under review was as follows:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS BEFORE COMPENSATION

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	2014	2013	**2014**	2013	**2014**	2013
As at 1 January	**125**	**133**	**1**	**1**	**126**	**134**
Additions	–	5	–	–	–	5
Reversals	4	1	–	–	4	1
Utilisation	90	2	–	–	90	2
Reclassifications	– 18	– 7	–	–	– 18	– 7
Unwinding	–	– 1	–	–	–	– 1
Exchange rate changes	1	– 2	–	–	1	– 2
As at 31 December	**14**	**125**	**1**	**1**	**15**	**126**

Loan loss provisions for customers during the period under review developed as follows:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS BEFORE COMPENSATION

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	2014	2013	**2014**	2013	**2014**	2013
As at 1 January	**5,811**	**4,867**	**360**	**504**	**6,171**	**5,371**
Changes in the scope of consolidation	–	– 124	–	–	–	– 124
As at 1 January following adjustment	5,811	4,743	360	504	6,171	5,247
Additions	1,559	2,594	–	32	1,559	2,626
Reversals	989	481	35	157	1,024	638
Utilisation	861	647	–	–	861	647
Reclassifications	18	7	–	–	18	7
Unwinding	– 215	– 202	–	–	– 215	– 202
Changes in the scope of consolidation	52	– 61	–	–	52	– 61
Exchange rate changes	402	– 142	18	– 19	420	– 161
As at 31 December	**5,777**	**5,811**	**343**	**360**	**6,120**	**6,171**

The valuation allowances relate exclusively to items categorised as loans and receivables (LaR). The total volume of loans impaired amounts to € 13,303 million (previous year: € 13,824 million).

27. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

The positive fair value of derivatives used in hedge accounting is accounted for in this item. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets. Hedge accounting is used solely for interest rate risks.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

(€ m)	**2014**	2013
Positive fair value of derivatives used in micro fair value hedges	102	152
Positive fair value of derivatives used in portfolio fair value hedges	1,303	1,135
Total	**1,405**	**1,287**

Of hedging derivatives, holdings of € 1,289 million (previous year: € 1,197 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Negative fair value of hedging derivatives. The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

28. TRADING ASSETS

Only financial assets classified as HfT are stated under Trading assets. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

Trading assets of € 8,286 million (previous year: € 8,518 million) have a residual maturity of more than one year.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 60.

TRADING ASSETS

(€ m)	**2014**	2013
Debentures and other fixed-interest securities		
Money market instruments		
from public-sector issuers	–	4
negotiable and listed	–	4
Money market instruments	**–**	**4**
Bonds and debentures		
from public-sector issuers	1,127	1,548
negotiable and listed	1,127	1,548
from other issuers	344	475
negotiable and listed	313	409
negotiable and not listed	31	66
Bonds and debentures	**1,471**	**2,023**
Debentures and other fixed-interest securities	**1,471**	**2,027**
Shares and other non-fixed-interest securities		
negotiable and listed	2	4
Shares and other non-fixed-interest securities	**2**	**4**
Positive fair value of financial derivatives		
interest rate-related business	6,427	5,776
currency-related business	138	143
other business	1,116	1,056
Positive fair value of financial derivatives	**7,681**	**6,975**
Other, including promissory notes held for trading	9	34
Receivables from syndicated transactions	–	5
Total	**9,163**	**9,045**

29. 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)	**2014**	2013
Debentures and other fixed-interest securities	18,218	20,750
negotiable and listed	16,545	19,050
negotiable and not listed	1,673	1,700
Shares and other non-fixed-interest securities	305	322
negotiable and listed	6	33
negotiable and not listed	143	135
Equity holdings in non-affiliated companies	164	180
negotiable and listed	1	3
negotiable and not listed	93	96
Interests in affiliated companies	1	4
negotiable and listed	–	–
negotiable and not listed	1	–
Total	**18,688**	**21,256**

Financial investments of € 16,891 million (previous year: € 19,329 million) have a residual maturity of more than one year.

Write-downs on debentures and other fixed-interest securities amount to € 384 million (previous year: € 358 million) as well as with regard to shares and other non-fixed-interest securities they amount to € 12 million as at the reporting date (previous year: € 18 million).

Portfolio valuation allowances amount to € 34 million (previous year: € 52 million).

Changes in individual and portfolio valuation allowances are recognised in Net income from financial investments.

This portfolio also contains shares and other non-fixed-interest securities measured at cost of € 140 million (previous year: € 134 million). Equity capital instruments accounted for at cost that relate to interests in affiliated companies and equity holdings in non-affiliated companies amount to € 164 million (previous year: € 181 million). There are currently no concrete disposal plans for these equity instruments.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

Developments with regard to equity holdings and interests in affiliated companies are presented below:

DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES

(€ m) 2014	Equity holdings in non-affiliated companies	Interests in affiliated companies	Total
Acquisition costs as at 1 January 2014	**307**	**20**	**327**
Additions	16	–	16
Disposals	52	16	68
Reclassifications	– 12	– 1	– 13
Exchange rate changes	–	–	–
Changes in the scope of consolidation	–	–	–
As at 31 December 2014	**259**	**3**	**262**
Impairment loss as at 1 January 2014	**127**	**16**	**143**
Additions	2	–	2
Disposals	35	14	49
Reclassifications	–	–	–
Exchange rate changes	1	–	1
As at 31 December 2014	**95**	**2**	**97**
Carrying amount as at 31 December 2014	**164**	**1**	**165**
Carrying amount as at 1 January 2014	**180**	**4**	**184**

Reclassifications were made from Equity holdings in non-affiliated companies and Interests in affiliated companies to the Non-current assets held for sale and disposal groups line item in the carrying amount of € 13 million, which were sold in the course of the reporting year.

DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES

(€ m) 2013	Equity holdings in non-affiliated companies	Interests in affiliated companies	Total
Acquisition costs as at 1 January 2013	**365**	**31**	**396**
Additions	81	8	89
Disposals	139	10	149
Reclassifications	2	– 10	– 8
Exchange rate changes	– 2	–	– 2
Changes in the scope of consolidation	–	1	1
As at 31 December 2013	**307**	**20**	**327**
Impairment loss as at 1 January 2013	**182**	**16**	**198**
Additions	1	8	9
Disposals	53	8	61
Reclassifications	– 2	–	– 2
Exchange rate changes	– 1	–	– 1
As at 31 December 2013	**127**	**16**	**143**
Carrying amount as at 31 December 2013	**180**	**4**	**184**
Carrying amount as at 1 January 2013	**183**	**15**	**198**

30. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Shares in associates and joint ventures included in the consolidated financial statements under the equity method are reported in this item.

As at the reporting date, 31 December 2014, the HSH Nordbank Group owns shares in three associates and one joint venture that are included in the consolidated financial statements under the equity method (previous year: three associates – without consideration of IFRS 10: seven – and one joint venture). The carrying amount of these equity holdings was € 1 million as at 31 December 2014 (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 6. Net income from financial investments accounted for under the equity method is disclosed in Note 14.

Please see Note 29 for a summary of financial information related to financial investments not accounted for under the equity method.

31. INTANGIBLE ASSETS

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

INTANGIBLE ASSETS

(€ m)	**2014**	2013
Software	26	43
Developed in-house	14	26
Acquired	12	17
Software in development	1	2
Developed in-house	–	2
Acquired	1	–
Total	**27**	**45**

Changes in the carrying amount of intangible assets are shown below:

DEVELOPMENT IN INTANGIBLE ASSETS

(€ m)		Software		Software in development		
2014	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	**Total**
Acquisition costs as at 1 January 2014	**217**	**96**	**171**	**2**	**–**	**486**
Additions	–	–	4	–	1	5
Disposals	–	–	2	–	–	2
Reclassifications	–	2	–3	–2	–	–3
Changes in the scope of consolidation	–	–	–	–	–	–
As at 31 December 2014	**217**	**98**	**170**	**–**	**1**	**486**
Amortisation as at 1 January 2014	**217**	**70**	**154**	**–**	**–**	**441**
Additions	–	14	8	–	–	22
Disposals	–	–	2	–	–	2
Reclassifications	–	–	–2	–	–	–2
Changes in the scope of consolidation	–	–	–	–	–	–
As at 31 December 2014	**217**	**84**	**158**	**–**	**–**	**459**
Carrying amount as at 31 December 2014	**–**	**14**	**12**	**–**	**1**	**27**
Carrying amount as at 1 January 2014	**–**	**26**	**17**	**2**	**–**	**45**

A reclassification was made from acquired software to Non-current assets held for sale. The assets were sold during the current reporting year.

DEVELOPMENT IN INTANGIBLE ASSETS

(€ m)		Software		Software in development		
2013	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	**Total**
Acquisition costs as at 1 January 2013	**255**	**96**	**177**	**2**	**2**	**532**
Additions	30	–	3	1	–	34
Disposals	–	1	11	–	–	12
Reclassifications	–	1	2	–1	–2	–
Changes in the scope of consolidation	–68	–	–	–	–	–68
As at 31 December 2013	**217**	**96**	**171**	**2**	**–**	**486**
Amortisation as at 1 January 2013	**255**	**57**	**155**	**–**	**–**	**467**
Additions	30	14	10	–	–	54
Disposals	–	1	11	–	–	12
Reclassifications	–	–	–	–	–	–
Changes in the scope of consolidation	–68	–	–	–	–	–68
As at 31 December 2013	**217**	**70**	**154**	**–**	**–**	**441**
Carrying amount as at 31 December 2013	**–**	**26**	**17**	**2**	**–**	**45**
Carrying amount as at 1 January 2013	**–**	**39**	**22**	**2**	**2**	**65**

As in the previous year, no research costs were incurred in the year under review in connection with the implementation of software developed in-house.

32. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

(€ m)	2014	2013
Land and buildings	77	80
Plant and equipment	55	61
Leasing assets	227	320
Assets under construction	3	–
Technical equipment and machinery	37	19
Total	**399**	**480**

Further details on the existing leasing business can be found in Note 61.

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 HSH Nordbank AG. Real estate leased as lessor in the operating leasing business is also included in this item.

INVESTMENT PROPERTY

(€ m)	2014	2013
Investment property	185	267
Total	**185**	**267**

The fair value of investment property amounted to € 195 million (previous year: € 273 million). The fair values of investment property are allocated without exception to level 3 of the fair value hierarchy. Market-based and income-based valuation techniques are used to determine fair value.

The development in property, plant and equipment and investment property in the financial year was as follows:

DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(€ m) **2014**	Land and buildings	Plant and equipment	Assets under construction	Investment property	Leasing assets	Technical equipment and machinery
Acquisition costs as at 1 January 2014	**85**	**146**	**–**	**295**	**465**	**98**
Changes in the scope of consolidation	–	–	–	–	–	–
Acquisition costs as at 1 January 2014 following adjustments	85	146		295	465	98
Additions	–	3	3	1	–	–
Disposals	–	6	–	37	60	–
Reclassifications	– 1	– 2	–	1	– 72	69
Exchange rate changes	–	–	–	3	52	1
Changes in the scope of consolidation	–	–	–	–	– 15	– 97
As at 31 December 2014	**84**	**141**	**3**	**263**	**370**	**71**
Depreciation as at 1 January 2014	**5**	**85**	**–**	**28**	**145**	**79**
Changes in the scope of consolidation	–	–	–	–	–	–
Depreciation as at 1 January 2014 following adjustments	5	85	–	28	145	79
Additions	2	8	–	54	27	12
Disposals	–	5	–	4	16	–
Reclassifications	–	– 2	–	–	– 24	23
Write-ups	–	–	–	–	–	–
Exchange rate changes	–	–	–	–	18	1
Changes in the scope of consolidation	–	–	–	–	– 7	– 81
As at 31 December 2014	**7**	**86**	**–**	**78**	**143**	**34**
Carrying amount as at 31 December 2014	**77**	**55**	**3**	**185**	**227**	**37**
Carrying amount as at 1 January 2014	**80**	**61**	**–**	**267**	**320**	**19**

A total carrying amount of € 1 million in respect of Land and buildings was reclassified to Investment property. € 48 million was transferred from Leasing assets to Technical equipment and machinery and € 2 million from Technical equipment and machinery to Non-current assets held for sale. These assets were sold during the reporting year.

Further details on depreciation are presented in Note 16.

DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(€ m) **2013**	Land and buildings	Plant and equipment	Assets under construction	Investment property	Leasing assets	Technical equipment and machinery
Acquisition costs as at 1 January 2013	**85**	**145**	**1**	**55**	**24**	**199**
Changes in the scope of consolidation	–	–	–	238	401	–
Acquisition costs as at 1 January 2013 following adjustments	85	145	1	293	425	199
Additions	–	9	–	1	–	–
Disposals	–	8	–	43	–	–
Reclassifications	–	1	– 1	– 13	–	–
Exchange rate changes	–	–	–	– 1	– 18	– 6
Changes in the scope of consolidation	–	– 1	–	58	58	– 95
As at 31 December 2013	**85**	**146**	**–**	**295**	**465**	**98**
Depreciation as at 1 January 2013	**3**	**86**	**–**	**16**	**12**	**93**
Changes in the scope of consolidation	–	–	–	23	104	–
Depreciation as at 1 January 2013 following adjustments	3	86	–	39	116	93
Additions	2	5	–	5	23	35
Disposals	–	5	–	23	–	–
Reclassifications	–	–	–	– 9	–	–
Write-ups	–	–	–	–	– 2	–
Exchange rate changes	–	–	–	–	– 6	– 4
Changes in the scope of consolidation	–	– 1	–	16	14	– 45
As at 31 December 2013	**5**	**85**	**–**	**28**	**145**	**79**
Carrying amount as at 31 December 2013	**80**	**61**	**–**	**267**	**320**	**19**
Carrying amount as at 1 January 2013	**82**	**59**	**1**	**39**	**12**	**106**

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

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	2014	2013
Loans and advances to customers	34	15
Other assets	–	10
Total	**34**	**25**

This item mainly contains loans and advances to customers and other assets for which it is highly likely that they will be sold within the next twelve months in the course of the strategic realignment.

Following the balance sheet date, but still during the period for preparing the consolidated financial statements, six loans classified as LaR and one equity holding classified as AfS fulfilled the requirements for classification as non-current assets held for sale under IFRS 5.6 et seq. These assets are not included in the above presentation under IFRS 5.12. Loans as well as the equity holding are allocated to the Restructuring Unit segment. The sale occurs within the framework of the winding down business of this segment. The sale is planned for the first half of the year.

All cumulative income and expenses relating to these assets are disclosed in the statement of comprehensive income as well as in the statement of changes in equity.

34. CURRENT TAX ASSETS

CURRENT TAX ASSETS

(€ m)	2014	2013
Domestic	46	23
Foreign	39	36
Total	**85**	**59**

35. DEFERRED TAX ASSETS

Deferred tax assets arose due to temporary differences in the tax base of the following items in the statement of financial position and tax losses carried forward:

DEFERRED TAX ASSETS

(€ m)	2014	2013
Assets		
Loans and advances to banks	30	41
Loans and advances to customers	–	–
Loan loss provisions	439	623
Trading assets	–	33
Asset-side adjustment item from portfolio fair value hedge	–	21
Financial investments	8	68
Property, plant and equipment	–	3
Other assets	42	99
Liabilities		
Liabilities to customers	83	76
Securitised liabilities	215	172
Negative fair values of hedging derivatives	366	293
Liabilities-side adjustment item from portfolio fair value hedge	381	304
Trading liabilities	3	–
Provisions	363	169
Other liabilities	248	177
Tax losses carried forward	190	216
Subtotal for deferred tax assets	**2,368**	**2,295**
of which long-term	205	113
Netting of deferred tax liabilities	– 1,178	– 1,069
Total	**1,190**	**1,226**

Deferred tax assets on tax loss carryforwards were recognised in the amount of € 190 million (previous year: € 216 million). HSH Nordbank Groups medium term income planning shows that the Bank will have sufficient taxable income available in the future against which the underlying loss carryforwards can be utilised.

In addition, there were unused tax loss carryforwards of € 5,245 million as at the reporting date (previous year: € 3,885 million). Deferred taxes of € 1,695 million (corporation tax) and € 1,509 million (trade tax) respectively were not recognised by the parent company in Germany on loss carryforwards.

Of the deferred tax assets, € 1,079 million (previous year: € 1,139 million) were incurred in Germany and € 111 million (previous year: € 87 million) were incurred abroad.

The decrease in deferred tax assets by € –36 million results from a decrease by € 112 million through profit and loss and an increase by € 76 million booked to equity, which is mainly based on pension provisions.

The difference between the valuation for tax purposes of hybrid financial instruments (Note 7.I.E) and the measurement of such instruments under IAS 39.A8 results in deferred tax assets of € 33 million (previous year: € 42 million).

36. OTHER ASSETS

OTHER ASSETS

(€ m)	2014	2013
Unamortised balance of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee	91	207
Tenant loans	26	23
Receivables from insurance contracts	20	20
Prepaid expenses	12	14
Receivables from participations and affiliated companies	7	2
Receivables from fund transactions	2	3
Receivables from other taxes	2	3
Other assets	78	103
Total	**238**	**375**

Other assets in the amount of € 42 million (previous year: € 94 million) have a residual maturity of more than one year.

€ 84 million of the assets reported here relate to financial instruments (previous year: € 105 million).

37. LIABILITIES TO BANKS

LIABILITIES TO BANKS

(€ m)	2014			2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	839	407	1,246	643	477	1,120
Other term liabilities	7,736	5,565	13,301	12,187	4,905	17,092
Total	**8,575**	**5,972**	**14,547**	**12,830**	**5,382**	**18,212**

Liabilities to banks of € 4,644 million (previous year: € 10,803 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2014 to € – 15 million (previous year: € – 8 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

38. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS BY CUSTOMER GROUP

(€ m)	**2014**	2013
Corporate clients	33,908	33,075
Public authorities	8,099	6,787
Retail customers	1,158	800
Total	**43,165**	**40,662**

LIABILITIES TO CUSTOMERS

	2014			2013		
(€ m)	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	26	–	26	34	1	35
> 3 months	–	–	–	2	–	2
Other liabilities						
Payable on demand	11,863	1,455	13,318	9,596	1,137	10,733
Term liabilities	27,447	2,374	29,821	27,533	2,359	29,892
Total	**39,336**	**3,829**	**43,165**	**37,165**	**3,497**	**40,662**

Liabilities to customers of € 12,260 million (previous year: € 15,154 million) have a residual maturity of more than one year.

During the reporting period the classification of customer groups (Retails customers, Corporate clients and Public authorities) was switched to the definition as applied to the new supervisory and internal management. The allocation of the previous year figures to customer groups was adjusted for purposes of better comparability.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2014 to € –238 million (previous year: € –261 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

39. SECURITISED LIABILITIES

SECURITISED LIABILITIES

(€ m)	2014	2013
Debentures issued	27,591	28,459
Money market securities issued	43	102
Total	**27,634**	**28,561**

Securitised liabilities of € 15,981 million (previous year: € 22,816 million) have a residual maturity of more than one year.

Debentures issued include € 628 million of hybrid financial instruments (previous year: € 560 million). The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 8.I.E).

In the item Securitised liabilities repurchased own debentures in the amount of € 3,611 million (previous year: € 3,443 million) were deducted.

The difference between the carrying amount of Securitised liabilities categorised as designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € –589 million at 31 December 2014 (previous year: € –608 million).

40. 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. The remainder is stated under Trading liabilities. Hedge accounting is used solely for interest rate risks.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)	2014	2013
Negative fair value of derivatives used in micro fair value hedges	139	138
Negative fair value of derivatives used in portfolio fair value hedges	1,017	796
Total	**1,156**	**934**

Negative fair values of hedging derivatives of € 1,150 million (previous year: € 914 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Positive fair value of hedging derivatives (see Note 27). 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.

41. TRADING LIABILITIES

Only financial liabilities classified as HfT are disclosed under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as hedging derivatives or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

TRADING LIABILITIES

(€ m)	2014	2013
Negative fair values from derivative financial instruments		
Interest-rate-related business	8,278	6,403
Currency-related business	274	123
Other business	694	577
Total	**9,246**	**7,103**

Trading liabilities of € 8,479 million (previous year: € 6,667 million) have a residual maturity of more than one year.

For details of collateral transferred please see Note 62.

42. PROVISIONS

PROVISIONS

(€ m)	2014	2013
Provisions for pension obligations and similar obligations	1,122	854
Other provisions		
Provisions for personnel expenses	41	54
Provisions in the lending business	98	145
Provisions for restructuring	171	130
Provisions for litigation risks and costs	50	49
Miscellaneous	217	162
Total	**1,699**	**1,394**

Provisions of € 1,389 million (previous year: € 1,306 million) have a residual maturity of more than one year.

Provisions with a maturity of less than one year mainly relate to Provisions for restructuring, Provisions in the lending business as well as Miscellaneous.

Provisions for restructuring in the amount of € 123 million (previous year: € 85 million) related to personnel expenses and € 49 million (previous year: € 45 million) to operating expenses.

The Miscellaneous item mainly includes interest on tax liabilities, maintenance obligations for aircraft accounted for in subsidiaries and provisions for legal risks based on the current legislation concerning general terms and conditions (GTC) in the amount of € 33 million (previous year: € 0 million).

Changes in pension provisions are presented in Note 43.

Other provisions changed as follows:

CHANGES IN OTHER PROVISIONS

(€ m) 2014	For personnel expenses	In the lending business	For restructuring	For litigation risks and costs	Miscellaneous	Total
As at 1 January 2014	**54**	**145**	**130**	**49**	**162**	**540**
Additions	25	18	118	11	99	271
Reversals	9	66	52	3	9	139
Compounding	–	–	–	–	–	–
Reclassifications	– 18	–	– 8	–	–	– 26
Changes in exchange rates	1	1	2	–	5	9
Changes in the scope of consolidation	–	–	–	–	– 4	– 4
Utilisation in the financial year	12	–	19	7	36	74
As at 31 December 2014	**41**	**98**	**171**	**50**	**217**	**577**

Reclassifications were made from Provisions to Provisions for pension obligations in the amount of € 3 million and to liabilities in the amount of € 23 million.

CHANGES IN OTHER PROVISIONS

(€ m) 2013	For personnel expenses	In the lending business	For restructuring	For litigation risks and costs	Miscellaneous	Total
As at 1 January 2013	**61**	**455**	**149**	**80**	**65**	**810**
Changes in the scope of consolidation	–	–	–	–	30	30
As at 1 January 2013 following adjustments	61	455	149	80	95	840
Additions	36	68	45	29	104	282
Reversals	3	350	15	7	10	385
Compounding	–	2	– 1	–	–	1
Reclassifications	– 23	–	– 14	–	– 1	– 38
Changes in exchange rates	– 1	– 3	– 1	–	– 2	– 7
Changes in the scope of consolidation	–	–	–	–	14	14
Utilisation in the financial year	16	27	33	53	38	167
As at 31 December 2013	**54**	**145**	**130**	**49**	**162**	**540**

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

PROVISIONS IN THE LENDING BUSINESS

(€ m)	**2014**	2013
Specific loan loss provisions for		
Contingent liabilities	30	47
Irrevocable loan commitments	8	28
Other credit risks	9	14
Subtotal	**47**	**89**
Portfolio loan loss provisions for		
Contingent liabilities	43	44
Irrevocable loan commitments	8	12
Subtotal	**51**	**56**
Total	**98**	**145**

43. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

In recognising and measuring defined benefit plans, the net present value of the obligations is reduced by the fair value of the plan assets.

PROVISIONS FOR PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

(€ m)	**2014**	2013
Net present value of obligations, wholly or partly financed through funds	14	13
Net present value of obligations not financed through funds	1,116	850
Net present value of pension obligations and similar obligations	**1,130**	**863**
Fair value of plan assets	8	8
Pension plan deficit (provisions for pension obligations and similar obligations)	**1,122**	**855**

The net present value of defined benefit pension obligation has changed as follows:

CHANGES IN NET PRESENT VALUE

(€ m)	**2014**	2013
Net present value as at 1 January	**863**	**862**
Actuarial losses/gains (–)	**–**	**–**
due to changed financial assumptions	261	–11
due to experience-based adjustments	3	–4
Interest expense	30	29
Past service cost	8	5
Current service cost	10	12
Benefits paid	–46	–41
Reclassifications	1	11
Net present value as at 31 December	**1,130**	**863**

The fair value of plan assets has changed as follows:

CHANGE IN FAIR VALUE OF PLAN ASSETS

(€ m)	2014	2013
Fair value of plan assets as at 1 January	**8**	**8**
Employer's contributions	–	–
Transfer of plan assets	–	–
Fair value of plan assets as at 31 December	**8**	**8**

The change in actuarial gains and losses was mainly attributable to a significant decrease of the discount rate.

The total actuarial losses for the financial year before deferred taxes amount to € –264 million (previous year: gain of € 15 million). Allowing for deferred taxes, this results in a loss of € –179 million (previous year: gain of € 10 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2014 the balance of actuarial gains/losses in retained earnings amounted to € –247 million (previous year: € 15 million) before tax and € –169 million (previous year: € 10 million) after tax.

BREAKDOWN OF PLAN ASSETS

(€ m)	2014	2013
Qualified insurance policies	7	7
Debentures and other fixed-interest securities	1	1
Other assets	–	–
Shares and other non-fixed-interest securities	–	–
Property	–	–
Total	**8**	**8**

The debentures and other fixed-interest securities included in the plan assets are traded on an active market.

Expenses of € 48 million were incurred for defined benefit plans in the 2014 reporting year (previous year: € 46 million).

Pension obligations represent future amounts to be paid and are uncertain both as to the amount and the date they fall due. Future fluctuations in the present value of the pension obligations can result particularly from a change in the actuarial assumptions such as the discount rate and life expectancy.

An increase or decrease in the actuarial assumptions (see Note 7) would have had the following impact on the present value of pension obligations as at 31 December 2014:

SENSITIVITY OF PENSION OBLIGATIONS

(€ m) **2014**	**Increase**	**Decrease**
Discount rate (+/– 0.5 %)	– 121	142
Inflation trend[1] (+/– 0.25 %)	76	– 72
Life expectancy (+ 1 year)	82	–

SENSITIVITY OF PENSION OBLIGATIONS

(€ m) **2013**	Increase	Decrease
Discount rate (+/– 0.5 %)	– 60	67
Inflation trend[1] (+/– 0.25 %)	29	– 28
Life expectancy (+ 1 year)	31	–

[1] A variation in the inflation trend affects the salary trend. An assumption regarding future salary levels has a direct influence on future pension levels because of the fully dynamic pension commitments. The salary and pension trends were therefore not separately varied.

The average duration of the pension obligations determined as at 31 December 2014 was used as the basis for the sensitivity calculations. The impact of the major assumptions on the present value of the pension obligations is presented. As the sensitivity analyses are based on the average duration of the expected pension obligations and expected payment dates are therefore not taken into account, the figures represent only approximate values. Furthermore, where a change in an actuarial assumption is analysed, the other assumptions are kept constant.

The HSH Nordbank Group expects to make payments of € 46 million to beneficiaries under defined benefit plan commitments for the 2015 financial year (previous year: € 46 million).

The weighted average duration of the defined benefit obligation is 18.6 years as at 31 December 2014 (previous year: 17.6 years).

Expenses for defined contribution plans without taking into account payments to statutory pension schemes in the 2014 reporting year were € 3 million (previous year: € 3 million).

44. CURRENT TAX LIABILITIES

INCOME TAX LIABILITIES

(€ m)	2014	2013
Current tax liabilities		
Income tax liabilities to tax authorities	3	1
Provisions for income taxes	126	202
Total	**129**	**203**

Liabilities to tax authorities include liabilities on income taxes due to domestic and foreign tax authorities.

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received.

45. DEFERRED TAX LIABILITIES

For temporary differences in the tax bases of the following items in the statement of financial position deferred tax liabilities were created.

DEFERRED TAX LIABILITIES

(€ m)	2014	2013
Assets		
Cash reserve	20	14
Loans and advances to customers	122	51
Financial investments	124	162
Trading assets	44	–
Positive fair value of hedging derivatives	445	408
Asset-side adjustment item from portfolio fair value hedges	161	–
Property, plant and equipment	3	9
Other assets	1	6
Liabilities		
Liabilities to banks	31	42
Trading liabilities	–	54
Provisions	1	7
Other liabilities	307	355
Subtotal	**1,259**	**1,108**
Netting off deferred tax assets	– 1,178	– 1,069
Total	**81**	**39**

There were no timing differences as at the reporting date for which deferred tax liabilities had not been recognised.

The Deferred tax liabilities of € 81 million (previous year: € 39 million) primarily relate to countries other than Germany.

The increase in deferred tax liabilities by € 42 million results from an increase by € 43 million through profit and loss and a decrease by € 1 million which does not affect income and mainly relates to financial investments.

Deferred tax liabilities in the context of shares in subsidiaries (so-called outside basis differences of € 1 million) were not recognised in accordance with IAS 12.39 since it is not very likely that they will actually occur.

46. OTHER LIABILITIES

OTHER LIABILITIES

(€ m)	2014	2013
Collateral provided for assumed liabilities	764	839
Outstanding payments for the second loss guarantee	102	102
Liabilities for outstanding invoices	45	67
Other tax liabilities	16	28
Deferred income	16	16
Liabilities for restructuring	6	13
Personnel liabilities	11	11
Other	84	99
Total	**1,044**	**1,175**

Other liabilities in the amount of € 775 million (previous year: € 849 million) have a residual maturity of more than one year.

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

€ 1,011 million of the liabilities reported here relate to financial instruments (previous year: € 1,131 million).

47. SUBORDINATED CAPITAL

HSH Nordbank Group discloses its subordinated liabilities, silent participations and profit participation capital under this item.

SUBORDINATED CAPITAL

(€ m)	2014	2013
Subordinated liabilities	4,128	4,110
Maturing in less than two years	2,053	2,050
Silent participations	1,352	1,146
Profit participation capital	27	32
Maturing in less than two years	15	14
Total	**5,507**	**5,288**

Subordinated capital of € 3,445 million (previous year: € 5,216 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2014 to € – 13 million (previous year: € – 17 million).

Hybrid financial instruments included under Subordinated capital include all silent participations as well as all profit participation capital. The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 7.I.E).

The following material subordinated liabilities were in circulation as at the reporting date 31 December 2014:

CARRYING AMOUNT OF MATERIAL SUBORDINATED LIABILITIES IN CIRCULATION

BEARER SECURITIES OVER € 80 MILLION

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
14.02.2007	499	499	EUR	HSH Nordbank	1.02	14.02.2017
14.02.2007	430	430	EUR	HSH Nordbank	1.06	14.02.2017
25.05.2005	296	296	EUR	HSH Nordbank	3.63	23.12.2015
30.06.2005	292	355	USD	HSH Nordbank	0.42	30.12.2015
23.05.2005	138	138	EUR	HSH Nordbank	0.57	23.12.2015
15.10.2002	105	105	EUR	LBSH[1]	0.61	15.10.2015
21.03.2001	118	144	USD	LBSH[1]	0.65	21.03.2031
30.06.2005	100	100	EUR	HSH Nordbank	0.46	30.12.2015
22.01.2001	92	92	EUR	HLB[2]	0.60	22.01.2041
25.11.1999	86	86	EUR	LBSH[1]	0.60	25.11.2039
30.10.2000	80	80	EUR	HLB[2]	0.61	30.10.2040

REGISTERED SECURITIES OVER € 80 MILLION

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
26.08.1997	83	12,016	JPY	HLB[2]	6.42	26.08.2017

[1] Landesbank Schleswig-Holstein.
[2] Hamburgische Landesbank.

As at the reporting date 31 December 2014 there were the following material silent participations:

CARRYING AMOUNT OF MATERIAL SILENT PARTICIPATIONS

OVER € 30 MILLION

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
30.06.2014	458	458	EUR	LBSH[1]	12 M Euribor + 2.15	30.06.2033
17.06.2005	325	395	USD	HSH N Funding II	7.25	perpetual
24.07.2000	91	91	EUR	LBSH[1]	7.65	perpetual

[1] Landesbank Schleswig-Holstein.

As at the reporting date 31 December 2014 there was only profit participation capital with a carrying amount of less than € 15 million.

48. EQUITY

EQUITY

(€ m)	**2014**	2013
Share capital	3,018	3,018
Capital reserve	487	594
Retained earnings	929	1,775
Cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	– 247	15
Deferred taxes on cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	78	– 5
Revaluation reserve	108	27
Currency conversion reserve	– 16	– 61
Other net income from financial investments accounted for under the equity method	–	3
Other net income from non-current assets held for sale and disposal groups	–	3
Group net profit/loss	159	– 767
Total before non-controlling interests	**4,685**	**4,592**
Non-controlling interests	– 13	– 13
Total	**4,672**	**4,579**

Share capital

The share capital of HSH Nordbank AG is divided into 301,822,453 registered shares each representing a notional of € 10.00 of share capital. All the issued shares have been fully paid up.

The direct and indirect shares held by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg amount to 85.38 %. At the reporting date HSH Finanzfonds AöR, 50.00 % of which is held by the Free and Hanseatic City of Hamburg and 50.00 % by the Federal State of Schleswig-Holstein, is the largest shareholder with a direct share of voting rights of 65.00 %. Further direct and indirect voting shares held by the Free and Hanseatic City of Hamburg amounted to 10.80 % as at the balance sheet date and the further direct and indirect shares of the Federal State of Schleswig-Holstein were 9.58 %. The direct share of the Savings Bank Association for Schleswig-Holstein as at 31 December 2014 was 5.31 %. As at 31 December 2014, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31 % of the voting rights in total. The ownership structure has not changed compared to the previous year.

HSH Finanzfonds AöR, with its registered offices in Hamburg, has notified us in previous year in accordance with Section 20 (1) of the German Stock Corporation Act (AktG) that it directly owns more than one-quarter of the shares of HSH Nordbank AG, and at the same time owns a majority interest within the meaning of Section 16 (4) AktG. The shares of HSH Nordbank AG held by Finanzfonds AöR are apportioned to the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in accordance with Section 16 (4) AktG. Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG.

Neither HSH Nordbank AG nor any company dependent on it or majority-owned companies hold treasury stock. There are no cross-shareholdings as defined by Section 19 AktG.

CHANGES IN ORDINARY SHARES

(number of shares)	**2014**	2013
Number at the beginning of the year	301,822,453	301,822,453
Number at end of the year	**301,822,453**	**301,822,453**

Retained earnings and dividends

The item Retained earnings mainly shows amounts allocated from previous year profits and the profits of the current year. There are no statutory reserves or legal reserves within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

As was the case for the previous financial year 2013, no dividend payments were made for previous years during the current financial year 2014.

Revaluation reserve

The effects of the measurement of AfS financial instruments disclosed at fair value directly in equity are recorded in the revaluation reserve.

The changes in value associated with deferred taxes shown in the revaluation reserve are also presented in the revaluation reserve pursuant to IAS 12.61A.

The development of the revaluation reserve is broken down as follows:

DEVELOPMENT OF THE REVALUATION RESERVE

(€ m)	2014	2013
As at 1 January	**27**	**– 31**
Addition/release of revaluation reserve due to measurement	166	101
Changes due to foreign currency effects	14	– 6
Subtotal	**207**	**64**
Transfers to the income statement	– 99	– 37
due to impairment	–	4
due to disposal	– 107	– 47
due to reclassification	8	6
As at 31 December	**108**	**27**
Of which deferred taxes not recognised in the income statement	– 49	– 42

Deferred taxes of € –7 million (previous year: € 1 million) were recognised in the revaluation reserve in the year under review. As of the balance sheet date, deferred taxes in the revaluation reserve amounted to € – 49 million (previous year: € – 42 million).

Currency conversion reserve

Assets and liabilities in financial statements of subsidiaries in foreign currencies are translated at the reporting date exchange rate in preparing the consolidated financial statements, while average rates for the reporting period are used to translate expenses and income. Equity is translated at historical rates, with the exception of revaluation reserves in consolidated financial statements reported in foreign currencies, which are translated at the reporting date exchange rate.

Any differences arising from this method of translation compared to complete translation at the reporting date exchange rate are reported in this item under equity.

Capital management

The capital management of HSH Nordbank aims to comply with regulatory minimum capital ratios. The minimum capital ratios agreed on the basis of the EU state aid decision in September 2011 must also be complied with. In addition to these minimum requirements, capital management is used as the basis for complying with the capital ratios planned and ensures that the Bank's capital base meets the risk-bearing capacity requirements. The common equity Tier 1 capital ratio is the key parameter for capital management.

The regulatory capitalisation is in accordance with the provisions of the European Capital Requirements Regulation (CRR). HSH Nordbank determines the capital requirements for counterparty risk in accordance with the approach permitted by BaFin and which is based on internal ratings (Advanced IRBA). The capital base is reported to the regulatory authorities quarterly. The minimum ratios required under supervisory law were complied with on each reporting date in the course of the year under review.

REGULATORY FIGURES[1)]

(in %)	2014	2013
Tier 1 capital ratio (incl. market risk position)	13.5	15.9
Overall capital ratio/regulatory capital ratio	17.3	24.2

[1)] Values before adoption of the consolidated financial statements of HSH Nordbank AG.

The regulatory capital commitment was monitored closely both at Bank and division level in the course of the financial year.

With regard to the successful conclusion of the Comprehensive Assessments of the ECB please refer to the corresponding presentation under Business developments in the Group management report.

SEGMENT REPORTING

49. SEGMENT REPORT

(€ m/%)	Shipping, Project & Real Estate Financing		Corporates & Markets		Corporate Center		Consolidation Core Bank		Total Core Bank	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Net interest income	549	570	100	139	–221	–137	3	49	431	621
Net commission income	64	45	44	53	–9	–7	–4	–16	95	75
Result from hedging							–40	9	–40	9
Net trading income	–25	58	166	165	9	1	–157	–180	–7	44
Net income from financial investments[1]	4	54	6	13	110	87	–8	–5	112	149
Total income	**592**	**727**	**316**	**370**	**–111**	**–56**	**–206**	**–143**	**591**	**898**
Loan loss provisions	–444	–659	–14	–39	63	–2	330	306	–65	–394
Administrative expenses	–202	–214	–269	–287	24	30	12	6	–435	–465
Other operating income	28	12	6	11	–12	–22	6	–2	28	–1
Net income before restructuring	**–26**	**–134**	**39**	**55**	**–36**	**–50**	**142**	**167**	**119**	**38**
Result from restructuring							–62	–41	–62	–41
Expenses for government guarantees							–177	–120	–177	–120
Net income before taxes	**–26**	**–134**	**39**	**55**	**–36**	**–50**	**–97**	**6**	**–120**	**–123**
Cost/income ratio (CIR)	33 %	29 %	84 %	75 %					70 %	52 %
Return on equity before tax	–2 %	–10 %	9 %	12 %					–6 %	–6 %
Average equity	1,330	1,358	442	452	55	11	145	249	1,972	2,070

(€ bn)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Segment assets	**30**	**28**	**26**	**24**	**18**	**16**	**2**	**1**	**76**	**69**

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

(€ m/%)	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Net interest income	188	265	– 33	43	155	308	586	929
Net commission income	35	29	–	–	35	29	130	104
Result from hedging							– 40	9
Net trading income	42	244	27	– 95	69	149	62	193
Net income from financial investments[1]	59	112	–	–	59	112	171	261
Total income	**324**	**650**	**– 6**	**– 52**	**318**	**598**	**909**	**1,496**
Loan loss provisions	– 25	– 1,021	666	582	641	– 439	576	– 833
Administrative expenses	– 289	– 290	–	–	– 289	– 290	– 724	– 755
Other operating income	94	45	–	–	94	45	122	44
Net income before restructuring	**104**	**– 616**	**660**	**530**	**764**	**– 86**	**883**	**– 48**
Result from restructuring		–	– 22	– 15	– 22	– 15	– 84	– 56
Expenses for government guarantees			– 344	– 294	– 344	– 294	– 521	– 414
Net income before taxes	**104**	**– 616**	**294**	**221**	**398**	**– 395**	**278**	**– 518**
Cost/income ratio (CIR)							70 %	49 %
Return on equity before tax							6 %	– 10 %
Average equity	2,466	2,837	188	29	2,654	2,866	4,626	4,936

(€ bn)	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Segment assets	**31**	**37**	**3**	**3**	**34**	**40**	**110**	**109**

[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 result from the Bank's internal organisational structure which is based on product and customer groups.

HSH Nordbank's Core Bank consists of the segments Shipping, Project & Real Estate Financing, Corporates & Markets as well as Corporate Center. Results of the Shipping, Energy & Infrastructure and Real Estate Clients divisions are reported under the Shipping, Project & Real Estate Financing segment. Net income in this segment is earned primarily from loan and financial products as well as financing-related services. In the Corporates & Markets segment we combine, on the one hand, business transacted with corporates and wealth management with a focus on entrepreneurs, foundations and non-profit organisations. On the other hand the development, sales and distribution and trading of financial products (Capital Markets), special financing and advisory solutions (Corporate Finance division) as well as the servicing of savings banks, banks and insurance companies are allocated to this segment. The Corporate Center includes the administration and service divisions, since the end of 2014 including the Transaction Banking division (former Corporates & Markets segment), as well as positions of the Overall Bank and equity holdings not allocated to segments.

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 especially onerous loan commitments and for the management of the capital markets portfolios. 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 basis for the segment reporting is internal reporting to management. Income and expenses were assigned to the segments in which they originated.

Geographical information as well as information on products and services is not collected for management reporting, whereby disclosures in accordance with IFRS 8.32 and 8.33 are not made.

The cost/income ratio and return on equity (RoE) are not shown in the segment report for the segments Corporate Center and Restructuring Unit. The ratios for the Corporate Center segment are not shown as the ratios would only provide little information for the divisions organised under this segment. In the case of the Restructuring Unit, the segment involves business areas which are not strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income for the purpose of internal reporting to management 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 in the Corporate Center are allocated to the business segments within the framework of cost allocation. The cost allocation method was adjusted as at the 2014 year end. The change was made for the purposes of allocating central costs more in line with their causation. Previous year figures have been adjusted accordingly.

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

Measurement and disclosure differences as well as differences in the mapping of economic hedging relationships are mainly shown under net interest income in the consolidation columns.

Net trading income in the consolidation columns include, amongst other things, credit rating effects on own issues of HSH Nordbank measured at fair value, differences in the mapping of economic hedging relationships as well as changes in the value of interest rate/currency derivatives recognised in net trading income, especially EUR/USD basis swaps.

Since the 2014 year end the net income from foreign currency of the loan loss provisions is no longer allocated to the segments but disclosed in the consolidation of the Core Bank and the Restructuring Unit. The hedging effect of the net income from foreign currency in the portfolio not covered by the guarantee is an exception. This effect continues to be shown in the Corporate Center segment. The previous year figures have been adjusted for purposes of comparability.

Loan loss provisions are shown in the segments in which they originated. Effects on the basis of the hedging effects of the second loss guarantee are disclosed in the consolidation columns.

Average equity capital was previously allocated to the segments on the basis of economic capital tied up. The regularly capital commitment is in use as the allocation standard since 2014 due to its immediate relevance for risk steering. The previous year figures have been adjusted for purposes of comparability.

Calculation of the cost/income ratio was adjusted as at the 2014 year end and is now the ratio of Administrative expenses to Total income plus Other operating income. Like this the effects from the initial application of IFRS in the year 2014 were taken account of. The previous year figures have been adjusted for purposes of comparability. Return on equity results from the ratio of Net income before taxes to average equity capital. See Note 17 for comments on the depreciation of goodwill in the segments. See Note 14 for comments on companies consolidated under the equity method recognised as part of Net income from financial investments.

The segment results of the previous years had to be adjusted respectively within the framework of the initial application of IFRS 10.

NOTES ON FINANCIAL INSTRUMENTS

50. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **2014**	LaR	AfS	DFV	HfT	LIA	No IAS 39 categorie	**Total**
Assets							
Cash reserve	5,554	413	–	–	–	–	5,967
Loans and advances to banks	6,779	87	49	–	–	–	6,915
Loans and advances to customers	65,760	97	1,369	–	–	–	67,226
Receivables under finance leases	–	–	–	–	–	111	111
Positive fair value of hedging derivatives	–	–	–	–	–	1,405	1,405
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	510	510
Trading assets	–	–	–	9,163	–	–	9,163
Financial investments	4,496	12,002	2,190	–	–	–	18,688
Non-current assets held for sale and disposal groups	34	–	–	–	–	–	34
Other assets	84	–	–	–	–	–	84
Total assets	**82,707**	**12,599**	**3,608**	**9,163**	**–**	**2,026**	**110,103**
Liabilities							
Liabilities to banks	–	–	162	–	14,385	–	14,547
Liabilities to customers	–	–	2,370	–	40,795	–	43,165
Securitised liabilities	–	–	4,370	–	23,264	–	27,634
Negative fair values of hedging derivatives	–	–	–	–	–	1,156	1,156
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	1,201	1,201
Trading liabilities	–	–	–	9,246	–	–	9,246
Liabilities relating to disposal groups	–	–	–	–	–	–	–
Subordinated capital	–	–	99	–	5,408	–	5,507
Other liabilities	–	–	–	–	1,011	–	1,011
Total liabilities	**–**	**–**	**7,001**	**9,246**	**84,863**	**2,357**	**103,467**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **2013**	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	4,469	382	–	–	–	–	4,851
Loans and advances to banks	4,962	86	110	–	–	–	5,158
Loans and advances to customers	67,015	146	1,177	–	–	–	68,338
Receivables under finance leases	–	–	–	–	–	131	131
Positive fair value of hedging derivatives	–	–	–	–	–	1,287	1,287
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	151	151
Trading assets	–	–	–	9,045	–	–	9,045
Financial investments	6,436	12,671	2,149	–	–	–	21,256
Non-current assets held for sale and disposal groups	15	–	–	–	–	–	15
Other assets	105	–	–	–	–	–	105
Total assets	**83,002**	**13,285**	**3,436**	**9,045**	**–**	**1,569**	**110,337**
Liabilities							
Liabilities to banks	–	–	143	–	18,069	–	18,212
Liabilities to customers	–	–	2,557	–	38,105	–	40,662
Securitised liabilities	–	–	4,717	–	23,844	–	28,561
Negative fair values of hedging derivatives	–	–	–	–	–	934	934
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	961	961
Trading liabilities	–	–	–	7,103	–	–	7,103
Liabilities relating to disposal groups	–	–	–	–	–	–	–
Subordinated capital	–	–	103	–	5,185	–	5,288
Other liabilities	–	–	–	–	1,109	–	1,109
Total liabilities	**–**	**–**	**7,520**	**7,103**	**86,312**	**1,895**	**102,830**

51. RECLASSIFICATION UNDER IAS 39 (REV. 2008)

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (rev. 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)		2014		2013	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	2	3	29	28
Reclassified from AfS to LaR	1,765	–	–	–	–
Total financial assets reclassified as LaR	**2,785**	**2**	**3**	**29**	**28**

The effective interest rate applied in the case of financial investments 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)	2014			2013	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from HfT to LaR	399	–	–	29	29
Reclassified from AfS to LaR	6,336	1,343	1,481	2,136	2,156
Total financial assets reclassified as LaR	**6,735**	**1,343**	**1,481**	**2,165**	**2,185**

The effective interest rate applied in the case of financial investments 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 that have been disposed of or have fallen due since their reclassification, was € 1,419 million and the carrying amount of assets classified as AfS was € 6,585 million. 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 € 4 million (previous year: € 3 million) for the financial instruments reclassified in the 2008 financial year and € 1 million (previous year: € –2 million) for the financial instruments reclassified in the 2009 financial year.

For financial instruments reclassified from AfS the valuation result in the revaluation reserve for the current reporting period would have been € 0 million (previous year: € 0 million) for the financial instruments reclassified in the 2008 financial year and € 126 million (previous year: € –36 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)	2014			2013		
	From HfT	**From AfS**	**Total**	From HfT	From AfS	Total
Net interest income	1	29	30	8	52	60
Net trading income	–	–	–	–	–3	–3
Net income from financial investments	5	–89	–84	7	–	7
Total	**6**	**–60**	**–54**	**15**	**49**	**64**

52. RESIDUAL MATURITY BREAKDOWN OF FINANCIAL INSTRUMENTS

When determining the residual maturities of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

(€ m) 2014	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Liabilities to banks	1,307	3,162	5,522	5,036	1,660	16,687
Liabilities to customers	15,744	10,193	6,599	7,224	10,558	50,318
Securitised liabilities	4	2,906	8,951	13,169	5,292	30,322
Negative fair values of hedging derivatives	–	85	124	654	313	1,176
Trading liabilities	–	1,319	1,725	5,114	3,693	11,851
thereof derivatives	–	1,319	1,725	5,114	3,693	11,851
Other liabilities	54	58	151	745	30	1,038
Subordinated capital	16	93	4,167	3,311	5,516	13,103
Contingent liabilities	2,716	–	–	–	–	2,716
Irrevocable loan commitments	7,081	–	–	–	–	7,081
Total	**26,922**	**17,816**	**27,239**	**35,253**	**27,062**	**134,292**

(€ m) 2013	Payable on demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Liabilities to banks	1,162	1,910	4,169	9,970	1,678	18,889
Liabilities to customers	13,153	8,038	4,150	9,321	11,578	46,240
Securitised liabilities	5	1,879	4,147	20,256	4,786	31,073
Negative fair values of hedging derivatives	–	88	154	562	146	950
Trading liabilities	–	180	433	3,205	3,332	7,150
thereof derivatives	–	180	433	3,205	3,332	7,150
Other liabilities	73	78	160	823	26	1,160
Subordinated capital	–	6	147	3,847	3,059	7,059
Contingent liabilities	2,707	–	–	–	–	2,707
Irrevocable loan commitments	6,911	–	–	–	–	6,911
Total	**24,011**	**12,179**	**13,360**	**47,984**	**24,605**	**122,139**

Interest rate swaps, cross-currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount.

Liquidity management is described in detail in the Risk report section of the Group management report.

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

I. Fair values of financial instruments

The fair values of the financial assets and liabilities are disclosed by classes of financial instruments and compared with the respective carrying amount below.

FAIR VALUES OF FINANCIAL INSTRUMENTS

ASSETS

(€ m)	**2014**			2013		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading assets	9,163	9,163	–	9,045	9,045	–
Designated at Fair Value (DFV)						
Loans and advances to banks	49	49	–	110	110	–
Loans and advances to customers	1,369	1,369	–	1,177	1,177	–
Financial investments	2,190	2,190	–	2,149	2,149	–
Available for Sale (AfS)						
Cash reserve	413	413	–	382	382	–
Loans and advances to banks	87	87	–	86	86	–
Loans and advances to customers	97	97	–	146	146	–
Financial investments[1]	12,002	12,169	167	12,671	12,464	–207
of which equity instruments measured at cost	304	–		315	–	
Loans and Receivables (LaR)						
Cash reserve	5,554	5,554	–	4,469	4,469	–
Loans and advances to banks	6,764	6,790	26	4,836	4,865	29
Loans and advances to customers	59,640	61,593	1,953	60,844	61,587	743
Financial investments	4,496	4,593	97	6,436	6,382	–54
Non-current assets held for sale and disposal groups	34	32	–2	15	15	–
Other assets	84	84	–	105	105	–
No IAS 39 category						
Positive fair value of hedging derivatives	1,405	1,405	–	1,287	1,287	–
Receivables under finance lease transactions	111	111	–	131	131	–
Value adjustments from the portfolio fair value hedge	509	–	–509	151	–	–151
Total assets	**103,967**	**105,699**	**1,732**	**104,040**	**104,400**	**360**

[1] € 304 million of the difference between the carrying amount and fair value is attributable to equity instruments measured at cost in accordance with IAS 39.46 (c). Another difference between the carrying amount and fair value of financial investments classified as available for sale (AfS) is attributable to the fact that the adjustment item created for these transactions from the portfolio fair value hedge is disclosed separately. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed under the Value adjustments from the portfolio fair value hedge item, of which € 471 million is accounted for by financial investments classified as available for sale (AfS) and € 38 million by loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS

LIABILITIES

(€ m)	**2014**			2013		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading liabilities	9,246	9,246	–	7,103	7,103	–
Designated at Fair Value (DFV)						
Liabilities to banks	162	162	–	143	143	–
Liabilities to customers	2,370	2,370	–	2,557	2,557	–
Securitised liabilities	4,370	4,370	–	4,717	4,717	–
Subordinated capital	98	98	–	103	103	–
Other liabilities (LIA)						
Liabilities to banks	14,385	14,597	212	18,069	18,260	191
Liabilities to customers	40,795	42,468	1,673	38,105	39,280	1,175
Securitised liabilities	23,264	23,516	252	23,844	23,849	5
Other liabilities	1,011	1,011	–	1,109	1,109	–
Subordinated capital	5,408	5,003	–405	5,185	4,790	–395
No IAS 39 category						
Negative fair values of hedging derivatives	1,156	1,156	–	934	934	–
Value adjustments from the portfolio fair value hedge	1,201	–	–1,201	961	–	–961
Total liabilities	**103,466**	**103,997**	**531**	**102,830**	**102,845**	**15**

The carrying amounts of loans and advances to banks and loans and advances to customers classified as LaR are shown less the reported loan loss provisions, since fair value also reflects possible impairments.

II. Fair value hierarchy for financial instruments measured at fair value

Assets and liabilities show the following breakdown by level in the fair value hierarchy under IFRS 13. For assets and liabilities recognised and measured at fair value, the fair values are broken down by class of financial instrument in the three levels in the hierarchy.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
2014	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve				
AfS	7	406	–	413
of which debt instruments	7	406	–	413
Loans and advances to banks				
AfS	–	42	45	87
of which debt instruments	–	42	45	87
DFV	–	–	49	49
of which debt instruments	–	–	49	49
Loans and advances to customers				
AfS	–	–	97	97
of which debt instruments	–	–	97	97
DFV	–	62	1,307	1,369
of which debt instruments	–	62	1,307	1,369
Positive fair value of hedging derivatives	–	1,405	–	1,405
of which interest rate derivatives	–	1,405	–	1,405
Trading assets (HfT)	437	7,990	736	9,163
of which debt instruments	435	952	–	1,387
of which contractually linked instruments	–	85	–	85
of which equity and near-equity instruments	2	1	–	3
of which interest rate derivatives	–	5,951	272	6,223
of which cross-currency interest rate derivatives	–	204	–	204
of which currency derivatives	–	117	20	137
of which credit derivatives	–	27	3	30
of which other derivatives	–	98	45	143
of which structured derivatives	–	546	396	942
of which other trading portfolios	–	9	–	9
Financial investments (excl. equity instruments measured at cost)				
AfS	7,345	4,201	152	11,698
of which debt instruments	7,335	4,053	14	11,402
of which contractually linked instruments	–	147	–	147
of which equity and near-equity instruments	10	1	138	149
DFV	–	1,280	910	2,190
of which debt instruments	–	1,273	558	1,831
of which contractually linked instruments	–	7	336	343
of which equity and near-equity instruments	–	–	16	16
Total	**7,789**	**15,386**	**3,296**	**26,471**

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve				
AfS	7	375	–	382
of which debt instruments	7	375	–	382
Loans and advances to banks				
AfS	–	41	45	86
of which debt instruments	–	41	45	86
DFV	–	34	76	110
of which debt instruments	–	34	76	110
Loans and advances to customers				
AfS	–	–	146	146
of which debt instruments	–	–	146	146
DFV	–	83	1,094	1,177
of which debt instruments	–	83	1,094	1,177
Positive fair value of hedging derivatives	–	1,287	–	1,287
of which interest rate derivatives	–	1,287	–	1,287
Trading assets (HfT)	440	7,502	1,103	9,045
of which debt instruments	436	1,557	–	1,993
of which contractually linked instruments	–	69	–	69
of which equity and near-equity instruments	4	–	–	4
of which interest rate derivatives	–	4,979	270	5,249
of which cross-currency interest rate derivatives	–	529	–	529
of which currency derivatives	–	124	19	143
of which credit derivatives	–	18	2	20
of which other derivatives	–	35	80	115
of which structured derivatives	–	187	732	919
of which other trading portfolios	–	4	–	4
Financial investments (excl. equity instruments measured at cost)				
AfS	7,537	4,680	139	12,356
of which debt instruments	7,499	4,484	7	11,990
of which contractually linked instruments	–	195	–	195
of which equity and near-equity instruments	38	1	132	171
DFV	–	1,281	868	2,149
of which debt instruments	–	1,239	495	1,734
of which contractually linked instruments	–	42	353	395
of which equity and near-equity instruments	–	–	20	20
Total	**7,984**	**15,283**	**3,471**	**26,738**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
2014	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	28	134	162
of which debt instruments	–	28	134	162
Liabilities to customers				
DFV	–	498	1,872	2,370
of which debt instruments	–	498	1,872	2,370
Securitised liabilities				
DFV	–	3,169	1,201	4,370
of which debt instruments	–	3,149	1,201	4,350
of which contractually linked instruments	–	20	–	20
Negative fair values of hedging derivatives	–	1,156	–	1,156
of which interest rate derivatives	–	1,156	–	1,156
Trading liabilities (HfT)	–	8,150	1,096	9,246
of which interest rate derivatives	–	6,886	656	7,542
of which cross-currency interest rate derivatives	–	730	–	730
of which currency derivatives	–	247	27	274
of which credit derivatives	–	–	–	–
of which other derivatives	–	58	41	99
of which structured derivatives	–	229	372	601
Subordinated capital				
DFV	–	82	16	98
of which debt instruments	–	82	16	98
Total	**–**	**13,083**	**4,319**	**17,402**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	26	117	143
of which debt instruments	–	26	117	143
Liabilities to customers				
DFV	–	443	2,114	2,557
of which debt instruments	–	443	2,114	2,557
Securitised liabilities				
DFV	–	2,563	2,154	4,717
of which debt instruments	–	2,560	2,154	4,714
of which contractually linked instruments	–	3	–	3
Negative fair values of hedging derivatives	–	934	–	934
of which interest rate derivatives	–	934	–	934
Trading liabilities (HfT)	–	6,280	823	7,103
of which interest rate derivatives	–	5,727	432	6,159
of which cross-currency interest rate derivatives	–	229	–	229
of which currency derivatives	–	95	28	123
of which credit derivatives	–	1	–	1
of which other derivatives	–	50	78	128
of which structured derivatives	–	178	285	463
Subordinated capital				
DFV	–	87	16	103
of which debt instruments	–	87	16	103
Total	**–**	**10,333**	**5,224**	**15,557**

Of the financial instruments allocated to level 3, € 2,664 million of assets (previous year: € 2,767 million) and € 3,748 million of liabilities (previous year: € 4,701 million) are in economic hedging relationships (at micro level), so that uncertainties and risk positions due to non-observable parameters offset each other at the level of hedging relationships (at micro level) involved.

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

TRANSFER, ASSETS

(€ m) **2014**	**Transfer to level 1**	**Transfer from level 1**	**Transfer to level 2**	**Transfer from level 2**	**Transfer to level 3**	**Transfer from level 3**
Trading assets (HfT)	333	– 420	809	– 333	–	– 389
of which debt instruments	333	– 419	419	– 333	–	–
of which equity and near-equity instruments	–	– 1	1	–	–	–
of which other derivatives	–	–	26	–	–	– 26
of which structured derivatives	–	–	363	–	–	– 363
Financial investments (excl. equity instruments measured at cost)						
AfS	1,290	– 1,395	1,402	– 1,289	1	– 9
of which debt instruments	1,288	– 1,395	1,402	– 1,289	1	– 7
of which equity and near-equity instruments	2	–	–	–	–	– 2
DFV	–	–	1	– 1	1	– 1
of which debt instruments	–	–	1	– 1	1	– 1
Total	**1,623**	**– 1,815**	**2,212**	**– 1,623**	**2**	**– 399**

TRANSFER, ASSETS

(€ m) **2013**	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to banks						
AfS	–	–	41	–	–	– 41
of which debt instruments	–	–	41	–	–	– 41
Trading assets (HfT)	–	– 200	354	– 4	4	– 154
of which debt instruments	–	– 200	200	–	–	–
of which contractually linked instruments	–	–	67	–	–	– 67
of which interest rate derivatives	–	–	42	–	–	– 42
of which credit derivatives	–	–	13	– 1	1	– 13
of which structured derivatives	–	–	32	– 3	3	– 32
Financial investments (excl. equity instruments measured at cost)						
AfS	–	– 2,270	2,271	– 4	4	– 1
of which debt instruments	–	– 2,088	2,088	– 4	4	–
of which contractually linked instruments	–	– 182	182	–	–	–
of which equity and near-equity instruments	–	–	1	–	–	– 1
DFV	–	– 913	936	–	–	– 23
of which debt instruments	–	– 913	918	–	–	– 5
of which contractually linked instruments	–	–	18	–	–	– 18
Total	**–**	**– 3,383**	**3,602**	**– 8**	**8**	**– 219**

TRANSFER, LIABILITIES

(€ m) **2014**	**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 customers						
DFV	–	–	73	–	–	–73
of which debt instruments	–	–	73	–	–	–73
Securitised liabilities						
DFV	–	–	921	–	–	–921
of which debt instruments	–	–	921	–	–	–921
Trading liabilities (HfT)	–	–	25	–	–	–25
of which other derivatives	–	–	25	–	–	–25
Total	**–**	**–**	**1,019**	**–**	**–**	**–1,019**

TRANSFER, LIABILITIES

(€ m) **2013**	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Liabilities to banks						
DFV	–	–	10	–28	28	–10
of which debt instruments	–	–	10	–28	28	–10
Liabilities to customers						
DFV	–	–	8	–59	59	–8
of which debt instruments	–	–	8	–59	59	–8
Securitised liabilities						
DFV	–	–	314	–	–	–314
of which debt instruments	–	–	314	–	–	–314
Trading liabilities (HfT)	–	–	97	–	–	–97
of which interest rate derivatives	–	–	32	–	–	–32
of which structured derivatives	–	–	65	–	–	–65
Total	**–**	**–**	**429**	**–87**	**87**	**–429**

IFRS 13 and the accounting standard IDW RS HFA 47 specify the principles to be applied in determining the fair value. These also include guidelines for assigning input factors to the fair value hierarchy levels. HSH Nordbank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities, for which the OTC market is the relevant market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from level 1 to level 2 or vice versa in the reporting period – depending on the prices used for measurement. Furthermore, significant transfers from level 3 to level 2 were also made in the reporting period for products with certain equity option components within the framework of regularly performed model validations, since it was possible to use observable market inputs in the model now.

The following shows the reconciliation for all assets and liabilities recognised and measured at fair value and allocated to level 3 in the fair value hierarchy. The data is presented by class of financial instrument from the start to the end of the period. The table takes into account all movements of assets and liabilities which were or are allocated to level 3 during the reporting period.

Income relating to liability items is shown with a negative sign and expenses are shown without a sign in the reconciliations below.

RECONCILIATION, ASSETS

(€ m) 2014	1 January 2014	Change in balance affecting income: Realised net income (income statement)	Change in balance affecting income: Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Loans and advances to banks			
AfS	45	–	–
of which debt instruments	45	–	–
DFV	76	– 3	–
of which debt instruments	76	– 3	–
Loans and advances to customers			
AfS	146	15	– 16
of which debt instruments	146	15	– 16
DFV	1,094	187	–
of which debt instruments	1,094	187	–
Trading assets (HfT)	1,103	– 4	–
of which equity and near-equity instruments	–	–	–
of which interest rate derivatives	270	– 12	–
of which currency derivatives	19	– 4	–
of which credit derivatives	2	1	–
of which other derivatives	80	– 7	–
of which structured derivatives	732	18	–
Financial investments (excl. equity instruments measured at cost)			
AfS	139	1	16
of which debt instruments	7	2	2
of which contractually linked instruments	–	–	–
of which equity and near-equity instruments	132	– 1	14
DFV	868	69	–
of which debt instruments	495	63	–
of which contractually linked instruments	353	–	–
of which equity and near-equity instruments	20	6	–
Total	**3,471**	**265**	**–**

	Quantitative change in balance			Transfers						
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2014**	Net income from assets held as at 31 December 2014
										–
	–	–	–	–	–	–	–	–	45	–
	–	–	–	–	–	–	–	–	45	–
	–	–9	–	–	–	–15	–	–	49	–
	–	–9	–	–	–	–15	–	–	49	–
	–	–33	–28	–	–	–	13	–	97	1
	–	–33	–28	–	–	–	13	–	97	1
	14	–9	–	–	–	16	5	–	1,307	187
	14	–9	–	–	–	16	5	–	1,307	187
	16	–12	1	–389	–	6	15	–	736	–34
	6	–6	–	–	–	–	–	–	–	–
	9	–	–	–	–	–	5	–	272	4
	–	–1	–	–	–	6	–	–	20	–1
	–	–	–	–	–	–	–	–	3	–
	1	–	–	–26	–	–	–3	–	45	7
	–	–5	1	–363	–	–	13	–	396	–44
	13	–30	–	–9	1	2	19	–	152	–1
	8	–	–	–7	1	–	1	–	14	–
	–	–	–	–	–	–	–	–	–	–
	5	–30	–	–2	–	2	18	–	138	–1
	–	–35	–	–1	1	–	8	–	910	68
	–	–	–	–1	1	–	–	–	558	63
	–	–24	–	–	–	–	7	–	336	–1
	–	–11	–	–	–	–	1	–	16	6
	43	**–128**	**–27**	**–399**	**2**	**9**	**60**	**–**	**3,296**	**221**

RECONCILIATION, ASSETS

(€ m)				Change in balance affecting income	
2013	**1 January 2013**	Less equity instruments measured at cost	1 January 2013 following adjustment	Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type					
Loans and advances to banks					
AfS	41		41	–	–4
of which debt instruments	41		41	–	–4
DFV	78		78	–1	–
of which debt instruments	78		78	–1	–
Loans and advances to customers					
AfS	–		–	–14	–7
of which debt instruments	–		–	–14	–7
DFV	1,155		1,155	–76	–
of which debt instruments	1,155		1,155	–76	–
Trading assets (HfT)	1,441		1,441	–233	–
of which contractually linked instruments	67		67	4	–
of which interest rate derivatives	480		480	–167	–
of which currency derivatives	31		31	–12	–
of which credit derivatives	15		15	–	–
of which other derivatives	33		33	–11	–
of which structured derivatives	815		815	–47	–
Financial investments (excl. equity instruments measured at cost)					
AfS	499	–349	150	–1	–
of which debt instruments	–	–	–	–1	5
of which contractually linked instruments	–	–	–	–	1
of which equity and near-equity instruments	499	–349	150	–	–6
DFV	943		943	–6	–
of which debt instruments	541		541	–18	–
of which contractually linked instruments	360		360	14	–
of which equity and near-equity instruments	42		42	–2	–
Non-current assets held for sale and disposal groups					
AfS	29		29	–	–
of which equity and near-equity instruments	29		29	–	–
Total	**4,186**	**–349**	**3,837**	**–331**	**–11**

Quantitative change in balance			Transfers						
Purchases	Sales	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2013**	Net income from assets held as at 31 December 2013
									–
–	–	– 4	– 41	–	52	1	–	45	–
–	–	– 4	– 41	–	52	1	–	45	–
6	– 7	–	–	–	–	–	–	76	– 1
6	– 7	–	–	–	–	–	–	76	– 1
167	–	–	–	–	–	–	–	146	– 14
167	–	–	–	–	–	–	–	146	– 14
–	–	–	–	–	17	– 2	–	1,094	– 76
–	–	–	–	–	17	– 2	–	1,094	– 76
62	– 2	36	– 154	4	– 24	– 27	–	1,103	– 194
–	–	–	– 67	–	–	– 4	–	–	–
4	– 1	–	– 42	–	– 1	– 3	–	270	– 140
–	– 1	1	–	–	–	–	–	19	– 12
–	–	–	– 13	1	–	– 1	–	2	–
58	–	–	–	–	–	–	–	80	– 11
–	–	35	– 32	3	– 23	– 19	–	732	– 31
–	–	–	– 1	4	–	– 13	–	139	– 3
–	–	–	–	4	–	– 1	–	7	– 3
–	–	–	–	–	–	– 1	–	–	–
–	–	–	– 1	–	–	– 11	–	132	–
–	– 1	– 8	– 23	–	– 19	– 18	–	868	– 10
–	–	– 8	– 5	–	–	– 15	–	495	– 19
–	–	–	– 18	–	–	– 3	–	353	12
–	– 1	–	–	–	– 19	–	–	20	– 3
									–
–	– 16	–	–	–	–	–	– 13	–	–
–	– 16	–	–	–	–	–	– 13	–	–
235	**– 26**	**24**	**– 219**	**8**	**26**	**– 59**	**– 13**	**3,471**	**– 298**

RECONCILIATION, LIABILITIES

(€ m) **2014**	**1 January 2014**	Change in balance affecting income Realised net income (income statement)	 Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	117	6	–
of which debt instruments	117	6	–
Liabilities to customers			
DFV	2,114	34	–
of which debt instruments	2,114	34	–
Securitised liabilities			
DFV	2,154	26	–
of which debt instruments	2,154	26	–
Trading liabilities (HfT)	823	306	–
of which interest rate derivatives	432	228	–
of which currency derivatives	28	–	–
of which other derivatives	78	–9	–
of which structured derivatives	285	87	–
DFV	16	–	–
of which debt instruments	16	–	–
Total	**5,224**	**372**	**–**

	Quantitative change in balance				Transfers						
	Purchases	Sales	New business	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2014**	Net income from assets held as at 31 December 2014
											–
	17	–	–	–6	–	–	–	–	–	134	–
	17	–	–	–6	–	–	–	–	–	134	–
	68	–13	–	–266	–73	–	–	8	–	1,872	–74
	68	–13	–	–266	–73	–	–	8	–	1,872	–74
	–2	–5	33	–84	–921	–	–	–	–	1,201	–3
	–2	–5	33	–84	–921	–	–	–	–	1,201	–3
	–	–9	–	–1	–25	–	–	2	–	1,096	–307
	–	–5	–	–1	–	–	–	2	–	656	–228
	–	–1	–	–	–	–	–	–	–	27	–1
	–	–	–	–	–25	–	–	–3	–	41	9
	–	–3	–	–	–	–	–	3	–	372	–87
	–	–	–	–	–	–	–	–	–	16	–
	–	–	–	–	–	–	–	–	–	16	–
	83	**–27**	**33**	**–357**	**–1,019**	**–**	**–**	**10**	**–**	**4,319**	**–384**

RECONCILIATION, LIABILITIES

(€ m) 2013	1 January 2013	Change in balance affecting income: Realised net income (income statement)	Change in balance affecting income: Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	120	– 2	–
of which debt instruments	120	– 2	–
Liabilities to customers			
DFV	2,399	– 84	–
of which debt instruments	2,399	– 84	–
Securitised liabilities			
DFV	2,569	87	–
of which debt instruments	2,569	87	–
Trading liabilities (HfT)	1,144	– 282	–
of which interest rate derivatives	623	– 167	–
of which currency derivatives	46	– 17	–
of which other derivatives	33	– 20	–
of which structured derivatives	442	– 78	–
DFV	18	– 2	–
of which debt instruments	18	– 2	–
Total	**6,250**	**– 283**	**–**

	Quantitative change in balance				Transfers						
	Purchases	Sales	New business	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**31 December 2013**	Net income from assets hald as at 31 December 2013
											–
	–	–19	–	–	–10	28	–	–	–	117	3
	–	–19	–	–	–10	28	–	–	–	117	3
	72	–193	–	–130	–8	59	4	–5	–	2,114	89
	72	–193	–	–130	–8	59	4	–5	–	2,114	89
	–33	6	77	–94	–314	–	–3	–141	–	2,154	–111
	–33	6	77	–94	–314	–	–3	–141	–	2,154	–111
	91	–5	–	2	–97	–	–24	–6	–	823	261
	11	–3	–	1	–32	–	–	–1	–	432	142
	–	–1	–	–	–	–	–	–	–	28	17
	64	–	–	1	–	–	–	–	–	78	15
	16	–1	–	–	–65	–	–24	–5	–	285	87
	–	–	–	–	–	–	–	–	–	16	–
	–	–	–	–	–	–	–	–	–	16	–
	130	**–211**	**77**	**–222**	**–429**	**87**	**–23**	**–152**	**–**	**5,224**	**242**

The following tables show the items containing realised and unrealised gains and losses in the income statement and equity (statement of comprehensive income).

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net income from assets still held as at 31 December 2014				
2014	Net interest income	Net trading income	Net income from financial investments	**Total**	Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	**Total**	Other net income for the period
Balance sheet line item/ category/instrument type										
Loans and advances to banks										
DFV	–	– 3	–	– 3	–	–	–	–	–	–
of which debt instruments	–	– 3	–	– 3	–	–	–	–	–	–
Loans and advances to customers										
AfS	– 2	–	17	15	– 16	1	–	–	1	16
of which debt instruments	– 2	–	17	15	– 16	1	–	–	1	16
DFV	1	186	–	187	–	1	186	–	187	–
of which debt instruments	1	186	–	187	–	1	186	–	187	–
of which contractually linked instruments	–	–	–	–	–	–	–	–	–	–
Trading assets (HfT)	50	– 54	–	– 4	–	36	– 70	–	– 34	–
of which interest rate derivatives	22	– 34	–	– 12	–	35	– 31	–	4	–
of which interest rate derivatives	–	–	–	–	–	–	–	–	–	–
of which currency derivatives	–	– 4	–	– 4	–	–	– 1	–	– 1	–
of which credit derivatives	–	1	–	1	–	–	–	–	–	–
of which other derivatives	–	– 7	–	– 7	–	–	7	–	7	–
of which structured derivatives	28	– 10	–	18	–	1	– 45	–	– 44	–
Financial investments (excl. equity instruments measured at cost)										
AfS	–	–	1	1	16	–	–	– 1	– 1	14
of which debt instruments	–	–	2	2	2	–	–	–	–	1
of which equity and near-equity instruments	–	–	– 1	– 1	14	–	–	– 1	– 1	13
DFV	–	69	–	69	–	–	68	–	68	–
of which debt instruments	–	63	–	63	–	–	63	–	63	–
of which contractually linked instruments	–	–	–	–	–	–	– 1	–	– 1	–
of which equity and near-equity instruments	–	6	–	6	–	–	6	–	6	–
Total	**49**	**198**	**18**	**265**	**–**	**38**	**184**	**– 1**	**221**	**30**

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net income from assets still held as at 31 December 2013				
2013	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Revalu-ation reserve	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Other net income for the period
Balance sheet line item/ category/instrument type										
Loans and advances to banks										
AfS	–	–	–	–	– 4	–	–	–	–	– 2
of which debt instruments	–	–	–	–	– 4	–	–	–	–	– 2
DFV	–	– 1	–	– 1	–	–	– 1	–	– 1	–
of which debt instruments	–	– 1	–	– 1	–	–	– 1	–	– 1	–
Loans and advances to customers										
AfS	3	–	– 17	– 14	– 7	3	–	– 17	– 14	– 7
of which debt instruments	3	–	– 17	– 14	– 7	3	–	– 17	– 14	– 7
DFV	–	– 76	–	– 76	–	–	– 76	–	– 76	–
of which debt instruments	–	– 76	–	– 76	–	–	– 76	–	– 76	–
Trading assets (HfT)	69	– 302	–	– 233	–	68	– 262	–	– 194	–
of which contractually linked instruments	–	4	–	4	–	–	–	–	–	–
of which interest rate derivatives	31	– 198	–	– 167	–	30	– 170	–	– 140	–
of which currency derivatives	–	– 12	–	– 12	–	–	– 12	–	– 12	–
of which other derivatives	–	– 11	–	– 11	–	–	– 11	–	– 11	–
of which structured derivatives	38	– 85	–	– 47	–	38	– 69	–	– 31	–
Financial investments (excl. equity instruments measured at cost)										
AfS	–	1	– 2	– 1	–	–	–	– 3	– 3	1
of which debt instruments	–	1	– 2	– 1	5	–	–	– 3	– 3	6
of which contractually linked instruments	–	–	–	–	1	–	–	–	–	1
of which equity and near-equity instruments	–	–	–	–	– 6	–	–	–	–	– 6
DFV	–	– 6	–	– 6	–	–	12	– 22	– 10	–
of which debt instruments	–	– 18	–	– 18	–	–	6	– 25	– 19	–
of which contractually linked instruments	–	14	–	14	–	–	8	4	12	–
of which equity and near-equity instruments	–	– 2	–	– 2	–	–	– 2	– 1	– 3	–
Total	**72**	**– 384**	**– 19**	**– 331**	**– 11**	**71**	**– 327**	**– 42**	**– 298**	**– 8**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net income from liabilities still held as at 31 December 2014				
2014	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Revalu-ation reserve	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Other net income for the period
Balance sheet line item/ category/instrument type										
Liabilities to banks										
DFV	–	– 6	–	– 6	–	–	–	–	–	–
of which debt instruments	–	– 6	–	– 6	–	–	–	–	–	–
Liabilities to customers										
DFV	3	– 37	–	– 34	–	– 1	–73	–	–74	–
of which debt instruments	3	– 37	–	– 34	–	– 1	–73	–	–74	–
Securitised liabilities										
DFV	6	– 32	–	– 26	–	–	– 3	–	– 3	–
of which debt instruments	6	– 32	–	– 26	–	–	– 3	–	– 3	–
Trading liabilities (HfT)	4	– 310	–	– 306	–	3	– 310	–	– 307	–
of which interest rate derivatives	3	– 231	–	– 228	–	2	– 230	–	– 228	–
of which currency derivatives	–	–	–	–	–	–	– 1	–	– 1	–
of which other derivatives	–	9	–	9	–	–	9	–	9	–
of which structured derivatives	1	– 88	–	– 87	–	1	– 88	–	– 87	–
Total	**13**	**– 385**	**–**	**– 372**	**–**	**2**	**– 386**	**–**	**– 384**	**–**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net income from liabilities still held as at 31 December 2013				
2013	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Revalu-ation reserve	Net interest income	Net trading income	Net income from financial invest-ments	**Total**	Other net income for the period
Balance sheet line item/ category/instrument type										
Liabilities to banks										
DFV	1	1	–	2	–	–	3	–	3	–
of which debt instruments	1	1	–	2	–	–	3	–	3	–
Liabilities to customers										
DFV	3	81	–	84	–	– 2	91	–	89	–
of which debt instruments	3	81	–	84	–	– 2	91	–	89	–
Securitised liabilities										
DFV	– 3	– 84	–	– 87	–	– 2	– 109	–	– 111	–
of which debt instruments	– 3	– 84	–	– 87	–	– 2	– 109	–	– 111	–
Trading liabilities (HfT)	12	270	–	282	–	12	249	–	261	–
of which interest rate derivatives	8	159	–	167	–	8	134	–	142	–
of which currency derivatives	–	17	–	17	–	–	17	–	17	–
of which other derivatives	–	20	–	20	–	–	15	–	15	–
of which structured derivatives	4	74	–	78	–	4	83	–	87	–
Subordinated capital										
DFV	–	2	–	2	–	–	2	–	2	–
of which debt instruments	–	2	–	2	–	–	2	–	2	–
Total	**13**	**270**	**–**	**283**	**–**	**8**	**236**	**–**	**244**	**–**

III. Fair value hierarchy for financial instruments not measured at fair value

The following tables show the distribution of fair values by asset and liability class to the individual levels of the fair value hierarchy as defined under IFRS 13 for financial instruments not measured at fair value on the balance sheet.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets not recognised at fair value			
2014	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve (LaR)	–	5,554	–	5,554
Loans and advances to banks (LaR)				
of which debt instruments	–	6,669	121	6,790
Payable on demand	–	4,462	–	4,462
Other receivables	–	2,207	121	2,328
Loans and advances to customers (LaR)				
of which debt instruments	–	7,971	53,622	61,593
Retail customers	–	60	1,548	1,608
Corporate clients	–	3,131	51,357	54,488
Public authorities	–	4,780	717	5,497
Financial investments (LaR)	19	3,776	798	4,593
of which debt instruments	19	1,928	15	1,962
of which contractually linked instruments	–	1,848	783	2,631
Non-current assets held for sale and disposal groups (LaR)	–	–	32	32
of which debt instruments	–	–	32	32
Other assets (LaR)	–	84	–	84
of which debt instruments	–	84	–	84
Total	**19**	**24,054**	**54,573**	**78,646**

HIERARCHY LEVELS, ASSETS

(€ m)	Assets not recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve (LaR)	–	4,469	–	4,469
Loans and advances to banks (LaR)				
of which debt instruments	–	4,698	167	4,865
Payable on demand	–	3,205	–	3,205
Other receivables	–	1,493	167	1,660
Loans and advances to customers (LaR)				
of which debt instruments	–	7,976	53,611	61,587
Retail customers	–	26	956	982
Corporate clients	–	3,581	52,026	55,607
Public authorities	–	4,369	629	4,998
Financial investments (LaR)	220	4,660	1,502	6,382
of which debt instruments	220	2,655	12	2,887
of which contractually linked instruments	–	2,005	1,490	3,495
Non-current assets held for sale and disposal groups (LaR)	–	15	–	15
of which debt instruments	–	15	–	15
Other assets (LaR)	–	105	–	105
of which debt instruments	–	105	–	105
Total	**220**	**21,923**	**55,280**	**77,423**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities not recognised at fair value			
2014	Level 1	Level 2	Level 3	**Total**
Liabilities to banks (LIA)	–	12,410	2,187	14,597
of which debt instruments	–	12,410	1,831	14,241
of which contractually linked instruments	–	–	356	356
Liabilities to customers (LIA)	–	41,578	890	42,468
of which debt instruments	–	41,578	890	42,468
Securitised liabilities (LIA)	–	23,516	–	23,516
of which debt instruments	–	23,032	–	23,032
of which contractually linked instruments	–	484	–	484
Liabilities from disposal groups (LIA)	–	–	–	–
of which debt instruments	–	–	–	–
Subordinated capital (LIA)	–	4,185	818	5,003
of which debt instruments	–	4,185	818	5,003
Other liabilities (LIA)	–	1,011	–	1,011
of which debt instruments	–	1,011	–	1,011
Total	**–**	**82,700**	**3,895**	**86,595**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities not recognised at fair value			
2013	Level 1	Level 2	Level 3	**Total**
Liabilities to banks (LIA)	–	17,465	795	18,260
of which debt instruments	–	17,465	795	18,260
Liabilities to customers (LIA)	–	38,861	419	39,280
of which debt instruments	–	38,861	419	39,280
Securitised liabilities (LIA)	–	23,678	171	23,849
of which debt instruments	–	23,678	171	23,849
Subordinated capital (LIA)	–	4,222	568	4,790
of which debt instruments	–	4,222	568	4,790
Other liabilities (LIA)	–	1,109	–	1,109
of which debt instruments	–	1,109	–	1,109
Total	**–**	**85,335**	**1,953**	**87,288**

IV. Information on significant unobservable inputs

Quantitative information on significant unobservable inputs

The following overview contains quantitative information on significant unobservable inputs.

FAIR VALUE

(€ m) **2014**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Loans and advances to banks	AfS	Debt instruments	45	–	DCF method	Spread (bps)	130–160	145
	DFV	Debt instruments	49	–	Option pricing model	Basket correlation	–39 %–70 %	32 %
Loans and advances to customers	AfS	Debt instruments	97	–	DCF method	Spread (bps)	57–700	343
	DFV	Debt instruments	1,306	–	Option pricing model	Mean reversion	0 %–10 %	2 %
						Interest rate volatilities	17 % –87 %	41 %
						Interest rate FX correlation	–37 %–28 %	–5 %
					Price	Price	93–97	95
Trading assets/trading liabilities	HfT	Interest rate derivatives	272	656	Option pricing model	Mean reversion	0 %–10 %	2 %
						Interest rate volatility	17 %–87 %	41 %
						Interest rate correlation	–12 %–99 %	38 %
						Interest rate FX correlation	–37 %–28 %	–5 %
		Currency derivatives	20	27	Option pricing model	FX correlation	27 %–78 %	47 %
		Credit derivatives	3	–		Option pricing model		
		Other derivatives	45	41	Option pricing model	Securities FX correlations	–71 %–35 %	–20 %
		Structured derivatives	396	372	Option pricing model	Mean reversion	0 %–10 %	2 %
						Interest rate volatilities	17 %–87 %	41 %
						Interest rate correlation	–12 %–99 %	38 %
						Interest rate FX correlation	–37 %–28 %	–5 %
						FX correlation	27 %–78 %	47 %
						Securities FX correlation	–71 %–35 %	–20 %

FAIR VALUE

(€ m) **2014**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Financial investments	AfS	Debt instruments	14	–	Price	Price	67–101	91
		Equity and near-equity instruments	138	–	DCF method	Spread (bps)	199–428	321
	DFV	Debt instruments	558	–	Option pricing model	Mean reversion	0 %–10 %	2 %
						Interest rate volatilities	17 %–87 %	41 %
		Contractually linked instruments	336	–	Price	Price	81–100	98
		Equity and near-equity instruments	16	–	Price	Price	1–101	72
Liabilities to banks	DFV	Debt instruments	–	134	Option pricing model	Interest rate volatilities	17 %–87 %	41 %
						Interest rate FX correlation	– 37 %–28 %	– 5 %
Liabilities to customers	DFV	Debt instruments	–	1,872	Option pricing model	Mean reversion	0 %–10 %	2 %
						Interest rate volatilities	17 %–87 %	41 %
						Interest rate correlation	– 12 %–99 %	38 %
						Interest rate FX correlation	– 37 %–28 %	– 5 %
						Securities FX correlation	– 71 %–35 %	– 20 %
Securitised liabilities	DFV	Debt instruments		1,201	Option pricing model	Mean reversion	0 %–10 %	2 %
						Interest rate volatilities	17 %–87 %	41 %
						FX correlation	27 %–78 %	47 %
						Securities FX correlation	– 71 %–35 %	– 20 %
						Price	77–81	79
Subordinated capital	DFV	Debt instruments		16	Option pricing model	Interest rate volatilities	17 %–87 %	41 %
			3,295	**4,319**				

FAIR VALUE

(€ m) **2013**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Loans and advances to banks	AfS	Debt instruments	45	–	DCF method	Spread (bps)	60–700	350
	DFV	Debt instruments	76	–	Option pricing model	Interest rate volatilities	11 %–77 %	29 %
						Basket correlation	50 %–95 %	80 %
Loans and advances to customers	AfS	Debt instruments	146	–	DCF method	Spread (bps)	60–700	350
	DFV	Debt instruments	1,094	–	Option pricing model	Mean reversion	0 %–10 %	1.5 %
						Interest rate correlations	– 3 %–98 %	41 %
					Price	Price	38–92	84
Trading assets/trading liabilities	HfT	Interest rate derivatives	270	432	Option pricing model	Mean reversion	0 %–10 %	1.5 %
						Interest rate volatility	11 %–77 %	29 %
						Interest rate correlation	– 3 %–98 %	41 %
						Interest rate FX correlation	– 20 %–23 %	2 %
		Currency derivatives	19	28	Option pricing model	FX correlation	39 %–75 %	52 %
		Credit derivatives	2	–		Option pricing model		
		Other derivatives	80	78	Option pricing model	Securities FX correlations	– 66 %–17 %	– 25 %
						Securities correlations	– 21 %–86 %	22 %
						Return on dividends	0 %–4 %	2.5 %
		Structured derivatives	732	285	Option pricing model	Mean reversion	0 %–10 %	1.5 %
						Interest rate volatilities	11 %–77 %	29 %
						Interest rate correlation	– 3 %–98 %	41 %
						Interest rate FX correlation	– 20 %–23 %	2 %
						Return on dividends	0 %–4 %	2.5 %
						FX correlation	39 %–75 %	52 %

FAIR VALUE

(€ m) **2013**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Financial investments	AfS	Debt instruments	7	–	Price	Price	29–52	41
		Equity and near-equity instruments	132	–	DCF method	Spread (bps)	350–700	500
	DFV	Debt instruments	495	–	Option pricing model	Mean reversion	0 %–10 %	1.5 %
						Interest rate volatilities	11 %–77 %	29 %
		Contractually linked instruments	353	–	Price	Price	69–98	95
		Equity and near-equity instruments	20	–	Option pricing model	Return on dividends	0 %–4 %	2.5 %
					Price	Price	38–92	84
Liabilities to banks	DFV	Debt instruments	–	117	Option pricing model	Interest rate volatilities	11 %–77 %	29 %
						Interest rate FX correlation	– 20 %–23 %	2 %
						Return on dividends	0 %–4 %	2.5 %
Liabilities to customers	DFV	Debt instruments		2,114	Option pricing model	Mean reversion	0 %–10 %	1.5 %
						Interest rate volatilities	11 %–77 %	29 %
						Interest rate correlation	– 3 %–98 %	41 %
						Interest rate FX correlation	– 20 %–23 %	2 %
						Return on dividends	0 %–4 %	2.5 %
					Price	Price	81–92	85
Securitised liabilities	DFV	Debt instruments		2,154	Option pricing model	Mean reversion	0 %–10 %	1.5 %
						Interest rate volatilities	11 %–77 %	29 %
						Interest rate correlation	– 3 %–98 %	41 %
						Interest rate FX correlation	– 20 %–23 %	2 %
						FX correlation	39 %–75 %	52 %
						Return on dividends	0 %–4 %	2.5 %
Subordinated capital	DFV	Debt instruments		16	Option pricing model	Interest rate volatilities	11 %–77 %	29 %
			3,471	**5,224**				

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

The overview also includes financial instruments, whose change in value resulting from inputs unobservable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level). Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

Sensitivities of fair values in relation to unobservable inputs

The following describes how the fair values of financial instruments can change as a result of fluctuations in significant unobservable inputs.

Correlation

Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket") or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between the changes in value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a high relationship between the changes in value in the respective underlyings.

Depending on the type of derivative changes in correlation can have a positive or negative effect on the fair value. For example, in the case of a "best of two" derivative, an increase in the correlation between two underlyings results in a decrease in the fair value of the derivative from the perspective of the purchaser.

Volatility

Volatility can also represent an important unobservable input for the measurement 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. For many of the financial instruments included (such as derivatives) the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had the effect on the fair value of the financial instruments in question as set out in the following table. Advantageous and disadvantageous changes in fair value arise as a result of the recalculation of fair values based on possible alternative values to the relevant unobservable inputs. In doing so, interest rate volatilities were changed by +/– 5%, all correlations by +/– 20% (capped at +/– 100%) and mean reversion by +/– 0.5%. Furthermore, price parameters and spreads were also changed by +/– 2% and +/– 50bp, respectively.

a) Financial instruments for which there are no economic hedging relationships in place (at the micro level)

FAIR VALUE CHANGES LEVEL 3

(€ m)			2014		2013	
			advantageous	**disadvantageous**	advantageous	disadvantageous
Loans and advances to banks	AfS	Debt instruments	–	–	1	1
Loans and advances to customers	AfS	Debt instruments	1	1	2	2
	DFV	Debt instruments	–	–	1	1
Trading assets/trading liabilities	HfT	Interest rate derivatives	2	2	3	3
		Currency derivatives	–	–	1	1
		Other derivatives	2	2	1	1
		Structured derivatives	1	1	1	1
Financial investments	AfS	Equity and near-equity instruments	3	3	3	3
	DFV	Contractually linked instruments	1	1	1	1
Liabilities to customers	DFV	Debt instruments	–	–	2	2
			10	**10**	**15**	**15**
thereof measured in profit or loss			6	6	9	9
thereof not measured in profit or loss			4	4	6	6

There are no hedging derivatives in place for the financial instruments included in the above table that fully hedge the risk relating to changes in fair value caused by changes in unobservable inputs. However, there may be hedging derivatives in place that approximately hedge the changes in fair value.

b) Financial instruments for which there are economic hedging relationships in place (at the micro level)

FAIR VALUE CHANGES LEVEL 3

(€ m)			2014		2013	
			advantageous	**disadvantageous**	advantageous	disadvantageous
Loans and advances to customers	DFV	Debt instruments	1	1	1	1
Trading assets/trading liabilities	HfT	Interest rate derivatives	2	2	4	4
		Currency derivatives	1	1	–	–
		Credit derivatives	6	6	6	6
		Structured derivatives	4	4	5	5
Financial investments	DFV	Debt instruments	1	1	1	1
		Contractually linked instruments	6	6	6	6
Liabilities to banks	DFV	Debt instruments	1	1	1	1
Liabilities to customers	DFV	Debt instruments	1	1	2	2
Securitised liabilities	DFV	Debt instruments	1	1	3	3
			24	**24**	**29**	**29**
thereof measured in profit or loss			–	–	29	29
thereof not measured in profit or loss			–	–	–	–

There are hedging derivatives in place for the financial instruments included in the above table that hedge the risk relating to changes in fair value caused by changes in unobservable inputs. The changes in value shown would not be reflected in the income statement as they are offset by changes in fair value of the hedging derivatives.

V. Day One Profit and Loss

The day one profit and loss reserve developed as follows:

(€ m)	2014	2013
Holdings as at 1 January	30	37
Additions not recognised in profit or loss	–	1
Reversals recognised in profit or loss	6	8
Holdings as at 31 December	**24**	**30**

The day one profit and loss reserve is solely attributable to financial instruments classified as HfT.

VI. Equity instruments measured at cost

For equity instruments which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39.A81. These are primarily equity instruments of unlisted companies for which no active market exists and reliable estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

The portfolio of shares and other non-interest-bearing securities measured at cost amounts to € 140 million (previous year: € 134 million). Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 164 million (previous year: € 181 million). There are currently no concrete intentions to dispose of these equity instruments.

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

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 27 million (previous year: € 151 million) were disposed of. This resulted in a profit of € 11 million (previous year: € 63 million).

54. 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) **2014**	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	91	90	1	1	–	–
Loans and advances to customers	60	41	19	–	–	19
Derivatives	8,110	–	8,110	5,255	577	2,278

The netted amounts disclosed under Loans and advances to banks and Loans and advances to customers exclusively concern current accounts.

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 1,356 million and trading assets for € 6,754 million.

FINANCIAL LIABILITIES

(€ m) **2014**	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	1,619	90	1,529	1	695	833
Liabilities to customers	514	41	473	–	109	364
Derivatives	10,337	–	10,337	5,255	4,621	461

The netted amounts disclosed under Liabilities to banks and Liabilities to customers exclusively resulted from current account transactions.

Of the net amount of derivatives disclosed on the balance sheet Negative market values of hedging derivatives account for € 1,153 million and trading liabilities for € 9,184 million.

FINANCIAL ASSETS

(€ m) **2013**	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral received	Net amount after collateral
Loans and advances to banks	90	89	1	–	–	1
Loans and advances to customers	112	54	58	–	–	58
Derivatives	7,179	–	7,179	4,450	554	2,175

The netted amounts disclosed under Loans and advances to banks and Loans and advances to customers exclusively concern current accounts.

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 1,238 million and trading assets for € 5,941 million.

FINANCIAL LIABILITIES

(€ m) **2013**	Gross carrying amount	Gross carrying amount from netting	Net amount	Gross amount, netting criteria not met	Collateral provided	Net amount after collateral
Liabilities to banks	1,674	89	1,585	–	1,506	79
Liabilities to customers	310	54	256	–	185	71
Derivatives	7,961	–	7,961	4,450	3,316	195

The netted amounts disclosed under Liabilities to banks and Liabilities to customers exclusively result from current account transactions.

Of the net amount of derivatives disclosed on the balance sheet Negative market values of hedging derivatives account for € 934 million and trading liabilities for € 7,027 million.

55. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED EUROPEAN STATES

The following tables contain overviews of HSH Nordbank's commitments in European states where an increased economic risk is assumed. They present the risk directly attributable to the listed countries. The income statement effects are only shown for the original positions, that is the measurement results of the hedging derivatives are not taken into account.

ASSETS CLASSIFIED AS LAR

(€ m)	Gross carrying amount		Individual valuation allowance		Fair value	
	2014	2013	**2014**	2013	**2014**	2013
Portugal	207	213	6	5	214	263
Country	168	167	–	–	182	225
Corporates/Other	39	46	6	5	32	38
Ireland	218	260	61	4	156	254
Banks	43	44	–	–	43	44
Corporates/Other	175	216	61	4	113	210
Italy	675	709	25	17	596	636
Country	55	58	–	–	51	51
Banks	–	12	–	–	–	12
Corporates/Other	620	639	25	17	545	573
Greece	1,104	991	206	184	920	803
Corporates/Other	1,104	991	206	184	920	803
Russia	89	53	6	7	83	46
Corporates/Other	89	53	6	7	83	46
Spain	1,478	1,523	78	52	1,423	1,473
Country	161	166	–	–	170	142
Banks	21	124	–	–	21	130
Corporates/Other	1,296	1,233	78	52	1,232	1,201
Slovenia	105	108	–	–	104	102
Country	90	90	–	–	89	85
Corporates/Other	15	18	–	–	15	17
Hungary	82	83	–	–	84	82
Country	5	5	–	–	6	6
Banks	–	1	–	–	–	1
Corporates/Other	77	77	–	–	78	75
Cyprus	1,691	1,702	506	409	1,188	1,289
Country	–	–	–	–	–	–
Banks	21	–	–	–	22	–
Corporates/Other	1,670	1,702	506	409	1,166	1,289
Total	**5,649**	**5,642**	**888**	**678**	**4,768**	**4,948**

FINANCIAL TRANSACTIONS ALLOCATED TO THE HOLDING CATEGORY

(€ m)	HfT		Hedge		DFV		AfS	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Portugal	–	–	–	–	100	94	3	3
Country	–	–	–	–	100	94	–	–
Banks	–	–	–	–	–	–	3	3
Ireland	8	15	5	6	–	–	–	–
Banks	5	7	5	6	–	–	–	–
Corporates/Other	3	8	–	–	–	–	–	–
Italy	20	18	–	1	541	519	47	135
Country	–	–	–	–	540	488	47	40
Banks	1	–		1	–	30	–	95
Corporates/Other	19	18	–	–	1	1	–	–
Greece	15	32	–	–	–	1	6	4
Country	–	–	–	–	–	1	6	4
Corporates/Other	15	32	–	–	–	–	–	–
Russia	40	46	–	–	–	–	–	–
Banks	5	5	–	–	–	–	–	–
Corporates/Other	35	41	–	–		–	–	–
Spain	93	230	23	28	1	56	200	487
Banks	41	32	21	19	–	55	53	305
Corporates/Other	52	198	2	9	1	1	147	182
Hungary	–	–	–	–	–	–	13	12
Country	–	–	–	–	–	–	13	12
Cyprus	7	3	–	–	–	–	–	–
Corporates/Other	7	3	–	–	–	–	–	–
Total	**183**	**344**	**28**	**35**	**642**	**669**	**269**	**641**

The cumulative measurement result recognised directly in equity for financial instruments held in the AfS category amounted to € –10 million for the selected countries (previous year: € –31 million). Furthermore, a cumulative measurement result of € 0 million was recognised through profit or loss (previous year: € –22 million).

56. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS

I. Credit quality of financial instruments which are neither impaired nor overdue

The table below gives information on the credit quality of financial instruments which were neither impaired nor overdue as of the reporting date. The table provides a breakdown of the financial instruments by category and rating class of the respective counterparty.

CREDIT QUALITY

(€ m)	1(AAA) to 1(AA+)		1(AA) to 1(A–)		2 to 5		6 to 9	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Held for Trading (HfT)								
Trading assets	2,163	2,785	3,667	4,106	1,872	1,179	717	520
Designated at Fair Value (DFV)								
Loans and advances to banks	49	51	–	–	–	59	–	–
Loans and advances to customers	1,246	1,127	–	–	–	–	15	–
Financial investments	161	158	915	821	1,083	1,059	–	29
Non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	–
Available for Sale (AfS)								
Cash reserve	413	382	–	–	–	–	–	–
Loans and advances to banks	61	52	21	26	2	5	3	3
Loans and advances to customers	–	–	–	–	–	11	97	118
Financial investments	8,367	7,620	2,930	3,776	215	694	431	497
Non-current assets held for sale and disposal groups	–	–	–	–	–	–	–	–
Loans and Receivables (LaR)								
Cash reserve	5,554	4,469	–	–	–	–	–	–
Loans and advances to banks	1,699	1,701	3,226	2,797	1,773	278	67	42
Loans and advances to customers	4,761	4,604	4,836	5,224	14,136	14,788	15,849	14,170
Financial investments	1,939	3,258	696	1,090	330	684	585	519
Non-current assets held for sale and disposal groups	3	1	3	2	10	4	11	4
Other assets	–	–	–	–	–	–	–	105
No IAS 39 category								
Positive fair value of hedging derivatives	252	343	580	683	455	160	105	85
Receivables under finance lease transactions	11	11	11	14	32	39	36	37
Value adjustments from the portfolio fair value hedge	91	40	210	80	165	19	38	10
Total	**26,770**	**26,602**	**17,095**	**18,619**	**20,073**	**18,979**	**17,954**	**16,139**

CREDIT QUALITY

(€ m)	10 to 12		13 to 15		16 to 18	
	2014	2013	**2014**	2013	**2014**	2013
Held for Trading (HfT)						
Trading assets	101	56	374	147	269	252
Designated at Fair Value (DFV)						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	75	50	33	–
Financial investments	7	11	5	33	19	38
Non-current assets held for sale and disposal groups	–	–	–	–	–	–
Available for Sale (AfS)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	17	–	–	–	–
Financial investments	–	2	18	3	9	22
Non-current assets held for sale and disposal groups	–	–	–	–	–	–
Loans and Receivables (LaR)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	–	3	–	–	–	–
Loans and advances to customers	3,180	3,738	3,766	5,287	2,665	2,371
Financial investments	74	79	198	190	98	118
Non-current assets held for sale and disposal groups	2	1	3	2	2	1
Other assets	84	–	–	–	–	–
No IAS 39 category						
Positive fair value of hedging derivatives	10	13	3	3	–	–
Receivables under finance leases	7	10	8	14	6	6
Value adjustments from the portfolio fair value hedge	4	2	1	–	–	–
Total	**3,469**	**3,932**	**4,451**	**5,729**	**3,101**	**2,808**

II. Carrying amounts of overdue but unimpaired financial assets

The table below shows the financial assets which were overdue but unimpaired as of the reporting date. The assets are broken down by category. Categories not shown have no overdue assets.

CARRYING AMOUNTS OF OVERDUE BUT UNIMPAIRED FINANCIAL ASSETS

(€ m)	Overdue < 3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Loans and Receivables (LaR)								
Loans and advances to customers	1,246	1,005	215	261	804	668	1,012	1,215
of which hedged by the second loss guarantee	676	846	170	212	798	613	917	1,143
Total	**1,246**	**1,005**	**215**	**261**	**804**	**668**	**1,012**	**1,215**

Payments of € 22 million on transactions with a carrying amount volume of € 527 million were received up to ten days after the reporting date of 31 December 2014. Payments are regarded as being in arrears when they are one day overdue.

The overdue, unimpaired credit portfolio is offset by collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

III. Impaired financial assets

The table below shows all impaired financial assets and the associated collateral received as of the reporting date. The financial assets are broken down by category.

IMPAIRED FINANCIAL ASSETS

(€ m)	Gross carrying amount of impaired financial assets		Impairment		Carrying amount of financial assets after impairment	
	2014	2013	**2014**	2013	**2014**	2013
Loans and Receivables (LaR)						
Loans and advances to banks	14	140	14	125	–	15
Loans and advances to customers	13,289	13,684	5,777	5,811	7,512	7,873
Financial investments[1]	959	853	383	355	576	498
Available for Sale (AfS)						
Financial investments[1]	140	223	108	166	32	57
Total	**14,402**	**14,900**	**6,282**	**6,457**	**8,120**	**8,443**

[1] Financial investments classified as LaR and AfS are shown net in the statement of financial position, i.e. at their carrying amounts less impairment.

The impaired credit portfolio is secured with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

€ 13,198 million (previous year: € 13,096 million) of the total carrying amount of impaired financial assets of € 14,402 million (previous year: € 14,900 million) is hedged by the second loss guarantee, of which no financial assets are attributable to Loans and advances to banks (previous year: € 60 million), € 12,434 million are attributable to Loans and advances to customers (previous year: € 12,405 million) as well as € 764 million to financial instruments in the LaR and AfS holdings categories (previous year: € 631 million).

Further details on the second loss guarantee can be found in Note 3.

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 50 as well as off-balance-sheet liabilities as presented in Note 57.

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 26. The maximum default risk of the loans and advances designated at fair value (DFV) is not reduced by associated credit derivatives.

Collateral as well as other risk-reducing agreements are not reflected in these amounts.

V. Collateral received

A) Collateral values of financial assets reducing default risk

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
2014	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
HfT				
Trading assets	9,163	451	30	701
DFV		–		–
Loans and advances to banks	49	–	45	–
Loans and advances to customers	1,369	–	–	–
Financial investments	2,190	–	–	–
AfS				
Cash reserve	413	–	–	–
Loans and advances to banks	87	–	–	–
Loans and advances to customers	97	–	35	–
Financial investments	12,002	–	–	–
LaR				
Cash reserve	5,554	–	–	–
Loans and advances to banks	6,779	18	261	650
Loans and advances to customers	65,760	26,352	1,593	1,974
Financial investments	4,496	–	–	–
Non-current assets held for sale and disposal groups	34	24	–	–
Other assets	84	18	–	1
No IAS 39 category				
Positive fair value of hedging derivatives	1,405	–	–	3
Value adjustments from the portfolio fair value hedge	510	–	–	–
Receivables under finance leases	111	–	–	–
Contingent liabilities	2,716	261	30	111
Irrevocable loan commitments	7,081	765	72	120
Total assets	**119,900**	**27,889**	**2,066**	**3,560**

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
2013	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
HfT				
Trading assets	9,045	313	–	624
DFV				
Loans and advances to banks	110	–	60	–
Loans and advances to customers	1,177	–	–	–
Financial investments	2,149	–	–	–
AfS				
Cash reserve	382	–	–	–
Loans and advances to banks	86	–	–	–
Loans and advances to customers	146	–	35	–
Financial investments	12,671	–	–	–
LaR				
Cash reserve	4,469	–	–	–
Loans and advances to banks	4,962	11	557	24
Loans and advances to customers	67,015	26,957	1,683	2,156
Financial investments	6,436	–	–	–
Non-current assets held for sale and disposal groups	15	–	–	–
Other assets	105	2	1	–
No IAS 39 category				
Positive fair value of hedging derivatives	1,287	–	–	–
Value adjustments from the portfolio fair value hedge	151	–	–	–
Receivables under finance leases	131	–	–	–
Contingent liabilities	2,707	275	131	130
Irrevocable loan commitments	6,911	480	55	50
Total assets	**119,955**	**28,038**	**2,522**	**2,984**

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank (see Note 3).

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 € 1,584 million (31 December 2013: € 1,002 million). The collateral received is split up as follows: € 651 million (31 December 2013: € 681 million) relate to OTC derivatives and structured transactions. The Group received collateral in the amount of € 933 million (31 December 2013: € 321 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 604 million (31 December 2013: € 612 million). Of the collateral received, an amount of € 325 million (31 December 2013: € 275 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank is obliged to return all collateral resold or pledged to the guarantor without exception.

HSH Nordbank 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 (previous year: € 0 million).

For further information on the second loss guarantee please refer to Note 3.

For information on the collateral transferred please refer to Note 62.

57. RESTRUCTURED OR MODIFIED LOANS

The following table shows the gross carrying amounts of loans and loan commitments which have been restructured or whose terms and conditions have been modified in order to place the debtor in a position to service or resume servicing the capital debt despite financial difficulties.

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Restructuring Unit		
2014	Rating class 1–15	Rating class 16–18	Rating class 1–15	Rating class 16–18	**Total**
Loans and Receivables (LaR)	2,164	5,450	1,536	11,660	20,810
Loans and advances to banks	–	14	–	1	15
Loans and advances to customers	2,164	5,434	1,536	11,659	20,793
Financial investments	–	2	–	–	2
Irrevocable and revocable loan commitments	127	95	27	192	441
Total	**2,291**	**5,545**	**1,563**	**11,852**	**21,251**

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Restructuring Unit		
2013	Rating class 1–15	Rating class 16–18	Rating class 1–15	Rating class 16–18	Total
Loans and Receivables (LaR)	1,952	6,032	1,590	13,841	23,415
Loans and advances to banks	–	14	–	127	141
Loans and advances to customers	1,952	6,018	1,590	13,714	23,274
Available for Sale (AfS)	8	17	–	–	25
Loans and advances to customers	8	17	–	–	25
Irrevocable and revocable loan commitments	137	86	41	377	641
Total	**2,097**	**6,135**	**1,631**	**14,218**	**24,081**

Loan loss provisions in the amount of € 5,396 million (previous year: € 5,989 million) were already created for the volume of receivables stated here to which forbearance measures have been applied. The cover for the forbearance exposure by the Sunrise guarantee is about 92 %(previous year about 92 %).

58. INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES

I. Interests in unconsolidated subsidiaries

An interest is defined as a business relationship based on equity, debt instruments, derivatives, guarantees or similar.

HSH Nordbank summarises ABS conduits, securitisation and refinancing vehicles, investment funds and other structured entities under the term "structured entity".

HSH Nordbank maintains business relationships in the form of an interest within the meaning of IFRS 12 with a total of 275 unconsolidated structured entities. An interest exists if there is a business relationship between HSH Nordbank and a structured entity based on equity, debt instruments, derivatives or guarantees or if, based on other means, significant influence, joint control or control can be exercised and HSH Nordbank is exposed to variable returns of the structured entity from the business relationship.

The following table shows the accumulated total assets of the unconsolidated structured entities with which HSH Nordbank maintains a business relationship:

INFORMATION ON THE SIZE OF UNCONSOLIDATED ENTITIES

(€ m) **2014**	Number	Total assets
ABS conduits	228	89,766
Investment funds	27	11,054
Securitisation and refinancing vehicles	17	1,175
Other	3	248
Total	**275**	**102,243**

HSH Nordbank uses ABS conduits for the purpose of risk diversification. ABS conduits are financed by the issuance of debentures. Furthermore these investments in ABS conduits are backed up by collateral. These companies are involved in the (revolving) purchase and securitisation of loan receivables, including refinancing with investors.

The function of refinancing and securitisation vehicles is to issue securities. These companies are involved in the (revolving) purchase and securitisation of receivables, including refinancing with investors. They are mainly financed through issuing debentures.

The main corporate purposes of investment funds are to finance assets, participate in non-listed companies and hold shares in real estate funds. The main activities of such investment funds are to carry out research for analysing markets, make decisions on investment and disinvestment in order to adjust portfolios and to attract investors. Investment funds raise their funds by the issuing of equity and debt instruments. The investment funds are funds launched by third parties, to which HSH Nordbank mainly grants loans.

II. Risks from interests in unconsolidated structured entities

The following information concerning risk refers not just to the current reporting period but also to risks which result from business relationships with unconsolidated structured entities in earlier reporting periods. Information is also provided on risks in the case of unconsolidated structured entities when no contractual commitment exists.

The risks from unconsolidated structured entities are presented in the form of the maximum potential loss which may arise from these business relationships based on an interest within the meaning of IFRS 12. HSH Nordbank discloses the carrying amounts of these transactions as a maximum potential loss. In the case of irrevocable loan commitments and contingent liabilities, the carrying amount matches the par value.

There are no credit derivatives relating to unconsolidated structured entities as of the balance sheet date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as of 31 December 2014, broken down into the items of the statement of financial position. Depreciation and impairment losses are not taken into account.

TYPE OF BUSINESS RELATIONSHIP

(€ m) **2014**	Investment funds	ABS	Refinancing and securitisation vehicles	Other structured entities	**Total**
Loans and advances to customers	366	–	309	8	683
Positive fair values of hedging derivatives	1	–	–	–	1
Trading assets	1	–	51	84	136
Financial investments	–	2,557	252	–	2,809
Total assets	**368**	**2,557**	**612**	**92**	**3,629**
Liabilities to customers	81	–	17	7	105
Trading liabilities	–	–	1	–	1
Total equity and liabilities	**81**	**–**	**18**	**7**	**106**

The above table contains the loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments amounting to € 32 million, € 8 million of which result from ABS and € 24 million from refinancing and securitisation vehicles.

There are no business relationship risks based on an interest in unconsolidated structured entities as defined in IFRS 12.B26 that exceed the maximum potential loss, such as contractual terms under which HSH would have to grant financial support, liquidity arrangements, guarantees extended or support provided by HSH in the event of difficulties in refinancing unconsolidated structured entities.

Furthermore, HSH Nordbank has not entered into any loss-transfer agreements with unconsolidated structured entities. Mainly net interest income for granting loans and commission income were generated from business relationships with unconsolidated structured entities based on an interest within the meaning of IFRS 12.

III. Sponsoring

HSH Nordbank has any sponsor relationships within the meaning of IFRS 12 if HSH Nordbank is exposed to variable return flows, although there is no business relationship in the form of an interest within the meaning of IFRS 12. HSH Nordbank is a sponsor if it was involved in establishing an unconsolidated structured entity, if it stands to gain the main profit from the entity or is the main collateral taker, if HSH Nordbank provides implicit guarantees or if the name of HSH Nordbank is part of the name of the structured entity or of the products issued by such entity.

Details of sponsored entities are only shown if they are not already included in the disclosures under II. (Risks from interests in unconsolidated structured entities). This requirement is satisfied in the case of one structured entity. This company was sponsored by HSH Nordbank, but there is no interest within the meaning of IFRS 12.

During the reporting period HSH Nordbank sponsored a public fund. HSH Nordbank was involved in the establishment of this fund and provided the advisory investment committee during the reporting year. HSH Nordbank received a consultancy fee for this service.

IV. Provision of support

During the current reporting period HSH Nordbank has not supported any unconsolidated structured entity financially or in any other way without a contractual commitment to do so. HSH Nordbank also has no intention of granting financial or other assistance to any unconsolidated structured entity or helping to procure financial support from third parties.

59. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

CONTINGENT LIABILITIES

(€ m)	**2014**	2013
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	130	155
Letters of credit	307	383
Other warranties	–	–
Other guarantees	2,279	2,169
Total	**2,716**	**2,707**

IRREVOCABLE LOAN COMMITMENTS

(€ m)	**2014**	2013
Irrevocable loan commitments for		
Open account loans to banks	21	–
Open account loans to customers	6,887	6,742
Guarantees	168	93
Letters of credit	1	9
Other	4	67
Total	**7,081**	**6,911**

Information on collateral transferred is presented in Note 62.

Please refer to Note 2 for more details.

For reasons of practicality no information in accordance with IAS 37.89 is disclosed.

In the event of individual legal proceedings within the framework of legal disputes HSH Nordbank estimates the probability of utilisation as lower than 50 %, so that no provisions are recognised for these cases. In reaching this estimate, it should be noted that there are uncertainties as to the occurrence of the amount and timing of the possible outflow of resources. However, HSH Nordbank is of the opinion that the possibility of an outflow of resources is not remote within the meaning of IAS 37.28 in these cases and so has allowed for contingent liabilities. The financial impact of these contingent liabilities is estimated to be € 41 million (previous year: € 41 million).

The fair value of irrevocable loan commitments with a nominal volume of € 7,081 million (previous year: € 6,911 million) comes to € 11 million (previous year: € 8 million) as at the balance sheet date.

OTHER DISCLOSURES

60. REPORT ON BUSINESS IN DERIVATIVES

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of HSH Nordbank Group is predominantly transacted with banks based in OECD countries.

I. Volumes

DERIVATIVE TRANSACTIONS WITH INTEREST RATE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Interest rate swaps	180,690	193,914	5,958	5,019	7,102	5,910
FRAs	2,059	881	–	–	–	–
Swaptions						
Long positions	3,953	2,882	168	81	34	4
Short positions	4,939	3,716	2	9	328	152
Caps, floors	7,687	9,123	67	106	47	75
Exchange-traded contracts	1,130	1,504	–	–	–	–
Other forward interest rate transactions	721	654	28	33	37	32
Total	**201,179**	**212,674**	**6,223**	**5,248**	**7,548**	**6,173**

DERIVATIVE TRANSACTIONS WITH INTEREST RATE AND FOREIGN EXCHANGE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Cross-currency interest rate swaps	27,288	28,165	204	529	730	229
Total	**27,288**	**28,165**	**204**	**529**	**730**	**229**

DERIVATIVE TRANSACTIONS WITH FOREIGN EXCHANGE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Forward exchange transactions	11,415	10,240	93	103	209	59
Currency options						
Long positions	475	740	45	40	–	–
Short positions	725	743	–	–	65	64
Total	**12,615**	**11,723**	**138**	**143**	**274**	**123**

DERIVATIVE TRANSACTIONS WITH EQUITY AND OTHER PRICE RISKS

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Equity options						
Long positions	111	106	58	80	–	–
Short positions	91	91	–	–	56	78
Forward equity transactions	–	–	–	–	–	–
Exchange-traded contracts	–	–	–	–	–	–
Equity-/index-based swaps	–	–	–	–	–	–
Commodity-based transactions	792	820	85	35	43	50
Total	**994**	**1,017**	**143**	**115**	**99**	**128**

CREDIT DERIVATIVES

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Guarantor position	104	76	1	–	–	1
Collateral-taker position	677	586	29	20	–	–
Total	**781**	**662**	**30**	**20**	**–**	**1**

DERIVATIVE TRANSACTIONS WITH STRUCTURED PRODUCTS

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Structured products	7,965	8,449	943	920	595	448
Total	**7,965**	**8,449**	**943**	**920**	**595**	**448**

DERIVATIVE TRANSACTIONS IN FAIR VALUE HEDGE ACCOUNTING

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
Fair value hedges						
Interest rate swaps	31,068	31,769	1,405	1,287	1,156	934
Cross-currency interest rate swaps	–	–	–	–	–	–
Total	**31,068**	**31,769**	**1,405**	**1,287**	**1,156**	**934**

II. Counterparty classification

COUNTERPARTY CLASSIFICATION

(€ m)	Nominal values		Positive market values		Negative market values	
	2014	2013	**2014**	2013	**2014**	2013
OECD banks	181,291	219,924	4,881	5,111	8,230	6,771
Non-OECD banks	119	201	5	9	–	–
Non-banks[1)]	92,538	66,906	3,903	2,993	1,664	869
Public authorities	7,941	7,428	297	148	508	396
Total	**281,889**	**294,459**	**9,086**	**8,261**	**10,402**	**8,036**

[1)] Including exchange-traded contracts.

III. Maturities

MATURITIES

(€ m)	Positive market values of derivatives		Positive market values of derivatives from fair value hedging		Negative market values of derivatives		Negative market values of derivatives from fair value hedging	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Residual maturity								
Up to 3 months	165	185	–	32	233	127	–	1
3 months to 1 year	665	318	116	58	534	308	6	19
1 year to 5 years	2,184	3,103	640	778	3,255	3,110	403	496
Over 5 years	4,667	3,369	649	419	5,224	3,557	747	418
Total	**7,681**	**6,975**	**1,405**	**1,287**	**9,246**	**7,102**	**1,156**	**934**

61. LEASE RECEIVABLES AND LIABILITIES

Operating leases where HSH Nordbank acts as a lessee serve the purpose of leasing technical facilities and equipment required to operate IT networks, among other purposes.

In the case of finance lease transactions on the US market HSH Nordbank acts as lessor under sale-and-lease-back leasing arrangements to finance photovoltaic installations.

I. Lessee under operating leases

MINIMUM LEASE PAYMENTS UNDER OPERATING LEASES

(€ m)	2014	2013
Minimum lease payments due		
Up to 1 year	46	44
1 year to 5 years	162	146
Over 5 years	43	117
Total	**251**	**307**

EXPENSES FOR LEASE PAYMENTS

(€ m)	2014	2013
Expenses for		
Minimum lease payments	41	42
Total	**41**	**42**

Expenses on assets used under operating leases are disclosed in Administrative expenses (Note 16).

II. Lessor under operating leases

MINIMUM LEASE PAYMENTS TO BE EXPECTED UNDER OPERATING LEASES

(€ m)	2014	2013
Minimum lease payments to be received		
Up to 1 year	23	25
1 year to 5 years	22	38
Over 5 years	–	–
Total	**45**	**63**

Income from conditional leasing payments was neither recorded in the reporting period nor in the previous year.

III. Lessor under finance leases

FINANCE LEASE TRANSACTIONS

(€ m)	2014	2013
Outstanding lease payments	86	110
+ Guaranteed residual values	13	12
= Minimum lease payments	99	122
+ Non-guaranteed residual values	20	18
= Gross investment	119	140
– Unearned finance income	9	9
= Net investment	110	131
– Net present value of non-guaranteed residual values	14	10
= Net present value of minimum lease payments	**96**	**121**

The gross investments amount and the net present value of the minimum lease payments break down by maturity as follows.

BREAKDOWN OF RESIDUAL MATURITIES

(€ m)	Gross investments in the lease		Net present value of the minimum lease payments	
	2014	2013	**2014**	2013
Minimum lease payments to be received				
Up to 1 year	11	10	11	33
1 year to 5 years	50	35	41	32
Over 5 years	58	70	45	56
Total	**119**	**115**	**97**	**121**

Income from conditional lease payments was neither recorded during the year nor in the previous year.

62. DISCLOSURES ON COLLATERAL TRANSFERRED AND FINANCIAL ASSETS TRANSFERRED WITH RETENTION OF RIGHTS AND/OR OBLIGATIONS

I. Collateral transferred

As at 31 December 2014 HSH Nordbank had assets transferred as collateral which do not meet the requirements of derecognition under IAS 39. The assets transferred as collateral continue to be recognised in the Group statement of financial position, as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with the HSH Nordbank Group.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions. Notes on repurchase agreements are separately disclosed below. A small amount of collateral has been transferred in the course of securities lending business.

CARRYING AMOUNTS OF TRANSFERRED COLLATERAL

(€ m)	**2014**	2013
Loans and advances	8,717	7,329
Loans and advances to banks	4,440	3,149
Loans and advances to customers	4,277	4,180
Trading assets/Financial investments	843	2,894
Total	**9,560**	**10,223**

The following table shows the carrying amounts of the liabilities related to the collateral transferred:

CARRYING AMOUNTS OF LIABILITIES

(€ m)	**2014**	2013
Liabilities to banks	3,173	5,351
Trading liabilities	4,616	3,350
Contingent liabilities	33	34
Total	**7,822**	**8,735**

The carrying amounts of liabilities to development banks are recognised in the amount of the corresponding loans transferred as collateral.

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Promissory notes and other receivables from lending are not pledged to the European Central Bank, but are assigned without this being disclosed. It is not possible to resell or pledge in the interim.

In addition, HSH Nordbank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. At the end of the reporting period, the carrying amount of the securities transferred as collateral in the framework of repo transactions was € 1,907 million (previous year: € 2,951 million). The fair value amounts to € 1,863 million (previous year: € 2,970 million). The corresponding liabilities are recognised in the amount of € 1,560 million (previous year: € 2,177 million) with the fair value corresponding to the carrying amount. A net position of € 303 million arose from the fair values of the assets transferred and the associated liabilities (previous year: € 793 million). Collateral transferred under repo transactions can be resold or repledged.

Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral the counterparty may require HSH Nordbank to provide additional securities to increase collateral. Where HSH Nordbank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i.e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ("the same sort") must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to tri-party repo transactions between HSH Nordbank and its counterparties accordingly. The transactions are executed via a tri-party agent.

II. Financial assets transferred with retention of rights and/or obligations

HSH Nordbank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The rights and obligations retained under these transfers were of an overall immaterial nature. The risks become transparent by recognition of provisions and/or recording of contingent liabilities. There is a hypothetical repurchase option relating to the sale of an equity holding, which the Bank, however, can only exercise based on the occurrence of certain biometric events. The option has a time value of € 0; it entails no risk.

63. TRUST TRANSACTIONS

The table below shows the volume of trust transactions not recognised in the statement of financial position.

TRUST TRANSACTIONS

(€ m)	**2014**	2013
Loans and advances to banks	–	1
Loans and advances to customers	9	12
Other loans and advances	2	2
Trust assets	**11**	**15**
Liabilities to banks	1	1
Liabilities to customers	8	12
Other liabilities	2	2
Trust liabilities	**11**	**15**

64. RELATED PARTIES

HSH Nordbank does business with related parties and companies. These include HSH Finanzfonds AöR as parent company, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50 %. Furthermore, business relations exist with subsidiaries which are controlled but not included in the consolidated financial statements for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and 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 Notes 3 and 19 for more details.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS

(€ m)	2014	2013
Loans and advances to customers	120	18
Loan loss provisions	– 17	– 4
Financial investments	1	4
Other assets	1	1
Total	**105**	**19**

SUBSIDIARIES – LIABILITIES

(€ m)	2014	2013
Liabilities to customers	16	5
Provisions	17	16
Other liabilities	2	2
Total	**35**	**23**

SUBSIDIARIES – INCOME STATEMENT

(€ m)	2014	2013
Net interest income	3	–
Other operating income	7	7
Total	**10**	**7**

As of the balance sheet date, as in the previous year there were no contingent liabilities to unconsolidated subsidiaries. Furthermore, there are no irrevocable loan commitments in respect of unconsolidated subsidiaries (previous year: € 801 million).

There are no other financial liabilities to unconsolidated subsidiaries (previous year: € 0 million).

III. Associates

The following tables show the transactions with associates:

ASSOCIATES – ASSETS

(€ m)	2014	2013
Loans and advances to customers	64	107
Loan loss provisions	– 35	– 3
Financial investments	176	193
Other assets	6	1
Total	**211**	**298**

ASSOCIATES – LIABILITIES

(€ m)	2014	2013
Liabilities to customers	–	13
Provisions	–	27
Total	**–**	**40**

ASSOCIATES – INCOME STATEMENT

(€ m)	2014	2013
Net interest income	2	11
Loan loss provisions	– 9	2
Net trading income	– 2	–
Administrative expenses	– 7	– 7
Total	**– 16**	**6**

As was the case in the previous year there are no contingent liabilities to associates in the year under review. Neither irrevocable loan commitments exist (previous year: € 19 million).

Other financial liabilities to associates amount to € 66 million (previous year: € 79 million).

IV. Joint ventures

The following tables show the transactions with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	2014	2013
Loans and advances to customers	62	7
Loan loss provisions	– 62	– 5
Trading assets	–	1
Total	**–**	**3**

JOINT VENTURES – LIABILITIES

(€ m)	2014	2013
Liabilities to customers	23	–
Total	**23**	**–**

JOINT VENTURES – INCOME STATEMENT

(€ m)	2014	2013
Net interest income	2	4
Loan loss provisions	– 4	–
Net trading income	– 1	1
Net income from financial investments	5	3
Total	**2**	**8**

Irrevocable loan commitments to joint ventures amount to € 1 million (previous year: € 5 million).

V. Other related parties and companies

Transactions with individuals in key positions at HSH Nordbank AG and their close relatives or companies controlled by these individuals in the immaterial amount of less than € 1 million were recorded as at the balance sheet date. The same applies for the previous year.

VI. Remuneration of persons in key management positions

In accordance with the decision of the EU Commission of 20 September 2011 concerning state aid provided to HSH Nordbank AG the remuneration of the members of the Management Board of HSH Nordbank AG is limited for each board member to a maximum of € 500,000 per year (total fixed remuneration). Remuneration payable for secondary employment undertaken at the request of the Supervisory Board is set off against the remuneration entitlement set out in the employment contract. Each board member continues to receive pension benefits in the amount of 20% of the annual fixed income, as well as reasonable benefits in kind.

It is planned to add a variable remuneration component to the Management Board's remuneration system as soon as the Bank is able to pay dividends again and the reorganisation phase pursuant to the decision of the EU Commission of 20 September 2011 regarding the state aid provided to HSH Nordbank AG has been successfully completed.

The Bank does not offer additional long-term incentives such as share option schemes.

The following table shows the remuneration of persons in key management positions. The increase in post-employment benefits is due to an interest-induced actuarial rise in pension provisions for the employee representatives on the Supervisory Board.

REMUNERATION OF PERSONS IN KEY MANAGEMENT POSITIONS

(€ k)	Management Board		Supervisory Board		Total	
	2014	2013	**2014**	2013	**2014**	2013
Short-term benefits	2,809	2,761	1,321	1,245	4,130	4,006
Termination benefits	–	–	–	–	–	–
Other long-term benefits	–	–	64	80	64	80
Post-employment benefits	500	500	1,847	176	2,347	676
Total remuneration	**3,309**	**3,261**	**3,232**	**1,501**	**6,541**	**4,762**

VII. Additional disclosures under Section 315a HGB

HSH Nordbank is obliged to provide additional disclosures in its consolidated financial statements under Section 315a HGB. Several differences compared to the IFRS disclosures should be borne in mind in this regard: termination benefits payable are not included in the total remuneration of the active members of the Management Board. This remuneration is disclosed instead under total remuneration payable to former members of the Management Board. Remuneration of the Supervisory Board consists of additions to provisions for the activities of the Supervisory Board carried out during the financial year excluding value-added tax. In contrast to the IFRS disclosures, salary payments made to employee representatives, which they receive in their capacity as an employee, are not included here.

REMUNERATION OF EXECUTIVE BODIES

(€ k)	**2014**	2013
Total remuneration of all members of executive bodies		
Management Board	3,309	3,261
Supervisory Board	462	453
Total	**3,771**	**3,714**
Total remuneration of former members of executive bodies and their surviving dependents		
Management Board	2,734	2,868

As at 31 December 2014, a total of €k 59,841 (previous year: €k 48,511) was added to provisions for pension obligations relating to former members of the Management Board and their surviving dependents.

As was the case in the previous year, there were no advances, loans and other liabilities to members of the Management Board as at 31 December 2014. For members of the Supervisory Board they amounted to €k 499 (previous year: €k 231). In the 2014 financial year no new loans were granted to members of the Supervisory Board. The increase compared to the previous year is due to the new composition of the Supervisory Board.

The loans granted to members of the Supervisory Board relate to real estate financings. Loans to members of the Supervisory Board were granted with maturities from variable to final maturity in 2038. Loans to members of the Supervisory Board were at arm's length conditions with interest rates between 4.45% and 6.9%.

Collateral for loans is in the form of land charges for real estate financing. Repayments of loans by members of the Supervisory Board totalled €k 28 in 2014 (previous year: €k 4).

65. OTHER FINANCIAL OBLIGATIONS

The transactions listed below include payment obligations under pending contracts or continuing obligations that cannot be recognised in the balance sheet as well as other financial obligations that could have a material effect on the future financial position of HSH Nordbank.

There are shareholder liabilities of € 18 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 31 million).

The maximum funding obligation that would result from membership of the joint liability scheme of the Sparkassen-Finanzgruppe, if a case occurs where support is needed, is € 31 million (previous year: € 139 million). If the resources of the savings bank guarantee fund are insufficient for the financial rescue, the additional funding can be called immediately.

Further obligations in the amount of € 65 million (previous year: € 71 million) result from long-term leases for land and buildings used for business purposes. Additional obligations amounting to € 172 million (previous year: € 212 million) result from leases for IT services.

Long-term rental agreements for office space result in annual obligations of approximately € 7 million (previous year: € 8 million).

Under a sale of an equity holding the Bank has undertaken to purchase fund units at the market price up to a nominal amount of € 22 million (previous year: € 44 million) and to provide indemnities up to a maximum amount of € 47 million (previous year: € 62 million).

As part of its former guarantor function the Bank also has a general liability towards DekaBank Deutsche Girozentrale together with other former shareholders.

The additional funding obligation of € 17 million recognised in the previous year resulting from the participation in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, no longer exists.

There exist no material other financial obligations apart from those listed above.

66. OTHER FINANCIAL OBLIGATIONS DUE TO THE BANK LEVY (BANKENABGABE)

The German Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung) provides for retrospective charges with respect to the so-called bank levy (Bankenabgabe). Here the difference between the actual bank levy (minimum amount) and the standard amount calculated for the contribution years 2011 through to 2019 can be charged subsequently within a period of two years. The obligation to pay the amount charged subsequently only comes into effect once profits in subsequent financial years are generated up to a level stipulated as reasonable in the Restructuring Fund Regulation. The obligation to pay and the amount of the additional charge is therefore dependent on generating profits in subsequent years.

67. LIST OF SHAREHOLDINGS

The following information is based on German commercial law.

CONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF MORE THAN 50 %

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland	99.60	99.60	USD	27,525,682.00	1,578,415.00
2	Avia Management S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	–34,159.22	23,750.28
3	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	17,013.30	1,548.42
4	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	3,637.14	–3,045.21
5	Capcellence Holding GmbH & Co. KG (former: Capcellence Private Equity Beteiligungen GmbH & Co. KG, Hamburg[1]	100.00	100.00	EUR	122,678,731.72	1,976,288.33
6	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.91	EUR	–31,633.13	–32,833.13
7	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	8,046.62	44,798.66
8	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.90	EUR	3,687.11	–10,828.57
9	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.90	EUR	–6,296.91	–10,843.67
10	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	14,264,336.99	295,743.83
11	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.95	EUR	18,041.02	–11,752.43
12	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.47	EUR	15,242.74	–384,925.14
13	CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.00	EUR	[3]	[3]
14	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	3,712.56	–3,045.28
15	CHIOS GmbH, Hamburg	100.00	100.00	EUR	13,624.24	–11,930.49
16	DEERS Green Power Development Company, S.L., Madrid, Spain[1]	100.00	100.00	EUR	–31,078,557.00	132,295.00
17	GODAN GmbH, Hamburg	100.00	100.00	EUR	–936,511.24	–12,962.46
18	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	22,461,023.15	3,167,029.66
19	HSH Care+Clean GmbH, Hamburg[1), 4]	51.00	51.00	EUR	25,000.00	11,481.43
20	HSH Facility Management GmbH, Hamburg[2]	100.00	100.00	EUR	205,600.00	239,186.19
21	HSH Gastro+Event GmbH, Hamburg[1), 4]	100.00	100.00	EUR	25,000.00	215,922.62
22	HSH Move+More GmbH, Kiel[1), 4]	51.00	51.00	EUR	25,000.00	109,319.76
23	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	425,931.00	–22,880.00
24	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	3,423,789.71	–382,649.21
25	HSH N Funding I, George Town, Cayman Islands	100.00	100.00	EUR	1,003,617,222.00	37,077,760.00
26	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	654,305,988.00	36,276,800.00
27	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	177,525,248.68	13,832,476.86
28	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,792,273.00	–108,222.00
29	HSH Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	–23,431,308.33
30	Ilex Integra GmbH (former: DMS Beteiligungs GmbH), Hamburg[1]	100.00	100.00	EUR	–17,420,978.05	–15,313,330.42
31	ISM Agency, LLC, New York, USA[1]	100.00	100.00	USD	[7]	[7]

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
32	Kontora Family Office GmbH, Hamburg	75.02	75.02	EUR	784,259.77	– 152,372.29
33	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	0.00
34	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg[15]	100.00	100.00	USD	13,311.83	0.00
35	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s., Luxembourg, Luxembourg[5]	100.00	100.00	USD	– 216,561,991.90	– 144,730,514.57
36	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong[1]	0.01	100.00	USD	– 4,832,824.00	– 1,199,136.00
37	RESPARCS Funding II Limited Partnership, St. Helier, Jersey[1]	0.01	100.00	EUR	– 237,826,353.00	134,264.00
38	Solar Holdings S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	– 20,311,108.98	– 11,694,234.94
39	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	32,312.77	– 1,354,744.88
40	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	34,309,790.00	3,246,149.00

CONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF 50 % OR LESS

– of which subsidiaries due to a principal-agent relationship

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
41	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland[1]	49.00	49.00	USD	– 11,086,567.00	– 1,032,971.00
42	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland[1]	49.00	49.00	USD	– 10,680,076.00	– 1,011,269.00
43	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland[1]	49.00	49.00	USD	– 3,663,131.00	– 1,191,837.00
44	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland[1]	49.00	49.00	USD	– 13,686,505.00	– 195,298.00
45	Franz Portfolio 2 GmbH & Co. KG, Hamburg[11]	0.00	0.00	EUR	– 88,867,164.37	– 6,428,284.28
46	LCG Finance II B.V., Vught, Luxembourg	0.00	0.00	EUR	– 44,137,241.25	1,251,843.39
47	Mitco Real Estate A S.à.r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	– 16,495,726.00	16,604,889.00
48	Mitco Resolution 1 S.à.r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	– 3,397,048.00	3,594,896.00
49	Mitco Resolution 2 S.à.r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	– 6,424,669.00	2,939,697.00
50	Mitco Resolution 3 S.à.r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	– 652,722.00	968,725.00
51	Mitco Resolution 4 S.à.r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	– 2,323,387.00	2,660,411.00
52	Mitco Resolution 5 S.à.r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	– 461,220.00	1,499,377.00
53	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg[1]	49.00	49.00	EUR	– 3,560,630.00	– 1,666,707.00
54	Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg[1]	49.00	49.00	EUR	– 5,191,154.00	– 3,361,930.00
55	RDM Limited, George Town, Cayman Islands	0.00	0.00	USD	– 128,918,364.00	– 18,528,386.00
56	SPE II Pissarro SAS, Paris, France	0.00	0.00	EUR	– 12,407,632.00	– 4,315,453.00

– of which subsidiaries due to contractual rights

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
57	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Wiesbaden	0.00	0.00	EUR	– 559,238.13	– 8,965.43
58	Life Insurance Fund Elite LLC, New York, USA	0.00	0.00	USD	[7]	[7]
59	Life Insurance Fund Elite Trust, New York, USA	0.00	0.00	USD	[7]	[7]
60	OCEAN Funding 2013 GmbH, Frankfurt am Main	0.00	0.00	EUR	25,058.40	8.40
61	Senior Assured Investment S.A., Luxembourg, Luxembourg	0.00	0.00	EUR	31,000.00	0.00
62	Senior Preferred Investments S.A., Luxembourg, Luxembourg	0.00	0.00	EUR	31,000.00	0.00
63	Stratus ABF S.A., Luxembourg, Luxembourg	0.00	0.00	EUR	[3]	[3]

– of which subsidiaries due to potential voting rights

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
64	K/S Angered, Hellerup, Denmark	0.00	0.00	DKK	–340,672,230.00	–70,690,961.00

ASSOCIATES AND JOINT VENTURES CONSOLIDATED UNDER THE EQUITY METHOD

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
65	Belgravia Shipping Ltd., London, Great Britain[1)]	33.33	33.33	USD	54,250,000.00	–24,927.00
66	PRIME 2006–1 Funding Limited Partnership, St. Helier, Jersey[14)]	47.50	0.00	EUR	–2,955,516.00	9,145,675.00
67	Relacom Management AB, Stockholm, Sweden	21.17	21.17	SEK	1,302,165,000.00	–338,759,000.00
68	SITUS NORDIC SERVICES ApS, Copenhagen, Denmark	40.00	40.00	DKK	4,573,256.00	2,784,740.00

UNCONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF MORE THAN 50 %

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
69	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1)]	51.00	51.00	USD	115.00	0.00
70	Aviation Leasing OpCo France III, Paris, France[1)]	100.00	100.00	EUR	–66,489.00	–39,063.00
71	Aviation Leasing OpCo France IV, Paris, France[1)]	100.00	100.00	EUR	–8,554.00	–30,402.00
72	Bach Holdings LLC, Wilmington, USA	100.00	100.00	USD	539,439.00	89,121.00
73	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	3,545,857.13	859,211.77
74	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg[1)]	100.00	100.00	EUR	3,689.95	–3,045.24
75	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH, Hamburg[1)]	100.00	100.00	EUR	15,817.42	–1,444.35
76	European Capital Investment Opportunities Limited, St. Helier, Jersey[1)]	51.00	51.00	EUR	90.00	6.00
77	Folkesta Handelsfastigheter AB, Stockholm, Sweden[1)]	100.00	100.00	SEK	18,298,418.00	–2,126,383.00
78	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	–2,019,284.49	31,767.08
79	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekt London St. Georges House KG i. L., Hamburg[9)]	62.42	61.22	EUR	239,710.17	5,442.63
80	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	94,310.00	5,634.00
81	HSH N Structured Situations Limited, St. Helier, Jersey[8)]	100.00	100.00	USD	351,241.00	10,805.00
82	ISP Angered Development 1 AB, Stockholm, Sweden[1)]	100.00	100.00	SEK	–19,732.00	–13,025.00
83	LCG Monumenten I B.V., Vught, Luxembourg[1)]	100.00	100.00	EUR	807,862.00	103,523.00
84	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	0.00
85	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[7)]	[7)]
86	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	18,810.25	3,423.80

UNCONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF 50 % OR LESS

– of which subsidiaries due to a principal-agent relationship

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
87	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland[1]	49.00	49.00	USD	– 4,544,418.00	– 274,812.00
88	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland[1]	49.00	49.00	USD	1,413,073.00	1,045,654.00
89	TEAL FUNDING NO 1 LTD, Dublin, Ireland[10]	0.00	0.00	GBP	– 73,766.00	– 1,306.00

– of which subsidiaries due to contractual rights

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
90	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart[1), 11]	80.00	0.00	EUR	– 192,138.73	198,186.39
91	HAHN Büro- und Geschäftshaus Cottbus Spremberger Straße 13/15 GmbH & Co. KG, Bergisch Gladbach	0.00	0.00	EUR	– 4,666,781.42	201,731.27
92	Sverigefastigheter AS, Stabekk, Norway	0.00	0.00	NOK	100,000.00	0.00

UNCONSOLIDATED JOINT VENTURES

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
93	AGV Irish Equipment Leasing No. 4 Limited, Dublin, Ireland[16]	100.00	100.00	USD	– 106,959,942.00	– 67,948,335.00
94	Fosse Way Shipping Limited, London, Great Britain[17]	58.85	58.85	EUR	– 20,030,801.00	– 135,705.00
95	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden[1]	50.00	50.00	EUR	– 261,221.72	862,931.04
96	HPC Infrastructure Holding S.à r.l., Luxembourg, Luxembourg	0.00	0.00	EUR	12,500.00	0.00
97	LAGAN Viking Limited, Hong Kong, Hong Kong[11), 17]	58.85	58.85	EUR	– 15,913,376.00	789,953.00
98	Mersey Viking Limited, Hong Kong, Hong Kong[11), 17]	58.85	58.85	EUR	– 15,319,963.00	744,951.00
99	Watling Street Shipping Limited, London, Great Britain[17]	58.85	58.85	EUR	– 36,449,309.00	– 169,085.00

UNCONSOLIDATED ASSOCIATES

Serial no.	Name/Place	Equity interest	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
100	Berkenhoff GmbH, Heuchelheim	0.00	0.00		[7]	[7]
101	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg[1]	33.33	33.33	EUR	372.44	– 10,827.56
102	First Ship Lease Trust, Singapore, Singapore	0.00	0.00		[7]	[7]
103	FSL Holdings Pte. Ltd., Singapore, Singapore[1), 11]	20.00	20.00	USD	40,628,235.00	– 12,002,301.00
104	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,511,050.71	212,547.02
105	KAIACA LLC, New York, USA[1), 17]	55.30	55.30	USD	100,000.00	0.00
106	LUCKON Servicegesellschaft mbH, Munich[1]	40.00	40.00	EUR	[3]	[3]
107	RE-FundMaster, Frankfurt a. M.[13]	42.80	42.80	EUR	32,469,379.87	– 4,742,370.55
108	4Wheels Management GmbH, Dusseldorf[1]	68.75	40.00	EUR	13,966,235.44	– 190,190.40

OTHER COMPANIES WITH A SHARE OF 20 % OR MORE

Serial no.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
109	BRINKHOF Holding Deutschland GmbH, Erfurt[1]	100.00	0.00	EUR	[6]	[6]
110	ISP Angered Development 2 AB, Stockholm, Sweden[1]	100.00	0.00	SEK	[7]	[7]

[1] Indirect holding.
[2] A profit transfer agreement with the company is in place.
[3] No information available due to newly established company.
[4] There is a profit transfer agreement with HSH Facility Management GmbH.
[5] Both direct and indirect holdings.
[6] No information available due to insolvency of the company.
[7] No data available.
[8] Only data as at 31.12.2010 is available.
[9] Only data as at 31 12 2011 is available.
[10] Only data as at 30.11.2012 is available.
[11] Only data as at 31.12.2012 is available.
[12] Only data as at 31.07.2013 is available.
[13] Only data as at 31.08.2013 is available.
[14] Only data as at 30.09.2013 is available.
[15] Only data as at 09.12.2013 is available.
[16] Joint control was explicitly agreed by contract, therefore the company is not a subsidiary despite a voting majority.
[17] This is not a subsidiary due to the requirement for a qualified voting majority for important decisions.

FOREIGN EXCHANGE RATES FOR € 1 AS AT 31 DECEMBER 2014

Denmark	DKK	7.4453
Great Britain	GBP	0.7789
Norway	NOK	9.0420
Sweden	SEK	9.3930
USA	USD	1.2141

68. OTHER DISCLOSURES IN ACCORDANCE WITH GERMAN COMMERCIAL LAW

I. Basic principles

Under the terms of Section 315a (1) HGB, HSH Nordbank is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS consolidated financial statements by following this link: www.hsh-nordbank.com. The complete list of equity holdings is set out in Note 67.

HSH Facility Management GmbH, Hamburg, makes use of the exemption from disclosure obligations in accordance with Section 264 (3) HGB.

II. Number of employees

The average number of employees as of the reporting date is calculated on the basis of staff figures at quarter-end for all fully consolidated companies:

NUMBER OF EMPLOYEES

	2014			2013
	Male	Female	**Total**	Total
Full-time employees	1,550	620	2,170	2.430
Part-time employees	140	619	759	757
Total	**1,690**	**1,239**	**2,929**	**3.187**
Apprentices/trainees	29	10	39	44

III. Corporate Governance Code

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have given a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2014 Annual Report.

IV. Auditor's fees

AUDITOR'S FEES

(€ m)	**2014**	2013
Audits KPMG AG	6	6
Other certification and valuation services provided by KPMG AG	2	5
Tax consultancy services provided by KPMG AG	1	1
Other services provided by KPMG AG	2	1
Total	**11**	**13**

V. Seats on supervisory bodies

On the reporting date, no seats were held by members of the Management Board on statutory supervisory bodies of major corporations or financial institutions.

69. NAMES OF BOARD MEMBERS AND DIRECTORSHIPS HELD

I. The Supervisory Board of the HSH Nordbank Group

Dr Thomas Mirow, Hamburg
Chair
Former President of the European Bank for Reconstruction and Development, London

Olaf Behm, Hamburg
Deputy Chair
Employee of HSH Nordbank AG

Dr Jürgen Allerkamp, Hamburg
(from 23 May 2014 until 31 December 2014)
Former Chairman of the Management Board of Deutsche Hypothekenbank AG

Stefanie Arp, Norderstedt
Employee of HSH Nordbank AG

Sabine-Almut Auerbach, Neumünster
District secretary, ver.di Southern Holstein district

Hans-Werner Blöcker, Helmstorf
(until 23 May 2014)
Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG

Berthold Bose, Hamburg
(until 23 May 2014)
Regional financial services representative
ver.di Hamburg district

Oliver Dircks, Kiel
(until 23 May 2014)
Employee of HSH Nordbank AG

Simone Graf, Altenholz
(from 23 May 2014)
Employee of HSH Nordbank AG

Silke Grimm, Reinbek
(from 23 May 2014)
Member of the Board of Euler Hermes Deutschland AG

Torsten Heick, Rellingen
Employee of HSH Nordbank AG

Oke Heuer, Kiel
(until 23 May 2014)
Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein

Stefan Jütte, Bonn
Former Chairman of the Management Board of Deutsche Postbank AG

Sabine Kittner-Schürmann, Kiel
(until 23 May 2014)
Employee of HSH Nordbank AG

Dr Rainer Klemmt-Nissen, Hamburg
Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH

Lutz Koopmann, Altenholz
(until 23 May 2014)
Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein

Dr Joachim Lemppenau, Korschenbroich
(until 23 May 2014)
Former Chairman of the Management Board,
Volksfürsorge Versicherung AG

Manfred Lener, Eckernförde
(until 23 May 2014)
Employee of HSH Nordbank AG

Thomas Losse-Müller, Kiel
(until 27 November 2014)
Chief of the State Chancellery of the Minister-President of Land Schleswig-Holstein

Rieka Meetz-Schawaller, Kiel
Employee of HSH Nordbank AG

Dr David Morgan, London
Managing Director J.C. Flowers & Co UK Ltd.

Dr Philipp Nimmermann, Kiel
(from 27 November 2014)
Secretary of State at the Schleswig-Holstein Ministry of Finance

Dieter Randau, Pinneberg
(from 23 May 2014 until 29 October 2014)
Head of Planning, Controlling and Finance
ver.di Hamburg district

Edda Redeker, Kiel
(until 23 May 2014)
ver.di Northern district

Stefan Schlatermund, Hamburg
(from 23 May 2014)
Employee of HSH Nordbank AG

Klaus-Dieter Schwettscher, Reinbek
(from 10 January 2015)
Representative of ver.di's federal management board

Elke Weber-Braun, Hamburg
(from 23 May 2014) Independent chartered accountant

Bernd Wrede, Hamburg
(until 23 May 2014) Former Head of the Executive Board of Hapag Lloyd AG

Jörg Wohlers, Rellingen
(from 1 January 2015) Former Member of the Board of Hamburger Sparkasse AG and HASPA Finanzholding

II. Members of the Risk Committee

Stefan Jütte
Chair

Olaf Behm

Simone Graf
(from 23 May 2014)

Torsten Heick

Sabine Kittner-Schürmann
(until 23 May 2014)

Dr Rainer Klemmt-Nissen

Manfred Lener
(until 23 May 2014)

Rieka Meetz-Schawaller
(until 23 May 2014)

Dr Thomas Mirow

Dr David Morgan

Stefan Schlatermund
(from 23 May 2014)

Bernd Wrede
(until 23 May 2014)

III. Members of the Audit Committee

Elke Weber-Braun
Chair (from 23 May 2014)

Dr Joachim Lemppenau
Chair (until 23 May 2014)

Dr Jürgen Allerkamp
(from 23 May 2014 until 31 December 2014)

Stefanie Arp

Olaf Behm

Oliver Dircks
(until 23 May 2014)

Oke Heuer
(until 23 May 2014)

Thomas Losse-Müller
(until 27 November 2014)

Rieka Meetz-Schawaller

Dr Thomas Mirow
(until 23 May 2014)

Dr Philipp Nimmermann
(from 11 December 2014)

Jörg Wohlers
(from 23 January 2015)

IV. Members of the General Committee

Dr Thomas Mirow
Chair

Dr Jürgen Allerkamp
(from 23 May 2014 until 31 December 2014)

Olaf Behm

Simone Graf
(from 23 May 2014)

Oke Heuer
(until 23 May 2014)

Dr Rainer Klemmt-Nissen

Thomas Losse-Müller
(until 27 November 2014)

Rieka Meetz-Schawaller
(until 23 May 2014)

Dr David Morgan

Dr Philipp Nimmermann
(from 11 December 2014)

Jörg Wohlers
(from 23 January 2015)

V. Members of the Remuneration Monitoring Committee (from 6 February 2014)

Dr Thomas Mirow
Chair

Olaf Behm

Simone Graf
(from 23 May 2014)

Silke Grimm
(from 23 May 2014)

Oke Heuer
(until 23 May 2014)

Dr Rainer Klemmt-Nissen

Thomas Losse-Müller
(until 27 November 2014)

Rieka Meetz-Schawaller
(until 23 May 2014)

Dr Philipp Nimmermann
(from 11 December 2014)

IV. Members of the Mediation Committee

Dr Thomas Mirow
Chair

Olaf Behm

Dr Rainer Klemmt-Nissen

Manfred Lener
(until 23 May 2014)

Rieka Meetz-Schawaller
(from 23 May 2014)

VI. The Management Board of the HSH Nordbank Group

Constantin von Oesterreich
Born in 1953
Chair

Stefan Ermisch
Born in 1966
Chief Financial Officer

Torsten Temp
Born in 1960 Shipping, Project & Real Estate Financing

Edwin Wartenweiler
(until 31 May 2015)
Born in 1959
Chief Risk Officer

Matthias Wittenburg
Born in 1968
Corporates & Markets

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS 2014

Country-by-Country Reporting

Basic principles

The requirements for country-specific reporting, referred to as country-by-country reporting in Article 89 of the Directive 2013/36/EU (Capital Requirement Directive, CRD IV), have been transposed into German law in Section 26a (1) of the German Banking Act (KWG).

Since condensed information was required as of 31 December 2013 as part of initial disclosure, the full disclosure of all the required information has become necessary as of 31 December 2014 as an annex to the consolidated financial statements.

Disclosure in HSH Nordbank

HSH Nordbank is disclosing the required information for the first time in an annex to the consolidated financial statements in this country-by-country reporting. It includes the necessary information for all the subsidiaries fully consolidated in the consolidated financial statements as of this reporting date. Entities that were deconsolidated during the reporting year are not included in the figures presented. The geographical allocation is made on the basis of the location of a company's registered office. Branches are disclosed as independent companies. Representative offices are not listed. All accounting-related information is based on IFRS accounting.

In this report, HSH Nordbank defines the required size of turnover as the sum of total income as presented in the income statement and other operating income (gross amounts before consolidation). The consolidated non-bank entities in particular report their turnover in other operating income.

The profit or loss before tax disclosed in this report corresponds to the result in accordance with IFRS accounting before taxes of the individual entities. The tax position also corresponds to the definition under IAS/IFRS standards in the income statement.

To secure the Bank's future, HSH Nordbank has been granted a guarantee facility of € 10 billion by its owners which requires approval by the EU as state aid. It is a second loss guarantee in which rating-induced actual payment defaults are secured. Please refer to Note 3 for more details.

The figure for the number of employees corresponds to the arrangement of Section 267 (5) of the German Commercial Code (HGB) for the entities still included in the consolidated financial statements as of the reporting date.

The information on the type of activities of the relevant companies is presented in line with the definitions used in Article 4 (1) CRR once the CRR came into effect.

The return on capital to be disclosed for the first time as at 31 December 2014 in accordance with Section 26a KWG, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 0.15 %.

Reporting

COUNTRY-SPECIFIC DETAILS OF TURNOVER, PROFIT OR LOSS AND TAXES AS WELL AS EMPLOYEE NUMBERS

(€ m /number) Country	Turnover	Profit or loss before tax	Tax on profit or loss	Number of employees
EU				
Germany	710	– 34	– 83	2,864
Luxembourg	184	95	– 27	98
Ireland	26	2	– 1	0
France	3	– 19	0	0
Denmark	3	3	0	0
Spain	1	– 3	– 1	0
Third countries				
Cayman Islands	274	373	0	0
USA	49	– 41	– 6	65
Singapore	36	22	0	32
Canary Islands	1	0	0	0
Bermuda	0	0	0	0
Hong Kong	0	0	0	0

COUNTRY-SPECIFIC DETAILS ON THE HEDGING EFFECT OF THE SECOND LOSS GUARANTEE AS STATE AID RECEIVED

(€ m) Balance sheet amounts Country	Hedging effect before guarantee costs	Additional premium ex post	Debt waiver	Base and additional premium ex ante	Claim for interest compensation	Compensation under the second loss guarantee
EU						
Germany	4,364	–981	682	–501	–8	3,556
Luxembourg	459	–103	72	–53	–	374
Third countries						
USA	93	–21	15	–11	–	76
Singapore	60	–13	9	–7	–	49
Cayman Islands	23	–5	3	–3	–	19

(€ m) Income statement amounts Country	Hedging effect before guarantee costs	Additional premium ex post	Debt waiver	Base and additional premium ex ante	Claim for interest compensation	Compensation under the second loss guarantee	Base premium ex post as expenses from public-sector guarantees
EU							
Germany	896	–348	676	46	–1	1,269	–421
Luxembourg	77	–30	58	4	–	109	–64
Third countries							
USA	–17	7	–13	–1	–	–24	–15
Singapore	12	–5	9	1	–	17	–14
Cayman Islands	–8	3	–6	–	–	–11	–7

NATURE OF ACTIVITIES AND GEOGRAPHICAL LOCATION OF THE BRANCHES AND FULLY CONSOLIDATED SUBSIDIARIES

Serial no.	Name of the company	Place	Country	Nature of activities
1	HSH Nordbank AG	Hamburg, Kiel	Germany	Bank
2	HSH Nordbank AG, Luxembourg branch	Luxembourg	Luxembourg	Bank
3	HSH Nordbank AG, New York branch	New York	U.S.A.	Bank
4	HSH Nordbank AG, Singapore branch	Singapore	Singapore	Bank
5	HSH Nordbank AG, Cayman Islands branch	Grand Cayman	Cayman Islands	Bank
6	Adessa Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG	Wiesbaden	Germany	Miscellaneous activities
7	AGV Irish Equipment Leasing No. 1 unlimited	Dublin	Ireland	Financial Institution
8	Amentum Aircraft Leasing No. Five Limited	Dublin	Ireland	Miscellaneous activities
9	Amentum Aircraft Leasing No. Six Limited	Dublin	Ireland	Miscellaneous activities
10	Amentum Aircraft Leasing No. Ten Limited	Dublin	Ireland	Miscellaneous activities
11	Amentum Aircraft Leasing No. Three Limited	Dublin	Ireland	Miscellaneous activities
12	Avia Management S.à.r.l.	Luxembourg	Luxembourg	Financial Institution
13	Bu Wi Beteiligungsholding GmbH	Hamburg	Germany	Financial Institution
14	CAPCELLENCE Erste Fondsbeteiligung GmbH	Hamburg	Germany	Financial Institution
15	CAPCELLENCE Holding GmbH & Co KG (former: Capcellence Private Equity Beteiligungen GmbH & Co. KG)	Hamburg	Germany	Financial Institution
16	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG,	Hamburg	Germany	Financial Institution
17	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG,	Hamburg	Germany	Financial Institution
18	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG,	Hamburg	Germany	Financial Institution
19	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
20	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG,	Hamburg	Germany	Financial Institution
21	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
22	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
23	CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG	Hamburg	Germany	Financial Institution
24	CAPCELLENCE Zweite Fondsbeteiligung GmbH	Hamburg	Germany	Financial Institution
25	CHIOS GmbH	Hamburg	Germany	Financial Institution
26	DEERS Green Power Development Company	Madrid	Spain	Miscellaneous activities
27	Franz Portfolio 2 GmbH & Co KG	Hamburg	Germany	Miscellaneous activities
28	GODAN GmbH	Hamburg	Germany	Financial Institution
29	HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	Germany	Financial Institution
30	HSH Care+Clean GmbH	Hamburg	Germany	Miscellaneous activities
31	HSH Facility Management GmbH	Hamburg	Germany	Provider of ancillary services
32	HSH Gastro+Event GmbH	Hamburg	Germany	Miscellaneous activities
33	HSH Move+More GmbH	Hamburg	Germany	Miscellaneous activities
34	HSH N Finance (Guernsey) Limited	St. Peter Port	Guernsey	Financial Institution
35	HSH N Financial Securities LLC	Wilmington	U.S.A.	Bank

Serial no.	Name of the company	Place	Country	Nature of activities
36	HSH N Funding I	George Town	Cayman Islands	Financial Institution
37	HSH N Funding II	George Town	Cayman Islands	Financial Institution
38	HSH Nordbank Securities S.A.	Luxembourg	Luxembourg	Bank
39	HSH N Residual Value Ltd.	Hamilton	Bermuda	Insurance company
40	HSH Privat Equity GmbH	Hamburg	Germany	Financial Institution
41	Ilex Integra GmbH (former: DMS Beteiligungs GmbH)	Hamburg	Germany	Financial Institution
42	ISM Agency, LLC	New York	U.S.A.	Miscellaneous activities
43	Kontora Family Office GmbH	Hamburg	Germany	Miscellaneous activities
44	K/S Angered	Hellerup	Denmark	Miscellaneous activities
45	LCG Finance II B.V.	Vught	Luxembourg	Miscellaneous activities
46	Life Insurance Fund Elite LLC	New York	U.S.A.	Miscellaneous activities
47	Life Insurance Fund Elite Trust	New York	U.S.A.	Miscellaneous activities
48	Mitco Real Estate A S.a.r.l.	Luxembourg	Luxembourg	Miscellaneous activities
49	Mitco Resolution 1 S.a.r.l.	Luxembourg	Luxembourg	Miscellaneous activities
50	Mitco Resolution 2 S.a.r.l.	Luxembourg	Luxembourg	Miscellaneous activities
51	Mitco Resolution 3 S.a.r.l.	Luxembourg	Luxembourg	Miscellaneous activities
52	Mitco Resolution 4 S.a.r.l.	Luxembourg	Luxembourg	Miscellaneous activities
53	Mitco Resolution 5 S.a.r.l.	Luxembourg	Luxembourg	Miscellaneous activities
54	Neptune Finance Partner II S.à.r.l.	Luxembourg	Luxembourg	Financial Institution
55	Neptune Finance Partner S.à.r.l.	Luxembourg	Luxembourg	Financial Institution
56	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	Luxembourg	Financial Institution
57	Next Generation Aircraft Finance 2 S.à.r.l.	Munsbach	Luxembourg	Miscellaneous activities
58	Next Generation Aircraft Finance 3 S.à.r.l.	Munsbach	Luxembourg	Miscellaneous activities
59	OCEAN Funding 2013 GmbH	Frankfurt am Main	Germany	Miscellaneous activities
60	RESPARCS Funding II Limited Partnership	St. Helier	Jersey	Financial Institution
61	RESPARCS Funding Limited Partnership I	Hong Kong	Hong Kong	Financial Institution
62	RDM Limited	George Town	Cayman Islands	Miscellaneous activities
63	Senior Assured Investment S.A.	Luxembourg	Luxembourg	Miscellaneous activities
64	Senior Preferred Investments S.A.	Luxembourg	Luxembourg	Miscellaneous activities
65	Solar Holdings S.à.r.l.	Luxembourg	Luxembourg	Financial Institution
66	SPE II Pissarro SAS	Paris	France	Miscellaneous activities
67	Stratus ABF S.A.	Luxembourg	Luxembourg	Miscellaneous activities
68	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	Germany	Provider of ancillary services
69	2200 Victory LLC	Dover	U.S.A.	Miscellaneous activities

DATE OF RELEASE FOR PUBLICATION

The Management Board of HSH Nordbank has prepared the consolidated financial statements on 24 March 2015 and released these for forwarding to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and approving of these.

Hamburg/Kiel, 24 March 2015

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HSH Nordbank AG, Hamburg and Kiel, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, together with the group management report for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer to the discussion in the Group management report in the paragraph "Opportunities and risks resulting from the EU state aid proceedings" as well as to Note 1 to the consolidated financial statements. There it is stated that the assumption made regarding the continuation of the Bank as a going concern for accounting and measurement purposes is based in particular on the presumed approval by the EU commission, under consideration of further structural measures to be implemented, of the replenishment of the capital relief guarantee and the final clearance to the amendment of the guarantee agreement following the preliminary approval given in June 2013. Furthermore, it is based on the assumption that approval will only be connected to requirements that can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of HSH Nordbank`s business model by market participants and other relevant stakeholders be maintained.

Hamburg, 24 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz	Thiede
Wirtschaftsprüfer	Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

We hereby affirm that to the best of our knowledge the consolidated financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the HSH Nordbank Group and that the group management report presents the course of business, including the results of the business and the HSH Nordbank Groups situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for the HSH Nordbank Groups foreseeable performance.

Hamburg/Kiel, 24 March 2015

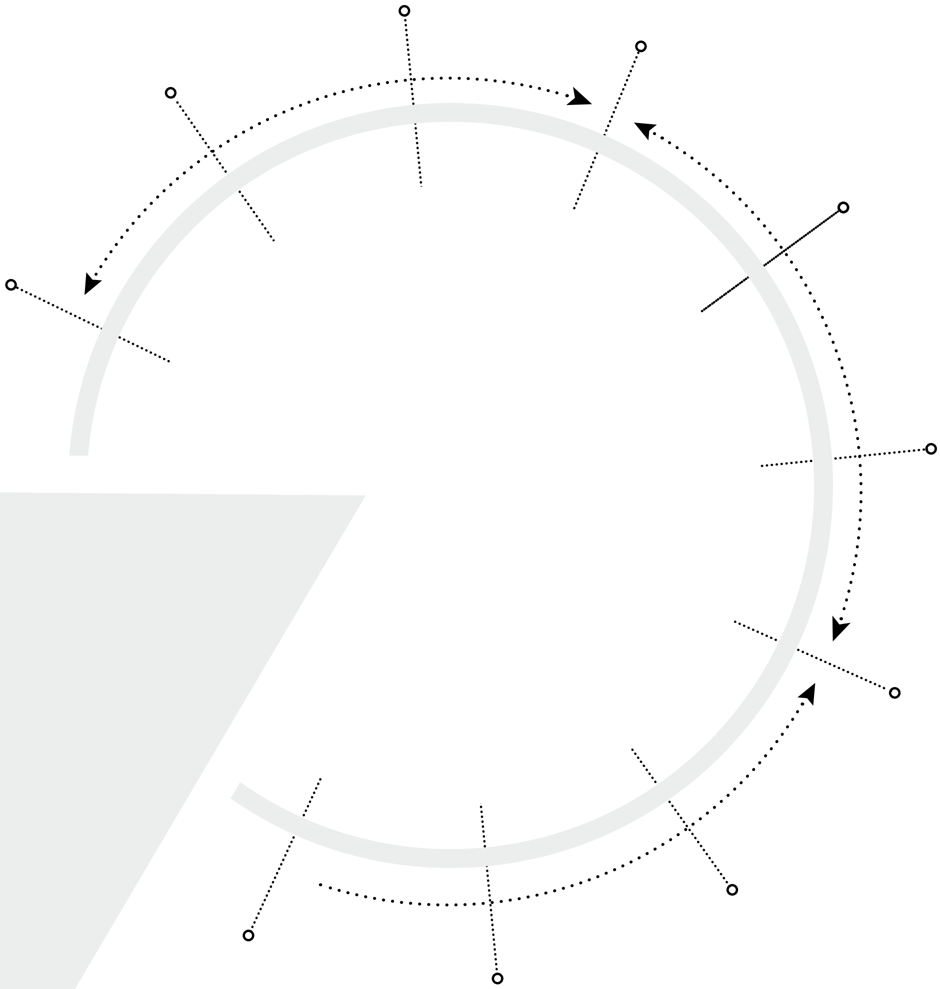
Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg



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HSH NORDBANK ADVISORY BOARD

HSH Nordbank AG created an Advisory Board for purposes of providing knowledgeable advice to the Management Board in transacting its business as well as promoting contacts between the economy, public administration and the savings banks. The members of the Advisory Board were appointed by the Supervisory Board on the recommendation of the Management Board.

CHAIRMAN

Erck Rickmers
Chairman
E.R. Capital Holding,
Hamburg

DEPUTY CHAIRMAN

Thomas H. Eckelmann
Chairman of the Group Management Board
EUROKAI KGaA,
Hamburg

MEMBERS OF THE ADVISORY BOARD

Dr Jan Behrendt
Managing Partner
Behrendt Wohnungsbau KG (GmbH & Co.),
Hamburg

Götz Bormann
Chairman of the Board of Management
Förde Sparkasse,
Kiel

Jutta Humbert
Managing Partner
NORD DRIVESYSTEMS Gruppe,
Bargteheide

Andreas Keil
Chief Financial Officer
Tipp24 SE,
London
(until 31.12.2014)

Jan Christoph Kersig
Managing Director
Kersig GmbH & Co. KG,
Kiel

Dr Johann Killinger
Managing Partner
Buss Group GmbH & Co. KG,
Hamburg
(since 06.02.2014)

Dr Bernd Kortüm
Managing Director
Norddeutsche Vermögen Holding GmbH & Co. KG,
Hamburg

Angela Krüger-Steinhoff
Managing Partner
Steinhoff Familienholding GmbH,
Westerstede

Dirk Lütje
Managing Director
CITTI Handelsgesellschaft mbH & Co. KG,
Kiel

Fritz Horst Melsheimer
President of the Hamburg Chamber of Commerce,
Hamburg

Dr Claus-Georg Nette
Member of the Board of Management
Marquard & Bahls AG,
Hamburg

Dr Arend Oetker
Managing Partner
Dr Arend Oetker Holding GmbH,
Berlin

Wolfgang Pötschke
Chairman of the Board of Management
Sparkasse zu Lübeck AG,
Lübeck
(until 30.04.2014)

Reinhard Sager
Head of the Ostholstein District authority (Landrat),
Eutin

Frank Schumacher
Chairman of the Board of Management
Sparkasse zu Lübeck AG,
Lübeck
(since 06.06.2014)

Dieter Schön
Managing Partner
Schön Klinik Verwaltungsgesellschaft mbH,
Prien

Katharina Strümpell
Partner and Authorized Officer (Prokuristin)
Linnhoff Schiffahrt GmbH & Co. KG,
Buxtehude
(since 06.02.2014)

Dr Fritz Süverkrüp
Honorary President
Kiel Chamber of Industry and Commerce,
Kiel

Egbert Tölle
Member of the Board of Management
REMONDIS SE & Co. KG,
Lünen
(since 28.08.2014)

Dr Harald Vogelsang
Speaker of the Board of Management
Hamburger Sparkasse AG,
Hamburg

Christian Wriedt
Chairman of the Executive Board
Körber-Foundation,
Hamburg

MULTI-YEAR OVERVIEW

HSH NORDBANK GROUP 2010 – 2014

			Following adjustment			
		2014	2013	2012	2011	2010
Income statement	(€ m)					
Net income before restructuring		883	–48	160	912	601
Net income before taxes		278	–518	–185	–206	73
Group net result for the year		160	–769	–124	–265	104
Balance sheet	(€ m)					
Equity		4,672	4,579	5,272	4,816	5,094
Total assets		110,082	109,111	130,606	135,901	150,945
Business volume		119,880	118,729	138,515	145,409	163,741
Capital ratios[1]	(%)					
Tier 1 capital ratio		14.4	15.3	12.3	13.8	15.2
Regulatory capital ratio		18.7	23.8	19.1	21.3	22.7
Employees[2]						
Total		3,072	3,391	3,750	4,265	3,852
Germany		2,897	3,150	3,411	3,778	3,251
Abroad		175	241	339	487	601

[1] After having established the annual financial statements 2014.
[2] Headcount.

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CONTACT/IMPRINT

CONTACT

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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.

This Annual Report was published on 7 April 2015 and is available for download at www.hsh-nordbank.com.

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

FORWARD-LOOKING STATEMENTS

This Annual Report includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Annual Report. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this Annual Report does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

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