INTERIM REPORT

AS AT 30 JUNE 2015

HSH NORDBANK

KEY FIGURES

INCOME STATEMENT

(€ m)	**January – June 2015**	January – June 2014
Net income before restructuring	469	699
Net income before taxes	222	432
Group net result	147	301

BALANCE SHEET

(€ bn)	**31.06.2015**	31.12.2014
Equity	4.9	4.7
Total assets	107.9	110.1
Business volume	117.7	119.9

CAPITAL RATIOS[1]

(%)	**31.06.2015**	31.12.2014
CET1 ratio	10.0[2]	10.0[2]
Tier 1 capital ratio	13.8	14.4
Regulatory capital ratio	18.0	18.7

EMPLOYEES

(computed on a full-time equivalent basis)

	31.06.2015	31.12.2014
Total	2,469	2,579
Germany	2,327	2,422
Abroad	142	157

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities[3]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3	Aa1	Aa2	Aa3	Baa1
Fitch	BBB–	AAA	–	–	–

[1] According to the same period calculation under the Capital Requirements Regulation (CRR).
[2] Additionally, there is a buffer of 2.6 (31 December 2014) respectively 2.4 (30 June 2015) percentage points resulting from the effect of the second loss guarantee.
[3] Liabilities covered by the guarantor liability (Gewährträgerhaftung).

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

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INTERIM MANAGEMENT REPORT OF HSH NORDBANK AS AT 30 JUNE 2015

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

MODERATE GLOBAL ECONOMIC GROWTH

The global economy continued to recover in the first few months of 2015. This trend was mainly driven by industrialised countries, although the USA stalled somewhat at the beginning of the year. However, economic growth slowed down in most emerging countries, not least because of the sharp fall in commodity prices. There has recently been increasing evidence of an economic slowdown, particularly in China. The Chinese central bank therefore sharply devalued the yuan in the middle of August in order to support exports of Chinese companies.

The economic situation in the eurozone benefited from a relatively low oil price and a fall in the EUR/USD exchange rate. The first half of the year was at the same time characterised by the difficult negotiations between Greece and the other EU member states as well as the EU Commission, the ECB and IMF regarding the reforms and savings measures required for further financial aid. Given the imminent state bankruptcy of Greece and possible exit from the eurozone a compromise was reached in the middle of July and, following approval by national parliaments, the way was cleared for the resumption of negotiations regarding a new aid package.

The situation of the Greek banks had deteriorated drastically in the meantime in light of the stricken economy and deposit outflows with the result that the banks and stock exchange had to shut temporarily and capital controls were introduced. The Greek banks were temporarily refinanced by emergency liquidity assistance provided by the ECB.

The direct impact of the crisis in Greece on German banks should be kept within reasonable limits, as the institutions have significantly reduced their exposure to the Greek state over the past few years and no longer hold any Greek receivables of a material amount.

Germany's economy started 2015 on a dynamic note, but was unable to sustain its rate of expansion in the second quarter. This is reflected in the ifo business climate index, which has fallen from its relatively high level over the past few months. Private and public consumption as well as exports continued to be the main pillars of growth. There was also initially a sharper increase in investing activities of companies at the beginning of the year. However, uncertainty regarding developments in Greece and the crisis surrounding Russia and Ukraine are likely to have prevented a higher growth rate in the first half of the year.

HIGH VOLATILITY IN THE FINANCIAL MARKETS

Volatility was unusually high in the financial markets in the first half of 2015. Yields on ten-year German government bonds increased from under 0.1 % to above 1 % within a period of a few weeks. These were 0.77 % at the end of June compared to 0.55 % at the beginning of the year. The interest rate curve, which was at times negative for maturities up to nine years, was positive at the end of June for maturities of five years and above.

There were significant fluctuations in risk premiums for so-called periphery government bonds. Following an initial reduction at the beginning of the year they increased sharply at times during the first half of the year.

The DAX index fluctuated between 9,469 and 12,374 points in the first six months of the year and recorded unusually high daily movements. The DAX finally ended the first half of the year at 10,945 points, representing a plus of 12%.

The EUR/USD exchange rate fell in the first half of the year to EUR/USD 1.12 compared to EUR/USD 1.21 as at the 2014 year end. The exchange rate reached its interim low of EUR/USD 1.06 in March.

Besides the developments regarding Greece, the high volatility in the financial markets was attributable, amongst other things, to changing expectations concerning the timing of the first base rate hike in the USA and the ECB bond purchase programme announced in January 2015 and started in March 2015. The devaluation of the yuan by the Chinese central bank in the middle of August again triggered sharper movements in the financial and foreign exchange markets.

UNEVEN TRENDS IN RELEVANT MARKETS

The uneven trend from the previous year continued in the shipping industry in the first half of 2015. This continued to be reflected in the fact that the difficult conditions in the shipping markets can only be overcome slowly.

As expected, charter rates in the container ship market increased from very low levels. At the same time the volume of idle ship tonnage fell to its lowest level since the middle of 2011. Improvements in the relationship between supply and demand, which have been observed as a whole for about a year, are reflected in the trends. Unexpectedly high levels of growth were recorded for container shipments from Asia to North America.

Trends in the bulker market were significantly weaker than expected over the past months. A downturn in the investment demand in China had an adverse impact, resulting in a noticeable decrease in the growth in demand for the transportation of raw materials. As a result, the surplus shipping capacity again increased significantly in this market segment.

Charter rates and ship values have fallen to their lowest level since 2004 and 2003.

The oil tanker market showed clear signs of recovery, however. The lower oil price had a positive effect on demand: In view of the slower increase in shale oil production (fracking) in North America due to the significant decrease in the oil price, the need for oil imports in the USA fell less sharply than in previous years, which in turn supported the demand for transport. An increase in warehousing and speculative investments also contributed to demand increasing more sharply in recent months than the growth in supply. Charter rates increased noticeably in all sub-segments of the oil tanker market due to the improvement in the fundamentals. Ship values reached levels approximating their long-term averages.

German real estate markets remained overall on an upward trend. Residential property markets benefited from a sustained high level of demand for flats in large cities, which is not yet covered by construction activity, although this has noticeably increased over recent years. Vacancy rates in the office markets fell again, because the demand for office space grew more strongly than the increase in offices completed in the meantime.

The retail sector benefited from strong private consumption and generated in part substantial sales growth despite increasing competitive pressure from e-commerce. Against this backdrop modern retail space remains in demand, particularly in prime locations in large cities. The increase in prime rents in the retail sector picked up slightly in the first half of 2015. However, prime rents for offices in good locations remained stable. The higher growth rate for residential rents and prices in urban areas still hardly declined. Commercial property also recorded further increases in value due to the high level of investor interest.

Trends in the European real estate markets were varied. Whereas the property markets in Great Britain - primarily in London - have developed very positively over the past two years, there has still been no upswing in other markets such as in the Netherlands. Rents stagnated in many locations on high vacancy rates. However, some markets began to recover. Prime properties in good locations in particular were in demand. The upwards trend in both the office and residential real estate markets continued in the USA on a slight fall in vacancies and increasing rents and market values.

Further progress was made in the first half of the year in developing renewable energies in the area of wind and solar energy, but at different rates. New installations of wind energy plants in Germany were still above the strong previous year's level. This was attributable to the offshore sector, whilst the building of onshore installations slowed down considerably compared to the same period in the previous year. New offshore installations in the first half of the year in Europe as a whole have already clearly exceeded the number for the entire previous year.

The trend also continued in the photovoltaic market during the first half of the year – albeit under different preconditions. Net capacity added in Germany decreased sharply again. This reflects, amongst other things, the ripple effect of the phasing out of subsidies for large-scale installations and the uncertainty regarding the planned switch from statutory subsidies to a competitive tendering process.

Project finance volumes for transport infrastructure have increased substantially in the first half of 2015 based on preliminary figures. The proportion of PPP projects (Public Private Partnership) in the overall volume has increased significantly. Financing agreements were concluded primarily for streets and in the railway sector. These were the main focus of activities in Great Britain, Turkey and France. A large amount of liquidity was made available in this area by, among others, institutional investors such as pension funds and insurance companies, as such investments are increasingly seen as an alternative in the low interest rate environment.

There was no appreciable increase in production in the manufacturing sector in the first few months of 2015. The chemical and pharmaceutical industries started 2015 on a similarly weak note as did the metal industry and automobile production. However, companies in the electrical and mechanical engineering sectors recorded increases in production. The food industry also posted increases.

Unlike industry, the commercial sector can be quite satisfied with the start to the year. The wholesale sector achieved a growth in sales in real terms. Whilst production-related wholesalers generated a slight increase in sales, wholesalers of consumer goods improved their sales even more strongly. Sales have increased significantly in the retail sector.

CHALLENGING ENVIRONMENT FOR BANKS

Implementation of European directives

Also in the first half of 2015 the banking environment was mainly characterised by regulatory changes as part of the continued implementation of the European Banking Union. In Germany, the Act on the Recovery and Resolution of Credit Institutions (Sanierungs- und Abwicklungsgesetz (SAG)) came into force at the beginning of 2015 – a year earlier than provided for at European level. SAG is the act to transpose the European Bank Recovery and Resolution Directive (BRRD) into German law, under which common rules are created throughout Europe for failing banks. A key tool is the participation in losses of equity and debt capital providers.

As part of the harmonisation of European deposit guarantee schemes the new deposit insurance law came into force in Germany at the beginning of July, which transposes the requirements of the European Deposit Guarantee Directive. According to this, national deposit guarantee schemes are to achieve a level of funds of 0.8 % of the covered deposits by 2024 by means of contributions made by their member banks.

Against this backdrop the German Savings Banks Finance Group approved at the end of the first half of the year a realignment of its joint liability scheme, which includes the guarantee schemes of savings banks, Landesbanks and Landesbausparkassen. The joint liability scheme regulations were supplemented by the strengthening of the governance rules for the institution guarantee and a stronger risk- and deposit-based focus of the contribution regime. The funding of the deposit guarantee scheme of the Savings Bank Finance Group is strengthened in accordance with the requirements by the reassessed contributions payable by member institutions for the first time in 2015.

The expansion of the banking union and guarantee schemes is accompanied by the enhanced monitoring of banks; this applies both in the context of the guarantee schemes and by the bank supervisory authority. Regulatory monitoring is substantially increased for banks directly supervised by the ECB through the supervisory review and evaluation process (SREP). The business models and internal risk models of the banks are reviewed by the ECB and national supervisory authorities and EU-wide benchmark analyses are taken into account for assessment purposes in supervisory practices stronger than those previously applied. The objective of the more comprehensive regulatory monitoring approach is to identify failings at banks at an early stage and to take appropriate countermeasures. The recovery plans of institutions, which are now to be updated annually, also serve this objective. Furthermore, institutions have to pay the European bank levy for the first time this year, which will be used to build up the European resolution fund from 2016 onwards.

Against the backdrop of the introduction of the BRRD the rating agencies, as announced, reassessed in the second quarter of 2015 the so-called state support, that is the probability of state support being provided to failing banks and issued new bank ratings. The reduction of the effect of this support factor on the long-term ratings of most banks was partially offset at the rating agencies by changes to the methodological approaches applied. In Germany, public sector as well as cooperative banking groups were able to improve their relative rating position vis-a-vis private banks not least because of the two joint liability schemes.

The German banks have further strengthened their capital base in the first half of the year through the gradual introduction of Basel III against the backdrop of stricter capital requirements. In addition to capital measures taken in the market the reduction of risk positions and retained earnings also contributed to this. With the overall improvement in their capitalisation the banks have the key prerequisites for prevailing in the sustained difficult competitive environment in the German banking market.

Intense competition and low interest rates noticeable

The low interest rate environment, which, if persistent, tends to result in compressed interest rate margins on loans, was an increasingly negative factor in the first half of 2015. This also reduced the return on the banks' equity capital positions. In conjunction with the continuing subdued, although slightly increasing, loan demand in the corporate client business the options for increasing net interest income, which is key for most German banks, remained limited. The difficult demand and competitive situation entails the danger in the banking market that loan financing is not priced on a risk commensurate basis.

The constantly increasing regulatory requirements together with the bank levy on institutions were reflected on the cost side. Against this backdrop many banks initiated comprehensive cost and efficiency programmes in order to be able to generate adequate returns on a sustained basis.

Many German institutions are affected by the debt moratorium announced by the Austrian financial market authority at the beginning of March 2015 for Heta Asset Resolution AG (HETA), which required higher write-offs of the existing receivables due to institutions from HETA, although these had been issued with a deficiency guarantee provided by the federal province of Kärnten.

At the beginning of July Austria and the state of Bavaria reached an agreement in principle regarding the treatment of existing claims of BayernLB against HETA, which are, however, not guaranteed by Kärnten. At the end of July the Austrian Constitutional Court (VfGH) ruled that the Federal Act on Restructuring Measures for Hypo Alpe Adria Bank In. AG (predecessor institution of HETA), which, among other things, provided for the extinguishment of subordinated liabilities and termination of the guarantees issued by the federal province of Kärnten, is unconstitutional.

The VfGH emphasised, inter alia, the fact that Kärnten tied the granting of the guarantee to a statutory regulation system, which ascribes a "qualified secured position" to the receivables. The position of creditors with the guarantee issued by the federal province is strengthened by this ruling of the VfGH.

HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

Taking into account the continued subdued, although slightly increasing, corporate demand for loans with, at the same time, a strong demand for real estate loans, HSH Nordbank was able to increase its new business with customers as planned during the first six months of 2015 in accordance with strict risk and profitability requirements and thereby confirmed its good position in the target markets. One focus was on real estate financing. Additional business was concluded in the core area of Energy & Infrastructure at virtually the same level as in the previous year. The subdued demand for bank loans was noticeable in the classical corporate client business. Nevertheless, corporate client business increased more strongly in the second quarter. In the shipping sector transactions were concluded on a selective basis. At the same time, there was intense competition in all areas. Overall, Core Bank earnings benefited noticeably from the business performance.

Although the demand for loans from German companies increased slightly, the strong financial position of many corporate clients enabled them to make investments from own funds and repay loans ahead of schedule. This offset the positive earnings effect of the increase in new business in the Core Bank.

The crisis in Greece did not have any appreciable impact on HSH Nordbank's business in the first half of the year 2015. The Bank has no direct exposure to Greek banks and a Greek government bond held in the nominal amount of € 6 million was repaid as scheduled in the middle of July 2015. As a result, HSH Nordbank also has almost no exposure to the Greek state. The temporary introduction of capital controls had no appreciable impact on loans and advances to Greek shipping clients, as the related payments are generally not processed via Greek banks.

Due to the ongoing adverse trends in the shipping sector HSH Nordbank has again recognised in the first half of 2015 higher loan loss provisions as part of the restructuring measures for the legacy portfolios concerned that are adequate based on economic trends. However, positive developments in the real estate markets in Great Britain and strong earnings, particularly of German companies, enabled higher reversals of loan loss provisions to be made in respect of real estate and corporate loans.

The further appreciation and high volatility of the US dollar against the euro also had an impact on earnings, net assets and the financial position. Net trading income was adversely impacted by IFRS measurement effects, particularly with regard to the hedging of equity holdings denominated in foreign currency. Net trading income benefited at the same time from an improvement in the measurement result recognised on EUR/USD basis swaps. The appreciation in the US dollar required a higher amount of collateral to be provided in the form of liquidity for the derivative US dollar funding. Despite this adverse impact the Bank's liquidity position was stable during the first half of the year through targeted management measures taken on the asset and liability side. These included disposals in the Restructuring Unit and an increase in US dollar deposit volumes.

Despite the continuing low level of interest rates, customer business margins were maintained at stable levels for the most part. Nevertheless, the results were adversely impacted by the low level of interest rates. The reduction in risk premiums had a positive impact on the measurement of high risk securities portfolios as at the end of the first half 2015, from which the internal wind-down bank, the Restructuring Unit, benefited. The portfolio of HETA securities continued to be measured at market value. This resulted in the recognition of a small amount of write-ups in net income from financial investments.

The multitude of new regulatory requirements also tied up a significant amount of resources at HSH Nordbank in the first half of the year and involved additional costs. The new European bank levy also resulted in higher costs. Nevertheless, total administrative expenses were further reduced compared to the previous year through strict cost management.

The Bank's business performance and position are explained in detail in the following sections.

BUSINESS PERFORMANCE

SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE FIRST HALF OF THE YEAR 2015

Good business performance in the first half of the year 2015

HSH Nordbank made progress according to plan in the first half of the year in implementing its customer-based business strategy. The Core Bank performed well in a challenging market and competitive environment, and was able to increase new business with customers in line with the plan. Earnings as well as the portfolio quality of the Core Bank benefited from this. At the same time, the high risk legacy assets held in the internal wind-down bank, the Restructuring Unit, were further significantly reduced. The focus placed by HSH Nordbank on the sustainable core business was thereby supported. Furthermore, the implementation of the cost reduction programme initiated at the 2014 year end and interlinked optimisation of structures and processes has been reinforced over the past few months.

Aim is to conclude EU proceedings with structural adjustments

The aim is to reach, with the consent of the federal states of Hamburg and Schleswig-Holstein, an agreement in principle with the EU Commission by autumn of this year regarding the ongoing EU state aid proceedings. Discussions with the federal state majority owners as well as the EU Commission and supervisory authorities are being pursued intensively in this regard.

Their aim is to ensure the long-term viability of HSH Nordbank and to obtain the final approval of the EU Commission in the current state aid proceedings for the guarantee increase and amendment of the guarantee agreement. The structural measures discussed include the restructuring of the guarantee in order to thereby provide relief to the expense side of HSH Nordbank's statement of income over the coming years and strengthen the capital base.

A further objective is to amend the existing guarantee agreement in such a way that the winding down or restructuring of troubled assets is made easier in the future, thereby enabling the Bank to reduce risk even more sharply. Particular focus in this context is placed on the shipping portfolio, which accounts for a large proportion of the residual troubled assets. As part of the discussions with the EU Commission other structural measures and solutions may result, also including the utilisation of the guarantee.

In the Bank's view, significant relief must be provided in any event for the problematic legacy assets that originated prior to 2008 and could only be wound down hitherto in a very sluggish manner due to the guarantee mechanism in order to thereby support and ensure its long-term viability in line with the requirements of the EU Commission, the ECB and the market.

HSH Nordbank remains confident that the outcome of the EU proceedings will be positive and the required structural measures, which will do much to secure the Bank's long-term viability, are taken into account.

Earnings power and portfolio quality of the Core Bank improved by increase in new business

New business transacted in the Core Bank continued to grow in the first half of 2015. The volume of new transactions concluded increased to € 4.9 billion (same period in the previous year: € 4.5 billion) while ensuring that the strict internal risk and earnings requirements are maintained. The new business generated was therefore just below the pro rata target level for 2015. The percentage of new loans disbursed also increased compared to the previous year. The trend in the interest margins achieved was stable for the most part and above plan despite the challenging competitive environment. Cross-selling income including the provision of services in addition to loan financing also improved significantly. This reflects a greater use of products by customers (particularly risk hedging products, deposit business and transaction banking) and a strengthening of customer relationships.

The individual customer divisions contributed to the performance in varying degrees. As in 2014, the Real Estate Clients division as a financing partner of choice throughout Germany recorded the sharpest increase in new business in the first half of the year. New business in the Corporate Clients division increased in the second quarter, but the volume for the entire first half of the year remained below that of the same period in the previous year due to restrained corporate loan demand and an intensively competitive market environment. The earnings contribution of the Corporate Clients division nevertheless increased substantially compared to the same period in the previous year due to higher cross-selling income and reversals of loan loss provisions. New business was concluded on a selective basis in the Shipping division.

The regional distribution of new business transacted remained balance and contributes to the further diversification of the loan portfolio. The core region of Northern Germany accounted for around 34% of the new business transacted in the period under review. The Bank generated the remaining portion with customers in national core markets (50%) and abroad (16%).

The increase in new business with solid margins has strengthened the Core Bank's earnings base. At the same time, the focus placed on low risk new commitments and the repayment of existing loans with comparatively less favourable risk parameters had a positive effect on the Core Bank's portfolio quality.

Overall, the business performance is underpinning the advanced implementation of the client-based strategy and strong presence of the client divisions in their target markets.

Total assets of the Core Bank increased against the backdrop of the business performance and appreciation in the USD exchange rate (portfolio effect: € +1.1 billion) to € 77 billion as at 30 June 2015 (31 December 2014: € 76 billion). The increase attributable to new business was partly offset by scheduled and unscheduled loan principal repayments.

Winding down of legacy portfolios continued

The winding down of legacy portfolios in the Restructuring Unit was continued in the first half of the year as planned. Total assets of the Restructuring Unit decreased further to € 27 billion (excluding consolidation items, 31 December 2014: € 31 billion, 2009: € 83 billion) due to repayments of non-strategic loan and securities positions despite the offsetting effect of the appreciation of the US dollar.

Structured solutions contributed to the marked reduction in risk positions in the shipping loan portfolio (Nautilus structures). Under these structures ships are transferred from insolvent companies and companies facing insolvency to new structures with new equity and debt capital, and the existing loan financing is partially replaced or written off with the effect that HSH Nordbank no longer has a commitment for the original loan amount. The Bank thereby reduces its risk and retains the possibility of participating in any recovery in the shipping industry through the reversal of loan loss provisions.

Six transactions of this kind totalling USD 1.1 billion were concluded in the first half of the year. The total number of such transactions concluded since 2013 is therefore eight. It is expected that further transactions currently being structured will be concluded over the coming months.

The favourable climate in individual real estate markets was used to further reduce the exposure in the real estate loan portfolio.

The favourable capital markets environment in the first half of 2015 was also used to further wind down the capital markets portfolios by € 0.9 billion. The Credit Investment Portfolio was further reduced to € 3.5 billion (31 December 2014: € 4.6 billion) by active measures and continued repayments.

Focus on cost savings and optimisation of internal structures

The cost savings programme initiated at the end of 2014 and to be implemented by 2017 was driven forward by HSH Nordbank in the first half of the year 2015 in line with the plan. The implementation of the defined action plans was significantly stepped up over the past few months. The first milestones have already been achieved, such as the optimisation of business processes.

The savings measures implemented by HSH Nordbank are not least offsetting the higher costs incurred for regulatory requirements.

Furthermore, the Corporate Clients, Energy & Infrastructure as well as Wealth Management divisions were merged into a new Corporates division as at 1 July 2015 in order to focus on the business and streamline the organisational structure. Further details regarding this can be found in the section on the Corporates & Markets segment.

At the same time the headcount reduction associated with the organisational changes has also been initiated. About 40 % of the planned reduction has already been agreed with the employees concerned during the first half of the year. In the second quarter 2015 the Management Board and the Works Council agreed a reconciliation of interests, under which details of the restructuring measures and reduction in staff are governed. The social plan in place since 2011 remains valid and contains the tools to be used for a socially acceptable reduction in staff, such as severance, early retirement and part-time work agreements.

The key objective of the cost reduction programme is the sustainable achievement of a competitive cost-income ratio (CIR). The Bank is striving to reduce administrative expenses up to a maximum of € 500 million in 2018.

Implementation of the IT strategy

The implementation of the IT strategy to be in place by 2018 was successfully driven forward in line with the plan in the first half of the year. The foundations have been laid for meeting future regulatory requirements with the start of the implementation of the architectural measures concerning the topics of data platforms and Basel Standard (BCBS 239) as well as with the realignment of the IT security, risk management and IT compliance functions. The conclusion of the preliminary study regarding the consolidation of IT capital markets also forms the basis for the strategic realignment within the capital market environment.

New member of the Management Board appointed

The Supervisory Board of HSH Nordbank AG appointed Ulrik Lackschewitz as Chief Risk Officer (CRO) of HSH Nordbank in its meeting of 29 May 2015. He will assume this role on 1 October 2015 from Stefan Ermisch, Chief Financial Officer (CFO), who has been temporarily responsible for the Bank's risk function since June 2015 following the departure of Edwin Wartenweiler. In Ulrik Lackschewitz, HSH Nordbank gains a proven expert who has extensive experience in risk management and recognised expertise in shipping portfolios.

Furthermore, the Supervisory Board has extended the contracts with Stefan Ermisch, Chief Financial Officer, and Matthias Wittenberg, responsible for capital markets and corporate client business, by three years in each case. Stefan Ermisch was also appointed as Deputy Chairman of the Management Board.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

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

Income before and after taxes significantly positive in the first half of the year

HSH Nordbank disclosed income before taxes of € 222 million as at 30 June 2015 (same period of the previous year: € 432 million). After deducting income tax expense, Group net income amounted to € 147 million (same period of the previous year: € 301 million).

A factor affecting the earnings trend was the high income impact (€ +573 million) of the debt waiver by the guarantors in the first half of the previous year, which resulted from the transition to Basel III and the related determination of regulatory capital in accordance with IFRS. This relieving effect, the purpose of which is to ensure adequate capital ratios, was significantly lower in the first half of this year (€ +289 million) and was recognised solely in the first quarter, whilst no income from the debt waiver was recorded in the second quarter. The European bank levy charge (provision of € 40 million) and contribution to the deposit guarantee scheme (provision of € 14 million) had an adverse impact for the first time in the first half of 2015.

However, HSH Nordbank's operating business performed very strongly. The continuing successful increase in new business concluded at stable margins had a significant impact on the results for the first half of 2015.

This contributed to the sharp increase in net interest income to € 448 million (same period of the previous year: € 231 million). The elimination of non-recurring charges and the recognition of a positive special effect resulting from hedge accounting are also reflected in the increase in net interest income. This more than offset the negative income impact resulting from the ongoing reduction of the legacy portfolio and loan principal repayments.

Net trading income and net income from financial investments also made a positive contribution to HSH Nordbank's total income, albeit to a lesser degree than in the previous year. Net trading income, which was affected by volatile movements in the financial and foreign exchange markets, amounted to € 78 million (same period of the previous year: € 112 million). Net income from financial investments of € 56 million for the first half of 2015 fell considerably short of the net income of € 240 million disclosed in the same period of the previous year, which benefited to a greater extent from the reversal of impairment losses and gains realised as part of liquidity management and the restructuring measures implemented.

Overall, total income of HSH Nordbank increased slightly to € 652 million (same period of the previous year: € 646 million).

The savings achieved in operating and personnel expenses also contributed to the positive results for the first half year. Administrative expenses decreased to € –302 million compared to € –338 million in the same period of the previous year.

The results for the first half of the year also again reflect the positive compensation effects of the second loss guarantee, which, however, were in total significantly lower than in the previous year. As a result, the income effect of the debt waiver of the guarantors was lower and was recognised solely in the first quarter, whereas no income was generated from the debt waiver in the second quarter. At the same time, loan loss provisions recognised for legacy positions in the shipping loan portfolio were compensated. Positive loan loss provisions of € 120 million were disclosed after taking into account the additional premiums recognised as expense for the first half of the year (same period of the previous year: € 337 million).

The relief provided by the guarantee continued to be offset by high premium expense for the guarantee. In addition to the additional premium of € –233 million included in loan loss provisions the base premium payable for the guarantee facility granted, which amounted to € –235 million for the first half of 2015, had an adverse impact. Guarantee fees amounted in total to € –468 million for the first half of the year (same period of the previous year: € –358 million).

Additional expense resulted from the recognition of provisions totalling € –40 million for the European bank levy payable for the first time in 2015 and for the contribution of € 14 million, also payable for the first time, to the deposit guarantee scheme of the Savings Banks Finance Group against the backdrop of the new requirements for European deposit guarantee schemes, both of which were already processed in the first quarter. Costs were also incurred relating to investigations in connection with the sale of the private client business in Luxembourg in 2011 (details are set out in the Risk report under ”Other material risks”). Expenses for the expected results of tax audits of past financial years have also been recognised. Details regarding this can be found in the Risk report under ”Other material risks”.

Positive Core Bank results benefit from successful customer business – measurement effects and bank levy have an adverse impact

The Core Bank, in which the strategic business divisions are combined, generated net income before taxes of € 157 million for the first half of 2015 (same period of the previous year: € 185 million) after taking into account the amount of € 30 million of the bank levy to be allocated to the Core Bank and the annual contribution of € 14 million to the deposit guarantee scheme.

The overall strong new business trend and unremarkable risk situation in the Real Estate Clients, Energy & Infrastructure and Corporates divisions had a noticeable positive impact. However, losses on legacy assets in the Shipping portfolio more than offset the positive earnings impact of the selectively concluded new shipping business. Scheduled and early loan principal repayments made by customers and overall negative measurement effects including from the currency translation of certain assets denominated in foreign currency had a noticeable effect.

Net income of the Restructuring Unit decreases as a result of the portfolio reduction and lower debt waiver

The Restructuring Unit, which is responsible for winding down the legacy portfolios, generated net income before taxes of € 65 million (same period of the previous year: € 247 million). The reduction is the result of the lower relief provided by the debt waiver of the guarantors compared to the first half of the previous year and the significant winding down of the portfolio, which led to a further decrease in the interest-bearing loan volume. Costs were also incurred relating to investigations in connection with the sale of the private client business in Luxembourg in 2011 (details are set out in the Risk report under ”Other material risks”). The restructuring successes achieved in respect of international real estate and corporate loans together with the overall positive measurement effects on, for example, EUR/USD basis swaps and increases in the value of debt instruments as a result of the narrowing of risk discounts (spreads) contributed to net income.

Further details on the reasons for the business performance are set out in the ”Earnings”, ”Net assets and financial position” and ”Segment reporting” sections.

EARNINGS SITUATION

INCOME STATEMENT

(€ m)	**January – June 2015**	January – June 2014	Change in %
Interest income	2,311	2,647	– 13
Interest expense	– 1,803	– 2,256	– 20
Net income from hybrid financial instruments	– 60	– 160	63
Net interest income	**448**	**231**	**94**
Net commission income	62	73	– 15
Result from hedging	8	– 12	>100
Net trading income	78	112	– 30
Net income from financial investments	56	240	– 77
Net income from financial investments accounted for under the equity method	–	2	– 100
Total income	**652**	**646**	**1**
Loan loss provisions	120	337	– 64
Administrative expenses	– 302	– 338	– 11
Other operating income	39	54	– 28
Expense for European bank levy	– 40	–	>100
Net income before restructuring	**469**	**699**	**– 33**
Result from restructuring	– 12	– 8	– 50
Expenses for government guarantees	– 235	– 259	– 9
Net income before taxes	**222**	**432**	**– 49**
Income taxes	– 75	– 131	– 43
Group net income	**147**	**301**	**– 51**
Group net income attributable to non-controlling interests	–	1	– 100
Group net income attributable to HSH Nordbank shareholders	147	300	– 51

Total income increased by higher net interest income

Total income was above plan and amounted to € 652 million for the first half of 2015 compared to € 646 million in the same period of the previous year. In this regard, the following developments were crucial in the individual income line items.

Net interest income, which, at € 448 million, almost doubled in the first half of the year 2015 compared to € 231 million in the same period of the previous year, made the strongest contribution to total income. New business concluded at mostly stable margins in the Core Bank, especially in the Real Estates Clients divisions, had a noticeably positive impact. The encouraging and above-plan effects from the customer business were again partially offset by the continued portfolio reduction in the Restructuring Unit and loan principal repayments in the Core Bank.

The sharp increase in net interest income is also attributable to exceptional items that had to be recognised in the previous year (including the effect of the adjustment of the effective interest rate applied to hybrid financial instruments) and had a noticeable adverse impact on the results for the first half of the previous year. A one-off hedge accounting effect relating to interest rate movements over recent months was also recognised in the first half of the current year. This had a positive impact of € +48 million on net interest income. This was offset by a corresponding charge of € –9 million recognised in net trading income.

Net commission income amounted to € 62 million as at 30 June 2015 compared to € 73 million as at the same reporting date of the previous year. Loan fees received due to the expansion of new business as well as on the restructuring of legacy loans made the main positive contribution.

Net trading income made a contribution of € 78 million to total income in the first half of 2015 (same period of the previous year: € 112 million). The trend is characterised by measurement effects caused by volatility in the financial and currency markets. Measurement results recognised on EUR/USD basis swaps (€ 56 million), increases in the value of debt instruments (€ 14 million) and operating successes in the customer business had a positive effect. Net trading income of € –37 million was adversely impacted by foreign exchange rate effects (especially the currency translation arising from the hedging of equity holdings denominated in foreign currency). Net operating trading income amounted to € 41 million.

Net income from financial investments amounted to € 56 million. It was significantly below that disclosed in the same period of the previous year (€ 240 million), which had benefited substantially from reversals of impairment losses and gains on disposal realised as part of liquidity management and sales of equity holdings. The measurement and disposal of debt instruments also had a positive overall impact, albeit to a lesser extent. The earnings contributions resulted from liquidity management as well as restructuring activities.

HSH Nordbank continued to measure the portfolio of securities of Heta Asset Resolution AG (HETA) at the current market value. This resulted in a write-up of € 15 million being recognised in net income from financial investments as at 30 June 2015. The background to this is the debt moratorium announced by the Austrian Financial Market Authority (FMA) and the Austrian government at the beginning of March 2015, as a result of which receivables due from HETA had to be written down in the annual financial statements 2014.

Loan loss provisions and foreign exchange result compensated for by the guarantee

Higher additions for restructuring measures carried out in and planned for the Restructuring Unit's shipping loan portfolio and the shipping loan recovery unit in the Core Bank (Nautilus structures), which were taken to further reduce the high risk legacy loans, were reflected in the loan loss provisions for the first half of 2015. The charges resulting from this and difficult market developments were partly offset by a marked level of net reversals for real estate and corporate loans based on improved risk assessments and loan principal repayments.

Overall, this produced a slightly higher than planned net loan loss provision expense of € –199 million on a pro rata basis for the first half of the year due to the measures taken in the shipping portfolio before taking into account the compensation effect of the guarantee (same period of the previous year: € –195 million).

Against the backdrop of the appreciation of the US dollar the foreign exchange result to be recognised in loan loss provisions increased significantly to € –301 million (same period of the previous year: € – 42 million). As far as the currency translation relates to the guaranteed portfolios, it is fully compensated for by the guarantee. Foreign exchange positions held in portfolios not covered by the guarantee are managed using hedging instruments.

The loan loss provisions especially recognised for legacy portfolios continued to be largely compensated for by the guarantee in the first half of 2015. The individual components of the guarantee compensation effect of € 319 million including the foreign exchange result comprise gross compensation of € 564 million for the guaranteed portfolio, income of € 289 million from the debt waiver of the guarantors, which was recognised in full in the first quarter, as well as offsetting additional premium expense of € –233 million for the reporting period.

After taking into account the compensating effects under the guarantee, loan loss provision income of € 120 million was disclosed in total, which, as planned, is substantially below the previous year's level of € 337 million.

LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE (JANUARY – JUNE 2015)

(€ m)	2015	2014
Loan loss provisions before currency translation and compensation (net)	**– 199**	**– 195**
of which: Core Bank	**– 124**	**– 128**
Shipping	– 156	– 112
Real Estate Clients	– 3	– 2
Energy & Infrastructure	2	– 26
Corporate Clients	58	9
Other	– 25	3
of which: Restructuring Unit	**– 75**	**– 67**
Shipping loans	– 202	– 42
Real estate loans	65	– 25
Corporate loans	64	–
Other	– 2	–
Loan loss provisions after currency translation and compensation (net)	**120**	**337**
Core Bank	33	43
Restructuring Unit	87	294

The hedging effect of the guarantee has still not given rise to a cash drawdown. The first loss piece of the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 1.8 billion as at the end of the first half of the year (losses submitted for invoicing). As at the reporting date HSH Nordbank is still assuming in its long-term loan loss provision planning that payment defaults will exceed the first loss piece from 2019 onwards and the expected drawdown of the guarantee will add up to a total of € 2.1 billion by 2025.

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

Since 2009 HSH Nordbank has recognised total premium expense of € 3.3 billion in the income statement up to 30 June 2015, which includes the base and additional premiums in loan loss provisions disclosed in the compensation line item and the debt waiver. This excludes a one-off payment of € 0.5 billion made in 2011, which was imposed by the EU Commission and subsequently received back by the Bank in the form of a capital increase.

Premiums recognised as expense by HSH Nordbank and payable to the guarantors (excluding the one-off payment of € 0.5 billion) have increased to € 2.5 billion as at 30 June 2015, of which € 2.3 billion relates to the current base premium and € 0.2 billion to the subsequent base premium payment for the replenishment of the guarantee facility in the middle of 2013.

Further reduction in administrative expenses

Administrative expenses decreased at a higher than planned rate to € –302 million for the first half of the year 2015 (same period of the previous year: €–338 million). This reflects the cost savings successes achieved under the ongoing cost reduction programme.

Personnel expenses, which decreased from € –146 million to € –141 million, were mainly affected by the number of employees that was reduced even further, according to plan. Compared to the end of 2014, the number of employees within the Group declined by 110 to 2,469 (computed on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) decreased markedly to € –140 million compared to € –161 million in the same period in the previous year. Savings were made in building costs and through the reduction of the equity holding portfolio. In the first half of the previous year costs for the ECB's special audit were also recognised. Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € –21 million compared to € –31 million in the same period of the previous year. The reduction in amortisation for software already fully amortised, amongst other things, had a positive impact. The savings made in the year so far were offset by higher costs disbursed for restructuring commitments. In addition, higher costs incurred to meet the significant increase in regulatory requirements continued to have an adverse impact.

The result from restructuring of € –12 million (same period of the previous year: € –8 million) includes expenses incurred as part of the ongoing cost reduction programme.

Further expense was incurred as a result of the recognition of a provision for the European bank levy payable for the first time in 2015. The provision of € –40 million was already recognised in full in the first quarter.

Other operating income amounted to € 39 million (same period of the previous year: € 54 million). This includes the addition of a provision of € 14 million for the contribution to the deposit guarantee scheme of the Savings Banks Finance Group, which was recognised in full in the first quarter. Costs were also incurred relating to investigations in connection with the sale of the private client business in Luxembourg in 2011 (details are set out in the Risk report under "Other material risks").

On the other hand, other operating income benefited from income arising on the deconsolidation of two subsidiaries (K/S Angered, Copenhagen; LCG Finance, Luxembourg), offset by the expense recognised on the complete write-off of the goodwill arising on the first-time consolidation of a company in the Group financial statements (GmbH Altstadt Grundstücksgesellschaft, Wiesbaden). Income from the reimbursement of costs previously incurred (for example, for legal opinions regarding restructuring commitments) was reflected in other operating income.

Slight reduction in base premium expense

In addition to the guarantee premium expense of € –233 million recorded in loan loss provisions an expense of € –235 million was incurred for the base premium for the first half of the year (same period of the previous year: € –259 million), which is disclosed under the expenses for government guarantees line item. An amount of € –150 million of this base premium is allocated to the Restructuring Unit and € –85 million of the base premium to the Core Bank. The reduction in the base premium expense compared to the same period of the previous year is attributable to a lower amount of the subsequent payment of the base premium in connection with the replenishment of the guarantee facility in the middle of 2013 being recognised through profit or loss.

Positive Group net income in the first half of the year

Overall, HSH Nordbank generated above-plan net income before taxes of € 222 million in the first half of 2015 (same period of the previous year: € 432 million) in view of the good operating developments on the income and cost side. After deducting tax effects there remains a Group net income of € 147 million (same period of the previous year: € 301 million).

In the first half of the year HSH Nordbank recognised provisions of € –27 million under the item income taxes for potential additional tax payments based on the findings of the ongoing tax audits of prior years (details are set out in the Risk report under "Other material risks"). This provision expense was offset by income from tax refunds in the amount of € 10 million. The related interest effect was disclosed under other operating income.

In addition, deferred tax expense of € –59 million had to be recognised due to the increase in the taxable temporary measurement differences and the reduction in the recoverability of deferred taxes on loss carryforwards. This results in total tax expense of € –75 million including current taxes. The effective tax rate as at 30 June 2015 was about 34 %.

The return on equity for the Group calculated on the basis of net income before taxes is 9 % for the first half of the year, which is above plan (same period of the previous year: 18 %). The cost-income ratio improved to an above plan 44 % for the first half of the year due to the increase in total income (same period of the previous year: 48 %).

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS IN THE STATEMENT OF FINANCIAL POSITION

(€ m)	**30.06.2015**	31.12.2014	Change in %
Assets			
Cash reserve	7,387	5,967	24
Loans and advances to banks	6,499	6,915	– 6
Loans and advances to customers	66,755	67,336	– 1
Loan loss provisions	– 1,234	– 2,061	– 40
Trading assets	8,286	9,163	– 10
Financial investments	16,800	18,688	– 10
Other assets	3,369	4,074	– 17
Total assets	**107,862**	**110,082**	**– 2**
Liabilities			
Liabilities to banks	13,535	14,547	– 7
Liabilities to customers	46,532	43,165	8
Securitised liabilities	25,076	27,634	– 9
Trading liabilities	7,663	9,246	– 17
Subordinated capital	5,573	5,507	1
Equity	4,897	4,672	5
Other liabilities	4,586	5,311	– 14
Total equity and liabilities	**107,862**	**110,082**	**– 2**

Slight decrease in total assets

Total assets decreased to € 107,862 million as at 30 June 2015 (31 December 2014: € 110,082 million) The increased winding down of risk positions in the Restructuring Unit made a positive contribution to this.

Key balance sheet items on the assets side decreased as part of the portfolio reduction. Loans and advances to banks amounted to € 6,499 million (31 December 2014: € 6,915 million), which is particularly attributable to the reduction in call deposits held at other banks. Loans and advances to customers remained more or less constant at € 66,755 million (31 December 2014: € 67,336 million). New business transacted in the Core Bank was offset by the planned winding down of portfolios in the Restructuring Unit and loan principal repayments in the Core Bank's customer divisions. Total loan loss provisions (after compensation effects) decreased significantly to € –1,234 million (31 December 2014: € –2,061 million). Excluding the compensation effect total loan loss provisions decreased slightly to € 5,931 million (31 December 2014: € 6,135 million). The reduction in total assets was also offset by the cash reserve which increased to € 7,387 million compared to the previous year end (31 December 2014: € 5,967 million). This was attributable to the measures taken as part of liquidity management.

Trading assets decreased slightly to € 8,286 million (31 December 2014: € 9,163 million). Interest-bearing securities held in the trading portfolio decreased significantly due to the winding down of portfolios. The positive fair values of derivatives held in the trading portfolio also decreased. Financial assets declined to € 16,800 million (31 December 2014: € 18,688 million). Both the sales of equity holdings and winding down of securities portfolios, including the credit investment portfolio, had a noticeable impact in this regard.

On the liabilities side, liabilities to banks in particular decreased to € 13,535 million (31 December 2014: € 14,547 million). Loan notes (Schuldscheindarlehen) in particular as well as call and term deposits placed by other banks were lower than as at the previous year end. Liabilities to customers increased to € 46,532 million (31 December 2014: € 43,165 million). Whilst savings deposits decreased further due to the discontinuation of the private client business, call and time deposits from institutional investors increased. Securitised liabilities amounted to € 25,076 million (31 December 2014: € 27,634 million). The decrease is primarily attributable to maturities based on the expiry of the guarantor liability.

Reported equity increased to € 4,897 million (31 December 2014: € 4,672 million). Lower losses arising on the remeasurement of pension provisions compared to the previous year end due to the slight increase in market interest rates had a positive impact.

Slight decrease in business volume

Business volume decreased slightly to € 117,666 million (31 December 2014: € 119,879 million), which is mainly a result of lower total assets. Sureties and guarantees increased to € 2,962 million (31 December 2014: € 2,716 million), whereas irrevocable loan commitments declined slightly to € 6,842 million (31 December 2014: € 7,081 million).

Capital and funding

REGULATORY RATIOS

taking the quarterly results into account

(%)	**30.06.2015**	31.12.2014
Total ratio/regulatory capital ratio	18.0	18.7
Tier 1 capital ratio	13.8	14.4
CET1 ratio plus buffer from additional premium	10.0 + 2.4 pps	10.0 + 2.6 pps
CET1 ratio plus buffer from additional premium (full implementation of Basel III)	10.0 + 1.5 pps	10.0 + 1.3 pps
Leverage ratio	5.0	4.8

(€ bn)	**30.06.2015**	31.12.2014
Regulatory capital	7.2	7.4
of which: Tier 1 capital (core capital)	5.5	5.7
of which: CET1 capital	4.0	4.0
of which: additional Tier 1 capital	1.5	1.7
of which: supplementary capital	1.7	1.7
Risk assets (RWA)	39.9	39.5
of which: risk assets counterparty default risk	30.3	30.8

CET1 ratio at 10 % plus buffer of 2.4 percentage points

The capital ratios disclosed at the end of the first half of 2015 remained at a solid level.

The CET 1 capital ratio (under the Basel III transitional arrangement) was 10.0 % plus the buffer of 2.4 percentage points, which was in line with the plan and is based on a potential waiver of additional premiums by the guarantor, under which an appropriate CET 1 ratio is to be ensured (capital protection clause).

Even based on the assumption of the full implementation of the Basel III rules (fully loaded) HSH Nordbank's CET 1 ratio of 10.0 % (plus a buffer of 1.5 percentage points from the potential waiver of the additional premium by the guarantor) was at a solid level.

The Tier 1 capital ratio reached 13.8 %, the regulatory capital ratio amounted to 18.0 %. These figures take the interim financial statements for the first half of 2015 into account (same period calculation).

As part of the supervisory process in the Banking Union, HSH Nordbank was assigned an individual minimum ratio by the ECB that is based on the assumption of full Basel III implementation. This ratio is exceeded as at 30 June 2015.

The slight reduction in CET1 ratio buffer from the additional premium compared to 31 December 2014 is mainly attributable to the increase in RWA as planned to € 39.9 billion (31 December 2014: € 39.5 billion). The reason for this is the appreciation in the US dollar (EUR/USD 1.12 as at 30 June 2015 versus EUR/USD 1.21 as at 31 December 2014).

New business disbursements also caused RWA to increase, whilst this was offset by the release of RWA as a result of the reduction in the guaranteed legacy portfolios in the course of the winding down of the portfolio.

The gradual elimination of the Basel III transitional arrangements from year to year as well as the offsetting effect of the result of the first quarter are also reflected in the CET1 capital ratio (phase-in).

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. Despite an increase in the first half of the year the risk weight in mathematical terms is significantly lower as at 30 June 2015. This provides an additional guarantee buffer in addition to the buffer from the additional premium.

HSH Nordbank's leverage ratio amounted to a solid 5.0% as at the end of the first half of 2015 (preliminary, 31 December 2014: 4.8%). The figures reflect the interim financial statements for the first half of 2015 (same period calculation).

Funding activities expanded

HSH Nordbank has successfully driven forward the implementation of its funding strategy in the first half of 2015 and fully met the pro rata funding plan as at 30 June 2015.

In February HSH Nordbank issued a benchmark ship mortgage bond (ship Pfandbrief) of € 500 million for the first time since 2008. Further ship Pfandbriefe totalling just under € 300 million were privately placed with institutional investors during the first half of the year. In June HSH Nordbank issued its first benchmark Hypothekenpfandbrief on the market this year. The Pfandbrief has an issue volume of € 500 million and a term of seven years. The maturity of the benchmark bonds outstanding was thereby extended.

In the first half of 2015 the Bank successfully concluded its third large US dollar refinancing with "Castellum ABF" via the ABF platform established in 2013 as part of its asset-based funding. This refinancing with a volume of USD 360 million has a term of 3.25 years and is secured by commercial real estate loans. The conclusion of further ABF transactions based on different asset classes is planned for the second half of the year. Primary US dollar refinancing was also further strengthened by the conclusion of longer-term repo transactions in a volume of USD 240 million.

The derivative foreign currency refinancing by means of EUR/USD basis swaps is accordingly being reduced by the primary refinancing of USD transactions. The liquidity required to be provided as collateral (cash collateral) for the derivative US dollar funding was reduced as a result. On the other hand, the appreciation of the US dollar in the first half of the year required the provision of a higher amount of collateral. Taking these effects into account HSH Nordbank's liquidity position showed a stable trend.

A further focus was the sale of bond products for the savings banks' client business and other associations and financial institutions as well as the placement of bonds with institutional investors. The total volume of uncovered bonds (senior unsecured) issued in the first half of the year amounted to just under € 2 billion.

The funding measures implemented over the past few months also serve to further prepare for the upcoming maturities in the second half of 2015 of refinancing arrangements covered under the guarantor liability (Gewährträgerhaftung), which amount to just under € 12 billion. The planned funding measures will continue to be implemented and the balance sheet reduced in line with the plan to compensate for issues covered by the guarantor liability that fall due by the end of 2015 in particular.

Besides the issuing activities the increase in deposit levels made a contribution to the refinancing of the business. The volume amounted to € 36 billion as at 30 June 2015 (31 December 2014: € 31 billion). Furthermore, the Bank holds liquidity reserves in the form of collateral eligible for refinancing at central banks and credit balances at central banks in the total amount of about € 22 billion, which it can access at any time.

HSH Nordbank reported a solid liquidity position as at 30 June 2015, which was also reflected in the key liquidity ratios. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) only decreased to 1.94 as at the end of the first half of the year (31 December 2014: 1.99) despite the increased volume of maturities of refinancing arrangements covered by the guarantor liability and the movement in the US dollar. It was therefore in line with the plan and significantly above the regulatory requirements.

The Risk report section in this Management Report contains information on the other liquidity ratios.

In view of the upcoming maturities of refinancing arrangements the Bank expects the regulatory liquidity ratios to temporarily decrease as at the 2015 year end.

Further information on liquidity and funding is set out in the Risk report section in this Management Report.

As expected, the rating agencies, Moody's and Fitch, concluded their review of bank ratings in Europe, which was carried out against the backdrop of the adoption of the EU Bank Recovery and Resolution Directive (BRRD) and new methodological approaches.

At Fitch, the rating action resulted in rating downgrades based on the assumption that there is a reduced probability of state support being provided in the future in the event of banks getting into financial difficulties, including German Landesbanks in particular. HSH Nordbank's long-term rating was changed as a result of this action to investment grade rating BBB- with stable outlook.

HSH Nordbank is still classified as Baa3 by Moody's. The rating outlook improved from the recently set "Rating Watch Negative" review status to a longer-term "negative", which reflects in particular the pending conclusion of the ongoing EU proceedings together with the targeted structural adjustments. At Moody's, HSH Nordbank's investment grade rating benefited from, amongst other things, an improved assessment of its individual financial strength, whereby the impact of the expected lower state influence on the rating could be compensated for.

Final assessment of HSH Nordbank's position

Through the good business performance of the customer divisions, the progress made in winding down the legacy portfolio and on the income and cost side HSH Nordbank has created important foundations for a successful future and at the same time shows that it is moving ahead with the implementation of its strategy in line with the plan. Overall, the positive results before taxes and after taxes should be emphasised, although the income impact of the debt waiver was substantially lower than in the same period of the previous year and expense for the European bank levy was also incurred for the first time.

Nevertheless, the Bank still faces key challenges. Not least the continuing difficult market conditions in the shipping industry, the challenging competitive environment in Germany, volatility in the financial and currency markets as well as the constantly increasing regulatory requirements are continuing to be felt. The high amount of problematic legacy assets, which due to the guarantee mechanism could only be wound down hitherto very slowly, continues to be a heavy burden. The developments are therefore to be regarded as not completely satisfactory despite the progress made.

Against this backdrop efforts are being made in conjunction with the federal states of Hamburg and Schleswig-Holstein to link the expected conclusion of the EU state aid proceedings to structural adjustments, which could make a substantial contribution to the enhancement of the business model and could support and secure the Bank's long-term viability in accordance with the requirements of the EU Commission, ECB and the market. Further details regarding the above are set out in the Forecast report including opportunities and risks section.

SEGMENT REPORTING

Core Bank strengthened by successful customer business

The Core Bank, in which the strategic divisions of HSH Nordbank are combined, generated net income before taxes of € 157 million for the first half of the year (same period of the previous year: € 185 million). This includes € 30 million representing its share of the new European bank levy as well as the new annual contribution of € 14 million to the deposit guarantee scheme.

The operating business together with the overall strong new business performance which developed according to plan and the unremarkable risk situation in the Real Estate Clients, Energy & Infrastructure and Corporates divisions had a noticeable impact on the earnings trend. In the shipping division, charges relating to legacy transactions more than offset the positive income effect from the selectively concluded new business. The divisions were also negatively affected by scheduled and early loan repayments by customers. Overall, total income of the Core Bank developed in line with the plan. At the same time, the focus placed on low risk new commitments and the repayment of existing loans with comparatively less favourable risk parameters had a positive effect on the Core Bank's portfolio quality.

Overall, the business performance is underpinning the advanced implementation of the client-based strategy and strong presence of the client divisions in their target markets.

Total assets of the Core Bank increased against the backdrop of the business performance and appreciation in the USD exchange rate (portfolio effect: € +1.1 billion) to € 77 billion as at 30 June 2015 (31 December 2014: € 76 billion). The increase attributable to new business was partly offset by scheduled and unscheduled loan principal repayments.

At the beginning of 2015 the Core Bank's segments were redefined as part of the change in Management Board responsibilities. Under this the Energy & Infrastructure division was allocated to the Corporates & Markets segment (previously Shipping, Project & Real Estate Financing segment). The Corporate Finance division, which was previously part of the Corporates & Markets segment was allocated at the same time to the Shipping, Project & Real Estate Financing segment. The segment amounts disclosed in the previous year were adjusted accordingly.

Furthermore, the Corporate Clients, Energy & Infrastructure and Wealth Management divisions were merged into a new Corporates division as at 1 July 2015 in order to focus on the business and streamline the organisational structure.

In April 2015 HSH Nordbank converted its representative office in Athens into a branch. The upgrading of this key location for the shipping business supports the new business targets and further diversification of the shipping portfolio.

Further information can be found in the explanatory comments on the individual segments.

SEGMENT OVERVIEW JANUARY – JUNE 2015[1)]

(€ m)

		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	**2015**	**295**	**237**	**–5**	**–88**	**439**	**170**	**43**	**213**
	2014	252	251	–73	12	442	222	–18	204
Loan loss provisions before currency translation gains or losses and compensation	**2015**	–159	61	–26	–	–124	–75	–	–75
	2014	–114	–17	–	3	–128	–67	–	–67
Administrative expenses	**2015**	–78	–151	29	2	–198	–104	–	–104
	2014	–79	–157	20	–2	–218	–120	–	–120
Net income before taxes	**2015**	**62**	**152**	**20**	**-77**	**157**	**23**	**42**	**65**
	2014	62	82	–45	86	185	77	170	247
Segment assets (€ bn)	**30.06.2015**	27	32	16	2	77	27	4	31
	31.12.2014	25	31	18	2	76	31	3	34

1) Since the 2014 year end the gain/loss arising on the currency translation of loan loss provisions is no longer being allocated to the segments but shown in the Core Bank and Restructuring Unit consolidation columns. The previous year's figures were adjusted for purposes of comparability. Details in Note 39 (Segment report).

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

As at 30 June 2015 the Shipping, Project & Real Estate Financing segment included business conducted with shipping clients, including that under the responsibility of the shipping recovery unit in the Core Bank, with real estate clients as well as the Corporate Finance product division, which provides support to the customer divisions in the form of special financing and advisory solutions.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

(€ m)		Shipping, Project & Real Estate Financing	Shipping	Real Estate Clients	Corporate Finance[1)]
Total income	**H1 2015**	**295**	**167**	**125**	**3**
	H1 2014	252	148	104	-
Loan loss provisions before currency translation gains or losses and compensation	**H1 2015**	**-159**	**-156**	**-3**	**-**
	H1-2014	–114	–112	–2	-
Administrative expenses	**H1 2015**	**-78**	**-50**	**-28**	**-**
	H1 2014	–79	–55	–25	1
Other operating income	**H1 2015**	**4**	**3**	**1**	**-**
	H1 2014	3	1	1	1
Net income before taxes	**H1 2015**	**62**	**–36**	**95**	**3**
	H1 2014	62	–18	78	2
Segment assets (€ bn)	**30.06.2015**	**27**	**15**	**12**	**-**
	31.12.2014	25	14	11	-

1) After allocation to the customer divisions

Successful business activities confirm strong market base

Net income of the Shipping, Project and Real Estate Financing segment amounted to € 62 million (before relief provided by the guarantee and currency translation gains or losses) for the first half of the year compared to € 62 million in the same period in the previous year. This reflected, on the one hand, the overall positive new business performance with mainly stable margins, which caused income to increase significantly in the segment. On the other hand, the restructuring measures in the shipping loan recovery unit (legacy portfolio) assigned to the Core Bank continued to have an adverse impact, which required higher loan loss provisions.

Net income before taxes of the Shipping division decreased to € –36 million (same period of the previous year: € –18 million) due to the to € –156 million increased expenses for loan loss provisions (same period of the previous year: € -112 million) in particular in the recovery unit shipping loans. However, the operating business with core clients continued to have a positive effect. This resulted in an increase in income of the Shipping division to € 167 million compared to € 148 million for the first half of the previous year. New business of € 0.7 billion (same period of the previous year: € 0.7 billion) was generated under the selective transaction policy. The transactions were concluded with established and new counterparties with a good credit standing. The portfolio was diversified by domestic and international commitments.

The Real Estate Clients division made the largest earnings contribution in the segment with € 95 million compared to € 75 million in the same period of the previous year. This is mainly attributable to the sales successes achieved and new business generated, which further increased to € 2.9 billion (same period of the previous year: € 2.3 billion) against the backdrop of the good market position and continuing favourable market situation. A marked increase in business in West German metropolitan areas in particular contributed to this. The strong market position in the core region of Northern Germany was maintained at the same time. Business concluded with new clients and institutional investors accounted for a large part of this positive development.

The Corporate Finance division, which has been assigned to the Shipping, Project & Real Estate Financing segment since the beginning of 2015, has successfully supported the client business and made a higher contribution to earnings than in the same period of the previous year, particularly thanks to the M&A, capital structuring and loan syndication areas. Under the Bank's business management policy almost all of the net income of the Corporate Finance product division is disclosed in the customer divisions.

CORPORATES & MARKETS SEGMENT

On the one hand, business conducted with corporate clients and with customers in the Energy & Infrastructure division as well as Wealth Management were combined under the Corporates & Markets segment as at 30 June 2015 (combined in the new Corporate Clients division from 1 July 2015). On the other hand, this segment is responsible for the development, sales and trading of financial products (capital markets) and the servicing of savings banks, banks and insurance companies.

CORPORATES & MARKETS SEGMENT

(€ m)		Corporates & Markets	Capital Markets, Savings Banks & Institutional Clients	Corporates, Renewable Energies and Wealth Management
Total income	**H1-2015**	**237**	**51**	**186**
	H1-2014	251	54	197
Loan loss provisions before currency translation gains or losses and compensation	**H1-2015**	**61**	**1**	**60**
	H1-2014	–17	–	–17
Administrative expenses	**H1-2015**	**-151**	**–75**	**–76**
	H1-2014	–157	–75	–82
Other operating income	**H1-2015**	**5**	**–**	**5**
	H1-2014	5	–	5
Net income before taxes	**H1-2015**	**152**	**-23**	**175**
	H1-2014	82	-21	103
Segment assets (€ bn)	**30.06.2015**	**32**	**19**	**13**
	31.12.2014	31	18	13

Moderate expansion of business on a subdued loan demand

Significant market trends continued to be reflected in the business performance of the Corporates & Markets segment. The effects of the restrained investment activity as well as the solid financial resources of many companies remained unchanged. Intensive competition also continued to be felt in the corporate clients business. Project financing business concluded with customers in the Energy & Infrastructure division was very promising. Against this backdrop and taking account of the net reversals in loan loss provisions this segment generated net income of € 152 million (same period of the previous year: € 82 million.

As at 1 July 2015 key organisational changes were implemented in this segment with the combining of the Corporate Clients, Energy & Infrastructure and Wealth Management divisions into a new Corporates division. In future, the strategic focus of the newly formed division will be on the growth sectors – logistics & infrastructure, energy, healthcare industry, wholesale and foreign trade and the food industry. In addition, companies in other sectors will also continue to be professionally serviced, particularly in the core region of Northern Germany. The focus will be placed on stabilising the market penetration in the core region and the further expansion of customer business throughout Germany in the existing locations. Another focus will be the servicing of high net worth private clients, foundations and non-profit organisations regarding investment and financial matters. The product range will still comprise asset advisory and management services, lending and other services.

The subdued corporate demand for financing and sustained competitive pressure continued to be felt in the Corporates division. Under the strict risk and earnings requirements the lending business stood at € 0.8 billion which means that it decreased slightly compared to the level of the first half of 2014 (€ 0.9 billion) and was below the Bank's expectations, although business picked up considerably in the second quarter. On the other hand, income of the division benefited from the demand for hedging products and the positive customer deposit trend. Loan loss provision expense was low due to the solid business situation of many corporate clients. In addition, loan loss provisions recognised in previous periods could be partially reversed.

Energy & Infrastructure benefited from project financing transactions totalling € 0.5 billion concluded in Germany and the rest of Europe (same period of the previous year: € 0.6 billion). Wind energy installations on land (onshore projects), which are located in the core markets of Germany and France, accounted for most of the financing projects completed in the Energy division. Onshore wind projects were also financed in Finland. The development of new markets is being pushed ahead against the backdrop of changed subsidy systems. The infrastructure business area was able to expand and diversify its portfolio with projects, inter alia, in the railway sector, pipeline, airports and network sectors both in Germany and the rest of Europe.

The Wealth Management division also made a positive earnings contribution to the segment. This contribution included solid results from the client securities business and stable deposit business.

Taken together, the Corporates, Energy & Infrastructure and Wealth Management divisions increased net income before taxes to € 175 million (same period of the previous year: € 103 million).

The Capital Markets as well as Savings Banks & Institutional Clients divisions together generated a net loss of € –23 million (same period of the previous year: € –21 million), which is mainly attributable to a continued structurally high level of administrative expenses. The sale of risk management products benefited from volatile movements in the financial and currency markets, particularly in the first quarter. This was offset by sharp interest rate fluctuations in the second quarter, which had a negative impact on the fixed-income securities portfolio. New issue business and customer deposits relating to business conducted with savings banks and institutional clients continued to develop positively. Nevertheless, an overall subdued customer demand was noticeable, which appeared to be related to interest rate fluctuations and the uncertainty of customers caused by the Greek crisis.

CORPORATE CENTER SEGMENT

The net loss of the Corporate Center segment, which includes the positions of the Overall Bank as well as administration and service divisions (including Transaction Banking since the end of 2014), improved to € 20 million compared to € –45 million in the same period of the previous year. An exceptional item arising on the calculation of the net income from hybrid financial instruments in particular had an adverse impact in the first half of the previous year.

Net income of Transaction Banking, recorded a sharp increase in the first half of 2015. After the realignment in the previous year the positive development of the division results from an overall significant increase in income arising from payment transactions, account management and foreign trade. In total, the division contributed considerably to the cross-selling income of the Bank.

Consolidation effects reflected in net income of Core Bank

The compensation effect under the second loss guarantee including the effect of the debt waiver had a positive impact on the Core Bank's consolidation items. 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. The exceptional item relating to hedge accounting also had an overall positive impact. Net trading income was adversely impacted by various measurement effects to the extent that these effects were not allocated to business segments – for example, currency translation gains or losses arising on the hedging of certain assets denominated in foreign currency and own liabilities measured at fair value. The recognition of a provision for the European bank levy in the first half of 2015 also had a negative effect. Furthermore, the result from restructuring and expenses for government guarantees items not allocated to the operating business are included in the consolidation column. In total, the net loss of the consolidation items amounted to € –77 million (same period of the previous year: € 86 million).

This results in total net income of € 157 million for the Core Bank (same period of the previous year: € 185 million). Return on equity for the Core Bank is 15 % calculated on this basis (same period of the previous year: 19 %). The cost-income ratio of the Core Bank was 44 % (same period of the previous year: 48 %).

RESTRUCTURING UNIT SEGMENT

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

RESTRUCTURING UNIT SEGMENT

(€ m)

Total income	**H1-2015**	**170**
	H1-2014	222
Loan loss provisions before currency translation gains or losses and compensation	**H1-2015**	**–75**
	H1-2014	–67
Administrative expenses	**H1-2015**	**–104**
	H1-2014	–120
Other operating income	**H1-2015**	**32**
	H1-2014	42
Net income before taxes	**H1-2015**	**23**
	H1-2014	77
Segment assets (€ bn)	**30.06.2015**	**27**
	31.12.2014	31

Winding down of legacy portfolios continued

The winding down of legacy portfolios in the Restructuring Unit was continued in the first half of the year as planned. Due to the reductions of non-strategic loan and securities positions total assets of the Restructuring Unit decreased further to € 27 billion (31 December 2014: € 31 billion) despite the offsetting effect of the appreciation of the US dollar.

Net income of the Restructuring Unit decreases as a result of the portfolio reduction and lower debt waiver

The Restructuring Unitgenerated net income before taxes of € 23 million (same period of the previous year: € 77 million). The reduction is primarily attributable to the significant winding down of the portfolio, which resulted in a further reduction in the interest-bearing loan volume. Costs were also incurred relating to investigations in connection with the sale of the private client business in Luxembourg in 2011 (details are set out in the Risk report under ”Other material risks”). The restructuring successes achieved in respect of international real estate and corporate loans which were offset by higher provisions for ship loans together with mainly positive measurement effects on, for example, EUR/USD basis swaps and increases in the value of debt instruments as a result of the narrowing of risk discounts (spreads) contributed to net income.

Net income before taxes amounted in total to € 65 million for the Restructuring Unit (same period of the previous year: € 247 million) including consolidation effects, in particular the positive guarantee effect, and after taking the restructuring and guarantee costs into account. This significant reduction is attributable to the lower relief provided by the debt waiver of the guarantors compared to the first half of the previous year.

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the first half of 2015 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 the Bank. The statements are based on a series of assumptions that relate to future events and are incorporated in HSH Nordbank's corporate planning. The occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are beyond HSH 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 by the Bank 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. Significant 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 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 major 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 selected problem loans, with the aim of achieving the planned reversals 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" .

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 compared to the previous year. The stimuli for this are likely to mainly come from the USA and the eurozone. HSH Nordbank expects the growth rate to be somewhat higher in the USA than in the eurozone.

Macroeconomic risks result, inter alia, from the danger of a sustained slowdown in growth in emerging countries, particularly in China, geopolitical conflicts surrounding Russia and Ukraine, generally expected interest rate hikes in the USA and overvalued financial market segments. The latter is illustrated by the most recent sharp fall in prices on the Chinese stock exchange, which could have a stronger impact on the real economy in view of the substantial losses suffered by investors. Other risks result from the most recent further decrease in the oil price, which could lead to payment problems in some oil-producing countries.

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. A solution to the Greece issue could lead to companies making investments that had previously been deferred.

The US Federal Reserve could raise the base rate for the first time in the second half of the year, if the US economy continues to recover, whereas the ECB has announced that it will continue the bond purchase programme at least until September 2016 and leave the base rate at the current level of 0.05 percent. One objective of the measures is to counteract deflationary risks.

Yields on long-term US and European government bonds should increase moderately during the course of the economic recovery and as a result of the slight rise in inflation and expected increases in the US base rate.

The US dollar should also continue to be strongly influenced by central bank policy and could be subject to larger fluctuations accordingly. An exchange rate of EUR/USD 1.10 has been assumed for HSH Nordbank's plan for 2015. For the following years a higher exchange rate is assumed for planning purposes. Planning is based on an exchange rate of EUR/USD 1.15 for 2016 and EUR/USD 1.20 for 2017.

Mixed outlook for relevant markets

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

Demand for container ships should increase again in the second half of 2015 following a slow start to the year. However, supply should increase slightly faster than demand due to the growth in the fleet in the large ship classes. A sideways trend is expected in the second half of the year for charter rates determined by the smaller ship segments. However, ship values should increase again - albeit to a lesser degree than the recovery in charter rates.

Demand for bulk carriers is expected to grow more slowly than previously anticipated but more strongly than the ship capacity available in this market segment. The scrapping of bulk carriers, postponements of deliveries and conversions, particularly into tankers, contribute to this situation this year. However, overcapacity remains large for the time being. It can therefore be expected that charter rates and ship values will recover only slowly from the current very low level.

The trend in demand for oil tankers should be mainly stable over the remainder of the year and beyond. At the same time, supply is likely to grow faster in the second half of the year, since the total order volume is large and is increasing further due to new orders and conversions. Charter rates and ship values are expected to fall back again from the current well recovered levels in the course of 2015.

HSH Nordbank uses a weighted average of own 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 over the remainder of 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.

Relatively stable vacancy rates are to be expected in the office property markets on a significantly higher number of completions and a declining demand for space. Nevertheless, prime office rents in central locations are likely to increase moderately again, whereas growth in secondary locations should peter out. Rents for commercial and residential property should also increase at a markedly slower rate given the growing number of completions. The recent legal limits placed on rent increases on re-letting should also have a noticeable dampening effect in some tight residential markets.

The outlook for the expansion of renewable energies is mixed. In future, the absolute build-up of generating capacity in the solar energy sector should stabilise at a moderate level in Germany – and also in Europe as a whole. The fear of further limits being put on government subsidies is still having a dampening effect in some European countries. The strong build-up in the wind energy sector over recent years should be slowed down by regulatory requirements including the reduction in the remuneration for wind power. It is expected that onshore will decrease this year to a still high level and offshore next year. In Europe the build-up should reach an overall peak in 2015. The marked reduction next year in Germany as well as Great Britain is likely to be only partially offset by the stronger build-up in other countries.

In transport infrastructure the growth in transport demand in a stable economic environment on the one hand and rising maintenance requirements on the other are still generating positive stimulus for investment. Institutional investors will continue to be important in this regard.

It is expected that the key manufacturing sectors will record positive growth for the whole of 2015 despite the subdued start to the year. The comparatively robust US economy and the recovery in the eurozone are boosting industry as are the weakness in the euro and low commodity prices. Moderate growth rates are possible for highly cyclical sectors (metal industry, electrical engineering, engineering, automotive), which, however, could be lower than expected on a severe downturn in the economic environment, for example emanating from the emerging countries. The food industry is expected to continue on its continuous growth path, but the ”plus” should be significantly lower than that of cyclical sectors.

The wholesale sector is also benefiting from a robust economic situation. The main driver will probably be the cyclical production-connected sector. Metal trading in particular has significant catch-up potential. Sales in the sector of trade connecting manufacturers should increase slightly less strongly. The retail sector is benefiting from the strong position in the labour market and the recent high wage agreements. Online trade is expected to continue to grow particularly strongly.

On an overall basis, corporate client 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. Competition between banks in Germany is likely to remain intense.

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 placed themselves in a stronger position vis-a-vis the continuing 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, if at all, 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 and will be significantly higher starting from 2015 than the German bank levy previously payable.

New challenges will 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, Minimum Requirements on Eligible Liabilities (MREL) will be specified by the end of the year 2015 by the national supervisory and resolution authorities for banks supervised by the ECB, which would be applied in the event of a bail-in.

In July 2015 the EBA published details on the stress test announced for 2016. The ECB and EBA are evidently aiming to achieve closer integration with the SREP process here. The stress test, based on the approach adopted for last year's Comprehensive Assessment, is to be preceded by a comprehensive data collection process and the preparation and publication of bank data. This ”transparency exercise” is to start at the end of 2015 and is to be based on the 2014 annual statements and half-yearly financial statements for 2015. The subsequent stress test is to be started in the first quarter 2016 by publishing the methodology and scenarios and completed in the third quarter 2016.

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 maintain the ability to build up capital from their own resources.

The Bank is making the appropriate preparations targeted at the above-mentioned regulatory and accounting requirements and has initiated implementation projects for the introduction of IFRS 9 as well as for BCBS 239. The main objective is to define the requirements for HSH Nordbank in detail and ensure that the new Standard is applied on a timely basis.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

2015 characterised by structural changes

The strong business performance and the optimisation of structures and processes already implemented over the past few months form a good basis for continuing to expand customer business, especially the real estate and corporate businesses, on a targeted basis and to successfully implement the strategy. Of particular importance for the Bank's future development is the expected positive outcome of the EU proceedings, including targeted structural measures to ensure the sustained viability of HSH Nordbank, which could not be reflected in the Bank's plan for 2015 due to the fact that the concrete terms have not yet been specified. 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 cost reduction programme currently being implemented and the streamlining of the organisational structure will be driven forward over the coming months.

Earnings forecast

In the second half of 2015 HSH Nordbank expects to be able to build on the overall good performance in the first half of the year 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. At the same time, sales of the focused range of services offered are driven forward to exploit the business and earnings potential as good as possible. HSH Nordbank expects to be able to significantly increase total income in the Core Bank for the whole of 2015 compared to 2014. Total income is mainly driven by the Real Estate Clients and Shipping divisions and the newly formed Corporates division.

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 in future 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. The sharper reduction in legacy assets denominated in US dollar planned for the second half of the year together with a decrease in US dollar new business will also adversely impact the income trend. Overall, total income is, however, expected to be mainly stable for the entire year 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 as a whole 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.

A provision for the bank levy (disclosed separately) payable for the first time in 2015 has already been recognised through profit or loss in the first quarter of 2015.

The number of employees will be gradually reduced further until 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 categories as a result of, inter alia, the constantly increasing regulatory requirements could also offset cost reductions achieved in other areas. The extent is difficult to estimate, but administrative expenses may be unavoidably impacted.

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.

Forecast for loan loss provisions

HSH Nordbank expects that further loan loss provisions will be required for the legacy portfolios in 2015 as a whole, 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. Following a first half of the year characterised by reversals recognised on corporate and real estate loans HSH Nordbank expects low loan loss provision expense in the other core business areas in the second half of the year.

Additional expense may also be incurred by the continued focus of reducing the US dollar troubled assets if unplanned losses are realised that are not covered under the guarantee. This measure underlines HSH Nordbank's objective of reducing the problem legacy portfolios in a consistent and rapid manner – also over and above the reduction provided for under the long-term guarantee structure whilst maximising value.

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 US 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 for 2015 that the reduction in the loan loss provisions will be lower than in the previous year both in the Core Bank and in the Restructuring Unit due to a lower compensation effect under the guarantee, including a lower debt waiver.

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

HSH Nordbank is currently 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 the current long-term loan loss provision plan will total € 2.1 billion by 2025 from today's perspective.

The loan loss provision plan is based on valuation models that also take into account the regulatory environment, the expected development of risk parameters over time as well as the Bank's empirical values in critical situations in addition to portfolio developments and key macroeconomic data (such as EUR/USD exchange rate, charter rates). 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 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 the trend in 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 strategies and in particular HSH Nordbank's willingness to continue to selectively finance problem loans, with the aim of achieving the planned significant releases of loan loss provisions in the future. Details on the loan loss provision plan and expected payment defaults are set out in the "Default risk" ("Planning for loan loss provisions and losses") section in the Risk report of the 2014 annual 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.

A greater level of restructuring successes than expected and a speedy winding down of the loan portfolio in the Restructuring Unit could reduce the loan loss provisions in the future more sharply than expected.

An appreciation of 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 tend to reduce the expected payment defaults in the 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 EUR/USD exchange rate and key market parameters in the shipping industry such as cargo and charter rates as well as ship values, 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 recovery and the recoverability of individual commitments may not be achieved nor occur in the planning period as assumed in the loan loss provision plan. As a result, the loan loss provision expense required to be recognised may increase more sharply than planned. In the long term, this could also 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 increase the amount of expected payment defaults due to the exchange rate, 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 debt crisis will flare up more strongly again, which would 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.

Furthermore, unscheduled losses may be incurred above and beyond 2015, if additional assets were to be sold at market value in an unfavourable environment as part of an additional 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 could result if the alternative structural solutions for the portfolio (Nautilus) are not implemented as planned.

Capital and RWA forecast

HSH Nordbank expects the capital ratios to remain at a solid level in the second half of the year. During the gradual implementation of Basel III using the same period approach HSH Nordbank expects to be able to continue to disclose a regulatory CET 1 capital ratio of 10 % plus a buffer from the guarantee at the Group level as at the 2015 year end – both under the applicable Basel III transitional rules (phase in) and under the assumption of full implementation of Basel III (fully loaded) – despite the tighter 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 the guaranteed legacy portfolio, especially in the Restructuring Unit, including the marked reduction in US dollar positions, and by movements in the EUR/USD exchange rate. The amount of the guarantee facility also affects the RWA under the guarantee. Overall, HSH Nordbank expects that the RWA will be largely stable at the Group level during this year.

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 in the period up to 2017 are included in the planning 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 guaranteed legacy portfolio in particular 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 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 as well as the regulatory environment and the EU proceedings.

This may result in the later than planned reduction of the guarantee facility and related premium expense.

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 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

The Bank expects to continue to successfully implement its diversified funding strategy in the second half of 2015. The Bank's asset business will continue to be refinanced primarily by providing bond products for the client business of the savings banks and other financial institutions and placing secured and unsecured 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 institutions with a stable rating.

Another focus is on the issuing of covered bonds (Pfandbriefe) as private placements as well as on the public sector 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 liability at the end of 2015 will pose a special, structural challenge. The volume of issues (just under € 12 billion) covered by the guarantor liability (Gewährträgerhaftung) that fall due in the second half of 2015 is to be continued to be refinanced on the one hand as planned via short-term 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.

Because of the marked influence of the EUR/USD exchange rate on the Bank's liquidity position due to the need to provide collateral for EUR/USD basis swaps the focus is placed on a sharper reduction of US dollar assets in different asset classes in the reduction of the Restructuring Unit's balance sheet, under which unplanned losses may arise, which would not be eligible for invoicing under the guarantee. Furthermore, the US dollar new business will be reduced in the second half of the year. The exchange rate was EUR/USD 1.12 at 30 June 2015, slightly above the 2015 plan rate of EUR/USD 1.10.

Taking account of the maturities of the refinancing amounts covered by the guarantor liability, the Bank expects the regulatory liquidity ratio as defined in the Liquidity Regulation (LiqV) to decrease temporarily over the remainder of 2015 as part of the liquidity management process. At the same time the ratio is expected to remain above the regulatory requirements.

Opportunities and risks in the funding forecast

Opportunities

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

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. An investment grade rating is key for the implementation of the funding strategy.

The movement in the EUR/USD exchange rate is also relevant for the liquidity situation. 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.

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 Association and other financial networks as well as to collateralised refinancing sources such as Pfandbriefe and asset-based funding, which is also important for refinancing US dollar business, is paramount.

Risks

Potential tensions in the financial markets would tend to make funding measures more difficult to implement in the market. 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 year to date, 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.

A decision regarding the EU proceedings that is not made until later in the year could adversely impact the funding of the Bank due to investor hesitance. A negative outcome of the proceedings would fundamentally restrict the funding options. In this case, additional measures will be required to strengthen the liquidity situation.

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

Potential downgrades, which cannot be ruled out, especially if the decision in the EU proceedings is negative for HSH Nordbank, would significantly limit refinancing options via the capital markets, trigger an outflow of funds and increase funding costs. A rating downgrade by both Moody's and Fitch would result in a rating outside the investment grade category.

Most of the assets denominated in foreign currency are refinanced via derivatives (for example via EUR/USD basis swaps) due to the funding of the restructuring unit. 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 provided for additional funding measures on the one hand and, on the other, 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 liability (Gewährträgerhaftung) that are falling due until 2015. In a 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 .

Aim is to conclude EU proceedings with structural adjustments

A main focus of HSH Nordbank continues to be a positive and speedy conclusion of the EU proceedings regarding the replenishment of the guarantee facility. The replenishment of the second loss guarantee from € 7 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. The Bank's CET1 capital ratio was considerably strengthened by this guarantee measure.

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.

Discussions with the federal state majority owners as well as the EU Commission and the supervisory authorities are being pursued intensively in this regard. 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. It is important to note in this connection that HSH Nordbank has already paid substantial amounts of 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.

As part of the discussions with the EU Commission other structural measures and solutions may result, also including the utilisation of the guarantee. . If such measures are agreed, this could result in the revision of plans and forecasts in the future and could impact the accounting processes.

In the Bank's view, significant relief must be provided in any event for the problematic legacy assets that originated prior to 2008 and which could only be wound down hitherto in a very sluggish manner due to the guarantee mechanism in order to thereby support and ensure its long-term viability in line with the requirements of the EU Commission, the ECB and the market.

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 of the replenished guarantee facility by autumn 2015, whereas the time frame is set by the EU Commission, the Federal Government and the federal states.

Opportunities and risks in the EU state aid proceedings

A successful conclusion of the EU state aid proceedings in line with the defined objectives of the Bank 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

The business success of the customer divisions, ongoing winding down of troubled assets and consistent implementation of the ongoing cost savings and efficiency improvements have created the key requirements for a sustainable and successful future for HSH Nordbank.

Over and above the Bank's current plan the objective is to implement further structural measures to improve the sustainability and viability 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 continuing difficult situation in the shipping industry including the assessment of the long-term trend of loan loss provisions (also in the event of a sharper reduction in risk), volatility in the financial and currency markets (especially the US dollar), pending final approval of the replenishment of the guarantee facility in the EU state aid proceedings, changing assessments made by rating agencies regarding structural challenges in the areas of capital and funding (including expiry of the guarantor liability) as well as the further development of requirements of the European Banking Authority.

These give rise to corresponding uncertainties regarding the achievement of the forecast developments. HSH Nordbank is nevertheless 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 operating progress made on the income and cost side will make a considerable contribution to strengthening HSH Nordbank. Furthermore, net income before taxes continues to be affected by the loan loss provision trend. It is therefore expected that the relieving effect of the debt waiver of the guarantors will be substantially lower than in the previous year and that further charges will be recognised in the shipping portfolio.

Additional expense may also be incurred by the continued focus of reducing the US dollar legacy assets in the second half of the year if unplanned losses are realised that are not covered under the guarantee. This measure underlines HSH Nordbank's objective of reducing the problem legacy portfolios in a consistent and rapid manner – also over and above the reduction provided for under the long-term guarantee structure whilst maximising value.

It is expected that the Core Bank will generate a significantly improved, positive net income before taxes due to the progress made in implementing the business strategy. 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 but significantly lower net income before taxes compared to the high pre-tax income for 2014 is planned for the Group based on the developments described.

The unchanged aim of HSH Nordbank with respect to the servicing of the hybrid capital reduced by accumulated loss participations, is to be able to make coupon payments on silent participations and profit participation capital for the 2017 financial year again. 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 on 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 chapter “Risk report”.

RISK REPORT

Among the material risks of the Bank are default risks, market risks, liquidity risks, operational risks, transformation risks and reputation risks. The methods, instruments and processes used in the risk management are explained in detail in the Risk report contained in the 2014 Annual Report. In addition, the 'Forecast report including opportunities and risks' contained in this Interim Report provides information on the anticipated business situation with a current assessment of material risks and opportunities for HSH Nordbank for the remainder of the year.

RISK-BEARING CAPACITY

As part of the monitoring of our risk-bearing capacity we regularly compare the total economic capital required to cover all major quantifiable types of risk (overall risk) to the available amount of economic risk coverage potential. 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 30 June 2015, risk coverage potential amounted to € 8.8 billion (31 December 2014: € 7.7 billion). This increase is mainly attributable to the increase in unrealised gains arising on asset positions due to movements in interest rates and the EUR/USD exchange rate.

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.

Institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the risk of valuation adjustments on OTC derivatives caused by credit considerations (Credit Valuation Adjustments) are taken into account in determining the economic capital required for default risks. The economic capital required for default risks as at the reporting date amounted to € 1.5 billion (31 December 2014: € 1.5 billion).

As part of the risk-bearing capacity concept, market risk (value-at-risk, VaR), which is determined at the confidence level chosen by the Bank and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk as at 30 June 2015 amounted to € 0.8 billion (31 December 2014: € 0.8 billion).

HSH Nordbank uses a VaR-approach for quantifying liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs on the open liquidity position. The liquidity-value-at-risk (LVaR) as a measurement of economic capital required for liquidity risk amounted to € 0.3 billion as at 30 June 2015 (31 December 2014: € 0.3 billion). However, insolvency risk, which is a more important aspect for managing liquidity risk, is generally backed by a buffer of liquid funds. Information on managing the insolvency risk, among other things, is included in the section 'Liquidity risk'.

Operational risks are determined in accordance with the regulatory Standardised Approach. The corresponding economic capital required amounted to € 0.2 billion as at 30 June 2015 (31 December 2014: € 0.2 billion).

The overall economic risk as at the reporting date remained unchanged at € 2.8 billion. Percentage utilisation of risk coverage potential was 32% (31 December 2014: 36%). 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.

RISK-BEARING CAPACITY OF THE GROUP

(€ bn)	30.06.2015	31.12.2014
Economic risk coverage potential[1]	**8.8**	**7.7**
Economic capital required	**2.8**	**2.8**
of which for default risks[2]	1.5	1.5
for market risks	0.8	0.8
for liquidity risks	0.3	0.3
for operational risks	0.2	0.2
Risk coverage potential buffer	**6.0**	**4.9**
Utilisation of risk coverage potential (%)	**32**	**36**

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

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, macroeconomic scenarios, such as a severe economic downturn, as well as historical scenarios are calculated in this connection. The results are incorporated into HSH Nordbank's quarterly internal reporting system and are analysed by the Management Board as part of a management dialogue concerning the measures to be taken. Besides the review of the appropriateness of the buffer of risk coverage potential, regulatory capital and liquidity which, among other things, is maintained to offset stress effects, this analysis serves to discuss the need for options to strengthen the financial stability of the institution.

The set of rules covering HSH Nordbank's recovery plan prepared in accordance with SAG (German Act on the Recovery and Resolution of Credit Institutions) in conjunction with MaSan (Minimum Requirements for the Design of Recovery Plans) 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 predefined options. The effectiveness of the options identified, the selected recovery and early warning indicators and related processes are reviewed in the recovery plan by the inclusion of specific scenarios in the stress tests.

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 and the risk culture is enhanced throughout the Bank. In addition, HSH Nordbank carries out inverse stress tests at least once a year to identify scenarios which could endanger HSH Nordbank'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.

DEFAULT RISK

Default risk exposure

The exposure at default (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 EaD amounted to € 109,268 million as at 30 June 2015.

The EaD broken down by internal rating categories is presented in the following table. At the Group level, the proportion of EaD with an investment grade rating (rating categories 1 to 5) was 55% of the total exposure (31 December 2014: 55%). The proportion of investment grade commitments was 64% for the Core Bank (31 December 2014: 64%) and 35% for the Restructuring Unit (31 December 2014: 38%). 44% of the Overall Bank portfolio is covered by the second loss guarantee (31 December 2014: 48%). 27% of the Core Bank's exposure is guaranteed (31 December 2014: 29%) and 86% of the Restructuring Unit's exposure (31 December 2014: 85%). At 92% (31 December 2014: 92%) the share of the guaranteed portfolio is particularly high in the default categories 16 to 18.

DEFAULT RISK STRUCTURE BY RATING CATEGORIES[1)]

(€ m)	30.06.2015				31.12.2014			
	Core Bank	Restructuring Unit	**Total**	Of which guaranteed (in %)	Core Bank	Restructuring Unit	Total	Of which guaranteed (in %)
1(AAAA) to 1 (AA+)	21,430	5,564	26,994	19	20,296	6,829	27,125	24
1(AA) to 1(A–)	8,472	2,345	10,817	33	10,721	2,738	13,459	27
2 to 5	19,474	3,304	22,778	29	15,673	4,481	20,154	38
6 to 9	16,458	3,049	19,507	41	15,521	4,002	19,523	47
10 to 12	1,750	1,498	3,248	79	2,210	1,423	3,633	83
13 to 15	2,227	3,726	5,953	72	2,149	3,435	5,584	81
16 to 18 (default categories)	6,864	12,768	19,632	92	6,303	13,522	19,825	92
Other[2)]	231	108	339	–	395	105	500	–
Total	**76,906**	**32,362**	**109,268**	**44**	**73,268**	**36,535**	**109,803**	**48**

[1)] Mean default probabilities (as %): 1 (AAAA) to 1 (AA+): 0.00 – 0.02; 1 (AA) to 1 (A-): 0.03 – 0.09; 2 to 5: 0.12 – 0.39; 6 to 9: 0.59 – 1.98;
10 to 12: 2.96 – 6.67; 13 to 15: 10.00 – 20.00; 16 to 18: 100.00.
[2)] Transactions, for which there are no internal or external ratings available, are reflected in the 'Other' line item, such as receivables from third parties of our consolidated equity holdings, for example.

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

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	30.06.2015			31.12.2014		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Industry	8,696	1,575	10,271	8,095	1,597	9,692
Shipping	16,328	8,292	24,620	15,791	8,378	24,169
Trade and transportation	3,763	1,596	5,359	3,867	2,076	5,943
Credit institutions	9,296	1,044	10,340	8,993	1,397	10,390
Other financial institutions	2,888	4,576	7,464	2,884	5,988	8,872
Land and buildings	10,690	6,557	17,247	9,469	6,633	16,102
Other services	6,316	1,667	7,983	6,312	2,588	8,900
Public sector	18,079	6,379	24,458	16,963	7,196	24,159
Private households	850	676	1,526	894	682	1,576
Other	–	–	–	–	–	–
Total	**76,906**	**32,362**	**109,268**	**73,268**	**36,535**	**109,803**

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

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES

(€ m)	30.06.2015			31.12.2014		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Up to 3 months	13,454	3,062	16,516	11,872	3,373	15,245
> 3 months to 6 months	2,177	1,542	3,719	2,333	1,516	3,849
> 6 months to 1 year	3,939	2,104	6,043	3,882	3,240	7,122
> 1 year to 5 years	34,812	11,422	46,234	32,241	12,834	45,075
> 5 years to 10 years	16,861	6,556	23,417	17,529	7,104	24,633
> 10 years	5,663	7,676	13,339	5,411	8,468	13,879
Total	**76,906**	**32,362**	**109,268**	**73,268**	**36,535**	**109,803**

The following table provides an overview of the breakdown of foreign exposure by region, which reached € 46,346 million as at 30 June 2015 (31 December 2014: € 50,827 million):

FOREIGN EXPOSURE BY REGION

EaD (€ m)	30.06.2015			31.12.2014		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Western Europe	16,313	11,792	28,105	15,229	13,772	29,001
of which eurozone countries	10,525	7,165	17,690	10,191	8,195	18,386
Central and Eastern Europe	1,107	414	1,521	1,083	465	1,548
of which eurozone countries	53	92	145	55	126	181
Africa	896	329	1,225	852	307	1,159
North America	2,914	4,266	7,180	5,636	5,083	10,719
Latin America	663	588	1,251	684	546	1,230
Middle East	49	927	976	56	949	1,005
Asia-Pacific region	3,580	1,747	5,327	3,178	2,046	5,224
International organisations	731	30	761	911	30	941
Total	**26,253**	**20,093**	**46,346**	**27,629**	**23,198**	**50,827**

The substantial reduction in the North America region is primarily attributable to a decrease in central bank deposits and the winding down of legacy portfolios in the Restructuring Unit.

The basis used to allocate transactions to regions is the country relevant for transfer risk of the customer taking account of the collateral relevant for transfer risk. The customer-related country relevant for transfer risk is the country from where HSH Nordbank receives the cash flows and may differ from the customer's country of domicile. For instance, this applies to the area of ship financing under which some of the cash flows are not received from the country of domicile. 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, Croatia, Portugal, Spain, Hungary and Cyprus. The exposure to Russia is also being monitored more closely as a result of the crisis around Russia and Ukraine.

The following table shows the EaD of the exposures in the individual European countries stated. HSH Nordbank's total exposure to these countries has decreased by 7% compared to the previous year and amounted to € 6,626 million in total as at 30 June 2015.

EXPOSURE AT DEFAULT IN SELECTED EUROPEAN COUNTRIES

(€ m)	Country		Banks		Corporates/Other		Total	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Greece	6	6	–	–	1,434	1,224	1,440	1,230
Ireland	–	–	22	20	123	187	145	207
Italy	550	691	1	1	656	683	1,207	1,375
Croatia	–	–	–	–	108	117	108	117
Portugal	273	270	4	3	51	51	328	324
Russia	–	–	5	6	152	128	157	134
Spain	206	211	50	134	1,456	1,592	1,712	1,937
Hungary	18	19	–	–	77	77	95	96
Cyprus	–	–	–	21	1,434	1,683	1,434	1,704
Total	**1,053**	**1,197**	**82**	**185**	**5,491**	**5,742**	**6,626**	**7,124**

The direct country exposure continues to be manageable. The exposure to Greece and Cyprus shown in the Corporates/Other sector relates predominantly to secured ship financing.

Note 43 includes more information on the selected European countries.

There is no exposure to Ukraine and there is also no material exposure to Argentina, which remains the focus of public interest due to the continuing sovereign debt crisis.

Loan loss provisions

Net additions to loan loss provisions (before guarantee compensation and currency translation effect) amounted to € – 199 million in the first half of the year compared to € – 195 million in the same period of the previous year. Higher additions for restructuring measures carried out in and planned for the Restructuring Unit's shipping portfolio and the shipping loan recovery unit in the Core Bank (Nautilus structures), which were taken to further reduce the high risk legacy loans, were reflected in the loan loss provisions for the first half of 2015. The charges resulting from this and difficult market developments were offset by a marked level of net releases for real estate and corporate loans based on improved risk assessments and loan principal repayments.

Against the backdrop of the appreciation of the US dollar the foreign exchange result to be recognised in loan loss provisions increased significantly to € – 301 million (same period of the previous year: € – 42 million). Provided that the currency translation relates to the guaranteed portfolio, it is fully compensated for by the guarantee. Foreign exchange positions held in portfolios not covered by the guarantee are managed using hedging instruments.

The loan loss provisions especially recognised for legacy portfolios continued to be largely compensated for by the guarantee in the first half of 2015. The compensation item also includes the relief provided by the debt waiver by the guarantors for the additional premium, which, however, was significantly lower in the first half of 2015 than in the same period of the previous year.

After taking the compensating effects under the guarantee into account loan loss provisions amounted to a positive amount of € 120 million (same period of the previous year: € 337 million).

The following table provides an overview by segments.

CHANGES IN LOAN LOSS PROVISIONS

(€ m)	01.01.–30.06.2015					
	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	–158	–1	–159	–	–	–159
Corporates & Markets	61	–	61	–	–	61
Corporate Center	–	–26	–26	30	–	4
Consolidation Core Bank	1	–1	–	–136	263	127
Total Core Bank	**–96**	**–28**	**–124**	**–106**	**263**	**33**
Restructuring Unit	–93	18	–75	–	–	–75
Consolidation Restructuring Unit	–	–	–	–195	357	162
Total Restructuring Unit	**–93**	**18**	**–75**	**–195**	**357**	**87**
Group	**–189**	**–10**	**–199**	**–301**	**620**	**120**

CHANGES IN LOAN LOSS PROVISIONS[1)]

(€ m)	01.01.–30.06.2014					
	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	–111	–3	–114	–	–	–114
Corporates & Markets	–10	–7	–17	–	–	–17
Corporate Center	–	–	–	5	–	5
Consolidation Core Bank	–2	5	3	–17	183	169
Total Core Bank	**–123**	**–5**	**–128**	**–12**	**183**	**43**
Restructuring Unit	–93	26	–67	–	–	–67
Consolidation Restructuring Unit	–	–	–	–30	391	361
Total Restructuring Unit	**–93**	**26**	**–67**	**–30**	**391**	**294**
Group	**–216**	**21**	**–195**	**–42**	**574**	**337**

[1)] 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 previous year figures have been adjusted for purposes of comparability. For details please refer to Note 39 (Segment reporting).

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

Notes 10 and 20 contain details on total loan loss provisions.

MARKET RISK

HSH Nordbank uses a VaR approach (99.0 % confidence level, holding period of one day, historical observation period of 250 days) to measure and manage market risk. The market risk of the Bank's trading book positions amounted to € 1.7 million as at 30 June 2015, that of our banking book positions € 47.8 million. The aggregated market risk – which is not equivalent to the sum of the VaR of the trading book and banking book due to risk-mitigating correlation effects – amounted to € 48.5 million, of which € 52.0 million was attributable to the Core Bank and € 21.7 million to the Restructuring Unit. The VaR for the Core Bank and the Restructuring Unit can also not be added together to arrive at the aggregated risk due to risk-mitigating correlation effects.

Developments with respect to the individual risk types during the first six months of 2015 are presented in the table set out below.

DAILY VALUE-AT-RISK OF THE GROUP

(€ m)	Interest rate risk[1]		Credit spread risk[1]		Foreign exchange risk		Equity risk		Commodity risk		Total[2]	
	Jan.–June 2015	Jan.–Dec. 2014	**Jan.–June 2015**	Jan.–Dec. 2014	**Jan.–June 2015**	Jan.–Dec. 2014	**Jan.–June 2015**	Jan.–Dec. 2014	**Jan.–June 2015**	Jan.–Dec. 2014	**Jan.–June 2015**	Jan.–Dec. 2014
Average	17.0	9.1	19.5	18.4	18.1	11.3	1.7	2.3	–	0.2	37.4	22.7
Maximum	21.6	13.7	27.3	25.3	25.4	16.1	2.7	5.7	0.2	0.5	57.3	28.4
Minimum	11.4	6.2	17.7	15.3	10.3	8.0	1.1	0.8	–	–	24.7	16.2
Period end amount	20.7	12.1	27.3	18.4	22.0	9.9	1.6	1.1	–	0.1	48.5	26.0

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

The overall VaR increased compared to the 2014 year end from € 26.0 million to € 48.5 million. The increase could be observed primarily in relation to foreign exchange, interest rate and credit spread risk. It was mainly caused by some strong market movements in the relevant risk classes, which resulted in the formation of new, volatile scenario days in the historical simulation.

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into risk of insolvency and liquidity maturity transformation risk. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept and is discussed in the section 'Risk-bearing capacity'. The risk of insolvency refers to the risk that present or future payment obligations cannot be met in part or in full.

The transactions of the Bank impacting liquidity are mapped 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 differences between inflows and outflows serve as a measure for the insolvency risk. These so-called gaps are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the respective limit for insolvency risk. Utilisation of the limits is monitored on a daily basis.

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 30 June 2015 as well as at 31 December 2014. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes the liquidity buffer required under supervisory law. The stress case liquidity development report was changed from the 'market liquidity crisis' scenario to the '1 notch rating downgrade' scenario. For reasons of better comparability, the figures for the 31 December 2014 reference date were adjusted accordingly.

LIMIT ON CUMULATIVE LIQUIDITY GAPS

Utilisation of liquidity potential (%)	Normal case		Stress case	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014
1st day	27	22	59	46
7th day	30	29	61	63
14th day	32	32	61	50
3rd week	41	34	68	51
4th week	44	38	70	54
2nd month	51	45	74	66
3rd month	58	51	78	74
6th month	82	65	100	94
9th month	83	71	103	101
12th month	85	94	106	135

Risk tolerance of the Bank with regard to liquidity risk is reflected, among other things, in the definition of a survival period in the sense 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 85 % in the 12th month as at the reporting date. All limits within the survival period of twelve months defined by the Bank were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was not exceeded within the one-month minimum survival period established taking MaRisk into account. In fact, the limits as at the reporting date are even maintained for a period of five months. Compared to the 2014 year end, the utilisation levels have increased for the most part in the normal case and stress case. The increase from the sixth to the eleventh month is attributable to the shortening in maturities of liabilities covered by the guarantor liability. Critical limit utilisation levels were recorded neither in the normal case nor in the stress case liquidity development report in the course of the period under review.

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.73 and 2.13, the liquidity ratio remained well above the regulatory minimum value at all times throughout the reporting period. The average value for the first six months of 2015 was 1.91 (2014: 1.96), and 1.94 as at the reporting date (31 December 2014: 1.99).

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 at the earliest in October 2015, whereby the compliance rate increases from an initial 60% to 100% in 2018. In the QIS (set of rules under Basel) the LCR was 153% as at the reporting date (31 December 2014: 143%) and was therefore significantly above the future minimum threshold.

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 31 March 2015 the NSFR amounted to 86% in the QIS (31 December 2014: 91%). The value as at 30 June 2015 is not yet available.

In accordance with Article 100 CRR in conjunction with the Implementing Regulation (EU) 2015/79 of the European Commission HSH Nordbank is subject to reporting requirements regarding encumbered assets. An asset is treated as encumbered, if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. At HSH Nordbank, the proportion of encumbered assets to the total of encumbered and unencumbered assets was 31% as at the reporting date (31 December 2014: 30%).

HSH Nordbank has successfully driven its funding strategy in the first half of 2015 and has fully met the pro rata funding plan as at 30 June 2015. Besides the issuing activities an increase in the level of deposits contributed to the refinancing of the business. Despite these successes the Bank still does not have unrestricted access to the capital markets, mainly as a result of the still pending conclusion of the EU state aid proceedings regarding the replenishment of the guarantee. Future funding and HSH Nordbank's rating continue to be key challenges despite this positive development.

The section 'Earnings, net assets and financial position' contains further information on the Bank's funding situation. Further information on the funding forecast and the EU state aid proceedings are set out in the 'Forecast report including opportunities and risks' section.

OTHER MATERIAL RISKS

Tax risk is a component of legal risk and mainly results 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 of € 39 million (including interest of € 12 million) in the first half of 2015. The provisions totalled € 198 million as at the reporting date (31 December 2014: € 159 million).

In particular risks relating to the regulatory allocation of equity positions to the banking book in the tax audit period from 2003 to 2006, whereby dividends were treated as exempt from corporation tax, should be mentioned here in addition to a large number of individual aspects from the tax audit period from 2003 to 2011. They accounted for a large portion of the provisions recognised in the first half of 2015. The isolated effect of this tax issue amounts to € 78 million income taxes and interest of € 34 million relating to this amount.

HSH Nordbank also expects that costs will be incurred in connection with the private client business of HSH Nordbank Private Banking S.A. (legal successor: HSH Nordbank Securities S.A.) that was sold in 2011. Public investigations against competitors on suspicion of supporting tax evasion prompted HSH Nordbank AG to initiate its own investigations in February 2015. The results of the special investigation were pro-actively given to the investigators. It is expected that, based on the ongoing investigations, HSH Nordbank will be fined € 3 million by the prosecuting authorities and charged with skimming profits of € 19.5 million. Current Management Board members are not affected by the investigations.

Further information on the topic of tax risks is set out in the 2014 Annual Report.

There have been no material changes in the year to date with regard to additional risks of the Group that were disclosed in detail in the 2014 Annual Report.

Hamburg/Kiel, 25 August 2015

Constantin von Oesterreich   Stefan Ermisch

Torsten Temp   Matthias Wittenburg

INTERIM GROUP FINANCIAL STATEMENTS

GROUP STATEMENT OF INCOME
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2015

GROUP INCOME STATEMENT

(€ m)	Note	**January – June 2015**	January – June 2014	Change in %
Interest income		2,311	2,647	– 13
Interest expenses		– 1,803	– 2,256	– 20
Net income from hybrid financial instruments		– 60	– 160	63
Net interest income	(4)	**448**	**231**	**94**
Net commission income	(5)	62	73	– 15
Result from hedging	(6)	8	– 12	> 100
Net trading income	(7)	78	112	– 30
Net income from financial investments	(8)	56	240	– 77
Net income from financial investments accounted for under the equity method	(9)	–	2	– 100
Total income		**652**	**646**	**1**
Loan loss provisions	(10)	120	337	– 64
Administrative expenses	(11)	– 302	– 338	– 11
Other operating income	(12)	39	54	– 28
Expense for European bank levy	(13)	– 40	–	>100
Net income before restructuring		**469**	**699**	**– 33**
Result from restructuring	(14)	– 12	– 8	– 50
Expenses for government guarantees	(15)	– 235	– 259	– 9
Net income before taxes		**222**	**432**	**– 49**
Income taxes		– 75	– 131	– 43
Group net income		**147**	**301**	**– 51**
Group net income attributable to non-controlling interests		–	1	– 100
Group net income attributable to HSH Nordbank shareholders		147	300	– 51

EARNINGS PER SHARE

(€)	Note	**January – June 2015**	January – June 2014
Undiluted	(16)	0.49	0.99
Diluted	(16)	0.49	0.99
Number of shares (millions)		**302**	**302**

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2015

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	**January – June 2015**	January– June 2014
Group net income	**147**	**301**
Income and expense that will be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	15	112
Income taxes recognised	– 2	– 28
	13	**84**
Currency translation reserve	23	6
	23	**6**
Changes in other net income from financial investments accounted for under the equity method	–	– 2
	–	**– 2**
Changes from non-current assets held for sale and disposal groups	–	– 3
	–	**– 3**
Subtotal	**36**	**85**
Income and expense that will not be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	– 14	– 93
Income taxes recognised	4	29
	– 10	**– 64**
Revaluation of net defined benefit pension liabilities (before taxes)	76	– 114
Income taxes recognised	– 24	36
	52	**– 78**
Subtotal	**42**	**– 142**
Other comprehensive income for the period	**78**	**– 57**
Total comprehensive income	**225**	**244**
Total comprehensive income attributable to non-controlling interests	–	1
Total comprehensive income attributable to HSH Nordbank shareholders	225	243

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

ASSETS

(€ m)	Note	30.06.2015	31.12.2014	Change in %
Cash reserve	(17)	7,387	5,967	24
Loans and advances to banks	(18)	6,499	6,915	– 6
Loans and advances to customers	(19)	66,755	67,336	– 1
Loan loss provisions	(20)	– 1,234	– 2,061	– 40
Positive fair values of hedging derivatives	(21)	1,029	1,405	– 27
Positive adjustment item from the portfolio fair value hedge		375	510	– 26
Trading assets	(22)	8,286	9,163	– 10
Financial investments	(23)	16,800	18,688	– 10
Financial investments accounted for under the equity method	(24)	–	1	>– 100
Intangible assets	(25)	22	27	– 19
Property, plant and equipment	(26)	482	399	21
Investment property	(26)	76	185	– 59
Non-current assets held for sale and disposal groups	(27)	62	34	82
Current tax assets		63	85	– 26
Deferred tax assets	(28)	1,076	1,190	– 10
Other assets	(29)	184	238	– 23
Total assets		**107,862**	**110,082**	**– 2**

LIABILITIES

(€ m)	Note	30.06.2015	31.12.2014	Change in %
Liabilities to banks	(30)	13,535	14,547	– 7
Liabilities to customers	(31)	46,532	43,165	8
Securitised liabilities	(32)	25,076	27,634	– 9
Negative fair values of hedging derivatives	(33)	828	1,156	– 28
Negative adjustment item from the portfolio fair value hedge		888	1,202	– 26
Trading liabilities	(34)	7,663	9,246	– 17
Provisions	(35)	1,629	1,699	– 4
Current tax liabilities		150	129	16
Deferred tax liabilities		49	81	– 40
Other liabilities	(36)	1,042	1,044	–
Subordinated capital	(37)	5,573	5,507	1
Equity	(38)	4,897	4,672	5
Share capital		3,018	3,018	–
Capital reserve		487	487	–
Retained earnings		1,140	929	23
Revaluation reserve		111	108	3
Currency translation reserve		7	– 16	> – 100
Group net profit/loss		147	159	– 8
Total before non-controlling interests		4,910	4,685	5
Non-controlling interests		– 13	– 13	–
Total equity and liabilities		**107,862**	**110,082**	**– 2**

GROUP STATEMENT OF CHANGES IN EQUITY

GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

	Note	Share capital	Capital reserve	Retained earnings		
					of which revaluation of net defined benefit pension liabilities in accordance with IAS 19	
As at 1 January 2014		**3,018**	**594**	**1,775**	**10**	
Group net income		–	–	–	–	
Changes not recognised in the income statement		–	–	–78	–78	
Changes recognised in the income statement		–	–	–	–	
Exchange rate changes		–	–	–	–	
Changes in the scope of consolidation		–	–	–	–	
Comprehensive income as at 30 June 2014		**–**	**–**	**-78**	**-78**	
Transfer of Group net loss for the previous year		–	–	–767	–	
Change in retained earnings		–	–	–	–	
As at 30 June 2014		**3,018**	**594**	**930**	**-68**	
As at 1 January 2015		**3,018**	**487**	**929**	**-169**	
Group net income		–	–	–	–	
Changes not recognised in the income statement		–	–	52	52	
Changes recognised in the income statement		–	–	–	–	
Exchange rate changes		–	–	–	–	
Comprehensive income as at 30 June 2015		**–**	**–**	**52**	**52**	
Addition of Group net income of the previous year		–	–	159	–	
As at 30 June 2015	**38**	**3,018**	**487**	**1,140**	**-117**	

Other changes in equity not recognised in the income statement								
Currency translation 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**
-61	**27**	**3**	**3**	**-18**	**-767**	**4,592**	**-13**	**4,579**
–	–	–	–	–	300	300	1	301
–	109	-2	–	29	–	29	–	29
–	-90	–	–	-90	–	-90	–	-90
6	–	–	–	6	–	6	–	6
–	–	–	-3	-3	–	-3	–	-3
6	**19**	**-2**	**-3**	**-58**	**300**	**242**	**1**	**243**
–	–	–	–	–	767	–	–	–
–	–	–	–	–	–	–	2	2
-55	**46**	**1**	**–**	**-76**	**300**	**4,834**	**-10**	**4,824**
-16	**108**	**–**	**–**	**-77**	**159**	**4,685**	**-13**	**4,672**
–	–	–	–	–	147	147	–	147
–	7	–	–	59	–	59	–	59
–	-14	–	–	-14	–	-14	–	-14
23	10	–	–	33	–	33	–	33
23	**3**	**–**	**–**	**78**	**147**	**225**	**–**	**225**
–	–	–	–	–	-159	–	–	–
7	**111**	**–**	**–**	**1**	**147**	**4,910**	**-13**	**4,897**

GROUP CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT

(€ m)	**January – June 2015**	January – June 2014
Cash and cash equivalents as at 1 January	**5,967**	**4,851**
Cash flow from operating activities	– 114	4,018
Cash flow from investing activities	1,885	1,239
Cash flow from financing activities	– 58	3
Changes in cash and cash equivalents due to exchange rate fluctuations	– 293	– 28
Cash and cash equivalents as at 30 June	**7,387**	**10,083**

Cash and cash equivalents are equivalent to the Cash reserve item on the statement of position and comprise cash on hand, balances held 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.

Further information on the liquidity position of HSH Nordbank is set out in the Net assets and financial position section and in the Risk report.

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Nordbank AG has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as in Section 2 (5) WpHG and is therefore 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 the International Financial Reporting Standards. International accounting standards, hereinafter IFRS or standards, refer to the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

The half-year financial report consists of condensed interim Group financial statements and an interim Group management report taking into account the requirements stipulated in IAS 34. The condensed interim Group financial statements consist of an income statement, a Statement of Comprehensive Income, a Statement of Financial Position, a Statement of Changes in Equity, a condensed Statement of Cash Flows and selected Explanatory Notes.

The interim Group financial statements as at 30 June 2015 are prepared in accordance with IFRS as approved and published by the International Accounting Standards Board (IASB) and adopted by the European Union. In doing so, particular attention has been paid to applying IAS 34 (Interim financial reporting).

In the interim Group financial statements, the same accounting policies have basically been applied as in the consolidated financial statements of HSH Nordbank as at 31 December 2014.

In accordance with IAS 34.C4, HSH Nordbank does not prepare any pension obligation reviews in the course of the current fiscal year and bases its figures on the data from the last expert opinion made as at 31 December 2014. Each quarter it is assessed whether essential parameters related to pension provisions have changed. If this is the case, these are adjusted accordingly and are taken into account in accounting (in particular changes in the discount factor).

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

IFRIC 21 – Levies

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It provides guidance on when a current liability arises for levies imposed by the public sector and whether a provision or liability should be recognised. The scope of the Interpretation does not include in particular fines and taxes that result from agreements subject to public law or are within the scope of another Standard, for example IAS 12 Income Taxes. Under IFRIC 21 a liability is recognised if the obligating event triggering the liability to pay the levy occurs. This obligating event that creates the liability follows in turn from the wording of the underlying standard. In this regard, its wording is crucial for the accounting to be applied.

Improvements to IFRS 2011–2013

Changes were made to four Standards as part of the Annual Improvement Project. The existing rules are to be clarified by amending the wording in individual IFRS. The Standards affected are IFRS 1, IFRS 3, IFRS 13 and IAS 40.

The above-mentioned Standards do not materially affect the consolidated financial statements of HSH Nordbank.

In addition to the IFRS HSH Nordbank has also complied with the German Accounting Standard GAS 16 Interim Financial Reporting in preparing this interim report.

We refer to the comments in the “Opportunities and risks from the state aid proceedings” section in the interim Group management report with regard to the assumption of a going concern. It is stated there, that 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.

These interim Group financial statements were reviewed by an auditor.

All facts up to 25 August 2015 were taken into account.

2. PROVISION OF A GUARANTEE FACILITY

Basics of the effect of the second loss guarantee

The hedging effect of the guarantee is fundamentally described in the Annual Report as at 31 December 2014.

The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee 1 relates to structured financial instruments, particularly those that are full or partial derivatives in nature, and equity instruments. Partial guarantee 1 is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee 2 is recognised as a credit derivative. The hedging effect of partial guarantee 2 amounted to € 27 million as at 30 June 2015 (previous year: € 7 million). An additional premium in the amount of € 4 million was recorded for this (previous year: € 1 million).

The guarantee reduced to € 7 billion in 2011 was replenished to the original amount of € 10 billion on 30 June 2013. The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process, which will probably be concluded this year. The guarantee agreement was adjusted by way of an appropriate amendment agreement. Under this agreement the fee provisions for the re-increased guarantee remain essentially unchanged. A one-off payment of € 275 million for the re-increased amount becomes payable on the coming into force of the amendment agreement. This puts the guarantor in a position as if the guarantee had never been reduced. The one-off payment of € 275 million represents a fee for a time-related guarantee service and is amortised over the period of the expected benefit. In the first half of 2015 € 34 million (previous year: € 57 million) was recognised in the Expenses for government guarantees line item.

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 ex post and ex ante perspective) excluding hybrid capital (common equity ratio) of HSH Nordbank to below 10 % (minimum common equity ratio) or of increasing an already existing shortfall, the guarantor is obliged to waive the portion of the entitlement that would result in the ratio falling below the minimum common equity ratio against the issue of a debtor warrant (so-called capital protection clause).

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, a 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 under the debtor warrant arise. A debt waiver was recognised as at 30 June 2015. The conditions for a debtor warrant have not been met as at the reporting date. The debt waiver increases the compensation item and thus the hedging effect by € 1,026 million (31 December 2014: € 781 million).

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will in the future exceed the first loss piece of € 3.2 billion to be borne by the bank. This means that future expected fees (base and additional premium) for the second loss guarantee need to be recognised in loan loss provisions. These amounted to € 526 million as at 30 June 2015 (31 December 2014: € 575 million) and are offset against the compensation item. An amount of € 338 million (31 December 2014: € 384 million) is attributable to the future additional premium (ex ante additional premium) and € 188 million (31 December 2014: € 191 million) to the future base premium (ex ante base premium).

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 € 5,563 million as at 30 June 2015 (31 December 2014: € 4,999 million).

Accordingly, an amount of € 5,563 million was initially recognised in loan loss provisions as the hedging effect as at 30 June 2015. An additional premium of 3.85 % was computed with respect to this amount from 1 April 2009 through 30 June 2015 and recognised in the amount of € 1,358 million (31 December 2014: € 1,123 million) in loan loss provisions, of which € 235 million (previous year: € 99 million) had a negative effect on the net income in the first half of 2015.

After taking into account all components to be offset under the agreement the compensation item in loan loss provisions disclosed on the balance sheet is € 4,697 million (31 December 2014: € 4,074 million). The corresponding compensation effect in loan loss provisions in the income statement amounts to € 620 million (previous year: € 574 million).

HEDGING EFFECT OF THE GUARANTEE

(€ m)	**30.06.2015**	31.12.2014	**January – June 2015**		January – June 2014	
	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	5,563	4,999	564	–	100	–
Additional premium ex post	– 1,358	– 1,123	– 235	–	– 99	–
Debt waiver	1,026	781	245	–	573	– 3
Debtor warrant	–	–	–	–	–	–
Base and additional premium ex ante	– 526	– 575	46	3	–	– 18
Claim for compensation of interest	– 8	– 8	–	–	–	1
Compensation under the second loss guarantee	**4,697**	**4,074**	**620**	**3**	**574**	**– 20**

Since the 2009 reporting year HSH Nordbank has recognised premium expense totalling € 3,846 million through profit or loss for the provision of the second loss guarantee. Income from the debt waiver under the guarantee amounted to € 289 million in the first half of 2015. This includes the reversal of the additional premium (ex ante) of € 44 million which results from the reduction in the residual maturity of the guarantee and is disclosed under base and additional premium ex ante.

3. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, the scope of consolidation includes 64 fully consolidated subsidiaries (31 December 2014: 64).

Three associates (31 December 2014: three) and one joint venture (31 December 2014: one) consolidated under the equity method as at the balance sheet date were 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 in which HSH Nordbank directly or indirectly holds 100 % of the equity interests	Registered office	**Share of equity capital in % as at 30 06 2015**	Share of equity capital in % as at 31 12 2014
1. Avia Management S.à.r.l.	Luxembourg	100.0	100.0
2. BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	100.0	100.0
3. Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
4. CAPCELLENCE Dritte Fondsbeteiligung GmbH [4)]	Hamburg	100.0	100.0
5. CAPCELLENCE Erste Fondsbeteiligung GmbH [3)]	Hamburg	100.0	100.0
6. CAPCELLENCE Holding GmbH & Co. KG [6)]	Hamburg	100.0	100.0
7. CAPCELLENCE Zweite Fondsbeteiligung GmbH [4)]	Hamburg	100.0	100.0
8. CHIOS GmbH	Hamburg	100.0	100.0
9. DEERS Green Power Development Company S.L. [8)]	Madrid	100.0	100.0
10. GODAN GmbH	Hamburg	100.0	100.0
11. HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
12. HSH Facility Management GmbH	Hamburg	100.0	100.0
13. HSH Gastro+Event GmbH [5)]	Hamburg	100.0	100.0
14. HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
15. HSH N Financial Securities LLC	New York	100.0	100.0
16. HSH N Residual Value Ltd.	Hamilton	100.0	100.0
17. HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
18. HSH Private Equity GmbH	Hamburg	100.0	100.0
19. Ilex Integra GmbH [1)]	Hamburg	100.0	100.0
20. ISM Agency LLC [7)]	New York	100.0	100.0
21. Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
22. Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
23. Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0	100.0
24. Solar Holding S.à.r.l.	Luxembourg	100.0	100.0
25. Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
26. 2200 Victory LLC	Dover	100.0	100.0

CONSOLIDATED COMPANIES

Subsidiaries with non-controlling interests	Registered office	Share of equity capital in % as at 30 06 2015	Share of equity capital in % as at 31 12 2014
27. Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG [9]	Wiesbaden	–	–
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	83.3
40. Castellum ABF S.A. [9]	Luxembourg	–	–
41. Franz Portfolio 2 GmbH & Co. KG [9]	Hamburg	–	–
42. GmbH Altstadt Grundstücksgesellschaft [9]	Wiesbaden	50.0	50.0
43. HSH Care+Clean GmbH [5]	Hamburg	51.0	51.0
44. HSH Move+More GmbH [5]	Kiel	51.0	51.0
45. HSH N Funding II [9]	George Town	56.3	56.3
46. Kontora Family Office GmbH	Hamburg	75.0	75.0
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	Share of equity capital in % as at 30.06.2015	Share of equity capital in % as at 31.12.2014
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] Subsidiary of Capcellence Holding GmbH & Co. KG.
[3] Subsidiary of Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG.
[4] Subsidiary of Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG.
[5] Subsidiary 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 following companies were included for the first time in the scope of consolidation on a fully consolidated basis:

- BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg
- GmbH Altstadt Grundstücksgesellschaft, Wiesbaden
- Castellum ABF S.A., Luxembourg
- CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg

BINNENALSTER-Beteiligungsgesellschaft mbH, which is wholly owned by HSH Nordbank AG, holds 50% of the capital and voting rights of GmbH Altstadt Grundstücksgesellschaft (GmbH Altstadt), whose principal assets comprise properties which are leased to the HSH Nordbank Group on a long-term basis. HSH Nordbank holds a purchase option on the leased assets of GmbH Altstadt, which is exercisable at the end of the lease agreement term. GmbH Altstadt had previously been controlled by voting rights and was classified as a joint venture. The company had not previously been consolidated in the Group financial statements due to immateriality.

The significant contractual basis between HSH Nordbank and the special-purpose company was amended with effect from 1 April 2015. These amendments, which address the requirements of HSH Nordbank as lessee, consist mainly of the replacement of GmbH Altstadt's external financing by HSH Nordbank and the adjustment of the lease agreements to the new financing structure.

At the time the above-mentioned structural adjustments were made, control as defined in IFRS 10 was reassessed. As a result of this re-assessment the special purpose company is now a structured entity, in which voting rights are not the dominant factor in assessing the power of disposal. The relevant activity of GmbH Altstadt – the management of the leased property at the end of the lease relationship – can be controlled by HSH Nordbank by means of the purchase option.

HSH Nordbank has had control over GmbH Altstadt since 1 April 2015 through this power of disposal. Obtaining control is based on a change to the contractual basis without change in the shareholding ratio.

The revaluation of the shares already held by HSH Nordbank prior to the acquisition date in accordance with IFRS 3.42 did not have a material impact on income.

The fair values of the identified assets and liabilities of GmbH Altstadt after revaluation that were included in the first-time consolidation as at 1 April 2015 are summarised in the following overview:

(€ m)	Carrying amount before acquisition	Pre-existing relationship	Adjustment	**Fair value**
Assets				
Property, plant and equipment	150.7	–	–12.7	138.0
Other assets	0.4	–	–	0.4
	151.1	**–**	**–12.7**	**138.4**
Liabilities				
Liabilities to banks	150.3	–137.6	–12.7	0.0
Other liabilities	1.3	–	–	1.3
	151.6	**–137.6**	**–12.7**	**1.3**
Net assets as at the acquisition date	**–0.5**	**137.6**	**–**	**137.1**
Share of net assets attributable to non-controlling interests	**–**		**–**	**–0.2**
Fair value of old shares				**0.0**
Total consideration				**150.3**
Difference				**13.0**

The consideration shown in the overview results from the fair value of the loan relationship (€ 137.6 million) deemed to have been fulfilled through the business combination and the amount by which the lease relationship deemed to have been fulfilled by the business combination is unfavourable for HSH Nordbank (€ 12.7 million). A cash consideration was not paid to obtain control. A difference of € 13.0 million arises from the business combination as defined in IFRS 3, which is initially recognised as goodwill.

Under IFRS 3 the previous loan and lease relationships are deemed to have been fulfilled or terminated by the business combination. A loss of € 12.7 million arising from the termination of the loan relationship was recognised in the reporting period, which is disclosed under other operating income. A profit of € 12.7 million arising from the termination of the previous lease relationship was recognised in the reporting period, which is disclosed under other operating income.

The cumulative results of GmbH Altstadt included in the Group financial statements as at 30 June 2015 amount to € -0.3 million.

As the goodwill resulting from the business combination was allocated to the Corporate Center cash-generating unit, an unscheduled impairment test was performed for the cash-generating unit based on the determination of the value in use. As a result of the impairment test the allocated goodwill (€ 13.0 million) was fully written off and is disclosed under other operating income.

The structured entity Castellum ABF S.A. started its business activities in the reporting period and is controlled by HSH Nordbank AG by means of contractual rights.

B) Disposals

Contrary to the inclusion as at 31 December 2014, the following companies are no longer included in the scope of fully consolidated companies:

- AGV Irish Equipment Leasing No. 1 unlimited, Dublin
- K/S Angered, Copenhagen
- LCG Finance II B.V., Vught, Luxembourg
- HSH N Funding I , George Town

AGV Irish Equipment Leasing No. 1 unlimited was not included in the scope of consolidation due to its liquidation on 20 May 2015. The deconsolidation did not have any material effect on income.

K/S Angered is a borrower, whose purpose is to hold and manage a property financed by HSH Nordbank. HSH Nordbank has held an option, exercisable at any time, on the company's shares since June 2013. Due to these potential voting rights K/S Angered has been consolidated as a subsidiary in the consolidated financial statements since June 2013. In May 2015 HSH Nordbank assessed the option as not being economically advantageous and changed its strategy with the effect that its rights associated with the option are no longer substantial. HSH Nordbank has thereby lost control of K/S Angered. A profit of € 28.1 million resulted from the deconsolidation of K/S Angered due to the loss of control, which is disclosed under Other operating income.

Insolvency proceedings regarding the assets of LCG Finance II B.V. were commenced on 3 March 2015. Following the commencement of insolvency proceedings HSH Nordbank no longer has any decision-making powers over the relevant activities of this company. A profit of € 8.9 million resulted from the deconsolidation, which is disclosed under Other operating income. HSH N Funding I was not included in the scope of consolidation due to its liquidation on 31 March 2015. The deconsolidation did not have any material effect on income.

C) Changes in ownership interests in subsidiaries

There have been no material changes in the ownership interests held by HSH Nordbank in a subsidiary in the period under review which did not result in a loss of control.

II. Information on shares held in associates and joint ventures accounted for under the equity method

A) General information

As at 30 June 2015 no new companies were included for the first time, and no companies were no longer included in the consolidated financial statements under the equity method.

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 companies, because decisions have to be explicitly made on 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 any shares in joint ventures material for the Bank that are consolidated under the equity method.

ASSOCIATES MATERIAL TO HSH NORDBANK CONSOLIDATED UNDER THE EQUITY METHOD

in %			Shares (voting right)	
	Business activities	Registered office	**30.06.2015**	31.12.2014
Relacom Management AB	Holding company for a Scandinavian telco service provider group	Stockholm, Sweden	21.2 (21.2)	21.2 (21.2)

Relacom Management AB is a non-strategic participation of HSH Nordbank AG.

B) Changes in equity holdings

There were no changes in ownership interests of HSH Nordbank in an associate or joint ventures in the period under review which did not result in a loss of control or of significant influence.

C) Summarised financial information

The following table shows the summarised financial information of Relacom Management AB, a material associate of HSH Nordbank, together with reconciliation to the carrying amount of the share measured under the equity method held by HSH Nordbank AG as at 30 June 2015 and 31 December 2014.

(€ m) **30.06.2015**	**Relacom Management AB**
Revenue/Sales revenue	201
Net loss for the year	– 96
Other income or loss	5
Total comprehensive income	**– 91**
Total current assets	131
Total non-current assets	250
Total current liabilities	137
Total non-current liabilities	98
Net assets of the associate	**146**
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's share accounted for under the equity method	**–**

(€ 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
of 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's share accounted for under the equity method	**–**

The summarised financial disclosures relating to the remaining associates included in the consolidated financial statements under the equity method, which in themselves are not material to HSH Nordbank, amount to individual values of less than € 1 million in respect of all components and are therefore also not presented here due to the immateriality of such summarised information. The impact of entities no longer included under the equity method can be found in Note 9.

Financial statements of Belgravia Shipping Ltd. prepared as at 31 March 2015 were used to consolidate Belgravia Shipping Limited as at 30 June 2015. There is no evidence indicating that material transactions or other significant events occurred between this reporting date and HSH Nordbank's reporting date that would have to be taken into account.

The reporting date of PRIME 2006-1 Funding Limited Partnership differs from HSH Nordbank's reporting date by three months (financial year ends on 30 September). The financial statements as at 31 March 2015 were used for the inclusion of the company in these consolidated financial statements. No significant transactions that would require an adjustment to the reporting date of the consolidated financial statements have occurred since then.

D) Risks and restrictions

In connection with companies consolidated under the equity method, HSH Nordbank is neither exposed to risks from unrecognised obligations to these companies nor are there any restrictions within the meaning of IFRS 12.22 in connection with these companies.

Additional information on companies to be accounted for under the equity method may be found under Notes 9 and 24.

III. Information on consolidated structured entities

HSH Nordbank's scope of consolidation includes 27 fully consolidated structured entities. Twenty of these are fully consolidated structured entities due to a principal-agent relationship or contractual rights.

NOTES ON THE GROUP INCOME STATEMENT

4. NET INTEREST INCOME

NET INTEREST INCOME

(€ m)	**January – June 2015**	January– June 2014
Interest income from		
Lending and money market transactions	803	853
Fixed-interest securities	171	211
Trading transactions	5	7
Derivative financial instruments	1,188	1,455
Unwinding	108	109
Disposal of receivables	18	-
Current income from		
Equities and other non-fixed-interest securities	4	4
Equity holdings in non-affiliated companies	6	3
Other holdings	8	5
Interest income	**2,311**	**2,647**
of which attributable to financial instruments not classified as HfT or DFV	995	1,045
Interest expenses for		
Liabilities to banks	119	149
Liabilities to customers	333	405
Securitised liabilities	227	271
Subordinated capital	42	45
Other liabilities	8	25
Disposal of receivables	3	1
Derivative financial instruments	1,071	1,360
Interest expenses	**1,803**	**2,256**
of which attributable to financial instruments not classified as HfT or DFV	482	587
Net income from discounting and compounding	–60	–160
Net income from hybrid financial instruments	**–60**	**–160**
of which attributable to financial instruments not classified as HfT or DFV	–60	–160
Total	**448**	**231**

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expenses from/for trading and hedging derivatives.

Net interest income includes income and expense arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from the closing of the underlying transactions that contributed to the adjustment item.

Interest income from impaired loans and advances are determined by compounding the present value of the expected payment flows at the original effective rate of interest (unwinding).

Interest income for the first half of 2015 contains negative interest income of € –18 million due to the negative interest rate environment. Interest expense contains negative interest expense of € 9 million for the same period.

The term hybrid financial instruments covers silent participations, profit participations and bonds measured at amortised acquisition cost, the return on which is profit-related and which participate in the net loss for the year and accumulated losses of the Bank.

Net income or loss from hybrid financial instruments includes both the effects on profit/loss resulting from the application of IAS 39.A8 as well as the current interest income from these instruments.

The cumulative net income from hybrid financial instruments amounts to € 297 million (previous year: € 404 million). € 1,430 million is attributable to the result from re-estimating interest and principal repayment cash flows (previous year: € 1,424 million) and € –1,133 million is attributable to the income/loss from discounting and compounding (previous year: € –1,020 million).

The difference between the valuation for tax purposes and measurement under IAS 39.A8 results in deferred tax assets of € 7 million (previous year: € 10 million deferred tax assets).

5. NET COMMISSION INCOME

NET COMMISSION INCOME

(€ m)	January – June 2015	January– June 2014
Commission income from		
Lending business	43	58
Securities business	11	15
Guarantee business	10	9
Payments and account transactions as well as documentary business	11	11
Other commission income	6	6
Commission income	**81**	**99**
Commission expenses from		
Lending business	2	4
Securities business	9	15
Guarantee business	3	3
Payments and account transactions as well as documentary business	2	2
Other commission expenses	3	2
Commission expenses	**19**	**26**
Total	**62**	**73**

Financial instruments not classified as HfT or DFV accounted for € 62 million (previous year: € 74 million) of Net commission income.

6. RESULT FROM HEDGING

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relationships is reported under the item Result from hedging. The item contains the corresponding profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

RESULT FROM HEDGING

(€ m)	January – June 2015	January – June 2014
Fair value changes from hedging transactions	– 63	1
Micro fair value hedge	– 3	– 20
Portfolio fair value hedge	– 60	21
Fair value changes from underlyings	71	– 13
Micro fair value hedge	10	21
Portfolio fair value hedge	61	– 34
Total	**8**	**– 12**

7. 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 in these categories are disclosed under Net interest income.

Gains and losses arising 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)	**January – June 2015**	January – June 2014
Bonds and interest rate derivatives		
HfT	145	34
DFV	– 42	75
Subtotal	**103**	**109**
Equities and equity derivatives		
HfT	74	26
DFV	– 73	– 29
Subtotal	**1**	**– 3**
Other products		
HfT	– 26	6
DFV	–	–
Subtotal	**– 26**	**6**
Total	**78**	**112**

Net trading income includes currency translation gains or losses of –€ 37 million (same period of the previous year: € 4 million).

In the reporting period € 5 million (same period of the previous year: € 22 million) of the fair value changes of financial assets classified as DFV related to changes in the credit spread rather than to changes in market interest rates. In cumulative terms, a total of € –12 million (previous year: € 6 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 € –3 million (same period of the previous year: € –23 million). In cumulative terms, a total of € –33 million (previous year: € 1 million) is attributable to changes in the credit spread.

8. NET INCOME FROM FINANCIAL INVESTMENTS

In addition to any realised gains and losses from financial investments classified as loans and receivables (LaR) and Available for Sale (AfS), write-downs and write-ups and portfolio valuation allowances are reported under this item. In the case of financial investments classified as AfS, write-ups are only recognised in the income statement for debt instruments up to a maximum of the amortised cost.

NET INCOME FROM FINANCIAL INVESTMENTS

(€ m)	**January – June 2015**	January – June 2014
Classified as AfS		
+ Realised gains (+)/ losses(–)	19	157
– Write-downs	12	1
+ Write-ups	–	2
Subtotal	**7**	**158**
Classified as LaR		
+ Realised gains/losses(–)	–	26
– Write-downs	9	–
+ Write-ups	39	44
Subtotal	**30**	**70**
+ Reversal of portfolio valuation allowances (LaR portfolios)	19	12
Subtotal	**19**	**12**
Total	**56**	**240**

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

As at the 30 June 2015 reporting date, HSH Nordbank owns shares in three associates and one joint venture (previous year: three associates and one joint venture) that are included in the consolidated financial statements under the equity method (see Note 3).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 30 June 2015 is summed up below.

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	**January – June 2015**	January – June 2014
Pro rata net income for the period	–	2
Impairments	–	–
Total	**-**	**2**

An impairment test of the other equity interests measured using the equity method in accordance with IAS 36 as at 30 June 2015 did not result in the need to recognise any additional impairment losses.

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 € –24 million (previous year: € -16 million) was no longer recorded in the current period.

The accumulated non-recognised pro rata share in the losses of these companies amounts to € -56 million (same period of the previous year: € –30 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 significant net income from financial investments accounted for under the equity method is disclosed in the Restructuring Unit segment (Relacom Management AB).

10. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	January – June 2015	January – June 2014
– Expenses from additions to valuation allowances	682	553
+ Income from the reversal of valuation allowances	451	434
Result from changes in valuation allowances	**– 231**	**– 119**
– Expenses from allocations to provisions in the lending business	8	9
+ Income from reversal of provisions in the lending business	12	47
Result from changes to provisions in the lending business	**4**	**38**
– Direct write-downs	76	185
+ Payments received on loans and advances previously written down	104	71
Result from other changes in loan loss provisions	**28**	**– 114**
Result from changes in loan loss provisions before currency translation gains or losses and compensation	**– 199**	**– 195**
Currency translation gains or losses on loan loss provisions denominated in foreign currency	**– 301**	**– 42**
Compensation under the second loss guarantee	**620**	**574**
Total loan loss provisions	**120**	**337**

We refer to Note 2 with regard to the compensation item relating to HSH Finanzfonds AöR.

Direct write-downs of € 76 million (same period of the previous year: € 185 million) relate entirely to Loans and advances to customers.

Loan loss provisions for on-balance-sheet lending business relate solely to loans and advances classified as LaR. The following table shows the net changes:

NET CHANGES IN LOAN LOSS PROVISIONS

(€ m)	January – June 2015	January – June 2014
Individual valuation allowances	– 220	– 135
Portfolio valuation allowances	– 11	16
Net change in valuation allowances in the lending business	**– 231**	**– 119**
Provisions for specific risks	3	33
Provisions for portfolio risks	1	5
Net change in provisions in the lending business	**4**	**38**

11. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)	January – June 2015	January – June 2014
Personnel expenses	141	146
Operating expenses	140	161
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	21	31
Total	**302**	**338**

Only scheduled depreciation and amortisation are included in the depreciation and amortisation line item. No unscheduled depreciation was recognised in the reporting period (same period of the previous year: € 2 million for technical equipment and machinery).

12. OTHER OPERATING INCOME

OTHER OPERATING INCOME

(€ m)	**January – June 2015**	January – June 2014
Other operating income	150	119
Other operating expenses	111	65
Total	**39**	**54**

Other operating income and expenses mainly include cost reimbursements, leasing income, income and expenses from investment properties as well as results from interest receivables/liabilities to the tax authorities and amortisation of goodwill.

Other operating income includes income from the reversal of € 26 million of processing fees in the lending business. These were initially recognised as at 31 December 2014. A reassessment of the refunds based on current data resulted in the reduction of the provision.

Amortisation of the goodwill recognised on the first-time consolidation of GmbH Altstadt Grundstücksgesellschaft amounting to € 13 million is included in Other operating expenses. The amortisation is allocated to the Corporate Center segment. Further information regarding this can be found in Note 3.

13. EXPENSE FOR EUROPEAN BANK LEVY

EXPENSE FOR EUROPEAN BANK LEVY

(€ m)	**January - June 2015**	January - June 2014
Expense for European bank levy	40	–
Total	**40**	**-**

The annual contribution for the bank levy harmonised at the EU level by the Bank Recovery and Resolution Directive (BRRD) is set at the latest by 30 November 2015 by FMSA as the Resolution Authority responsible for Germany. The provision is therefore determined on the basis of an internal estimate, the amount of which is subject to uncertainty .

In accordance with the amended Resolution Fund Regulation that came into force on 1 January 2015, the obligating event that, under IFRIC 21, gives rise to the liability to pay the bank levy is the start of a new financial year. From the beginning of 2015 the bank levy has therefore been recognised in full at the beginning of the year and no longer accrued on a pro rata basis.

14. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING

(€ m)	**January – June 2015**	January – June 2014
Personnel expenses	–	–
Operating expenses	13	11
Income from the reversal of provisions	1	3
Total	**-12**	**-8**

The result from restructuring is primarily attributable to the implementation of the cost reduction and efficiency enhancement programme initiated in the fourth quarter of 2014.

15. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES

(€ m)	**January – June 2015**	January – June 2014
HSH Finanzfonds AöR	235	259
Total	**235**	**259**

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. The expenses for the first half of 2015 include a pro rata amount of € 34 million relating to the one-off payment made for the replenishment of the second loss guarantee (same period in the previous year: € 57 million) in addition to the current guarantee premium of 4 % of the nominal amount of the guarantee.

16. EARNINGS PER SHARE

To calculate Earnings per share, the Group net result attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the period under review. As in the previous year, HSH Nordbank AG has not issued any diluted forms of capital as at 30 June 2015, i. e. diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

EARNINGS PER SHARE

Earnings per share	**January – June 2015**	January – June 2014
Attributable Group net result (€ m) – undiluted/diluted	147	300
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.49	0.99
Diluted	0.49	0.99

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

17. CASH RESERVE

CASH RESERVE

(€ m)	30.06.2015	31.12.2014
Cash on hand	8	12
Balances at central banks	6,948	5,542
of which: at the Deutsche Bundesbank	5,744	2,071
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	431	413
of which: eligible for refinancing at the Deutsche Bundesbank	406	406
Total	**7,387**	**5,967**

18. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)	30.06.2015	31.12.2014
Payable on demand	3,426	4,476
Other loans and advances	3,073	2,439
Total	**6,499**	**6,915**

19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)	30.06.2015	31.12.2014
Retail customers	1,562	1,607
Corporate clients	59,488	59,720
Public authorities	5,705	6,009
Total	**66,755**	**67,336**

20. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	30.06.2015	31.12.2014
Valuation allowances for loans and advances to banks	15	15
Valuation allowances for loans and advances to customers	5,916	6,120
Loan loss provisions	**5,931**	**6,135**
Compensation under the second loss guarantee	–4,697	–4,074
Loan loss provisions for items in the statement of financial position	**1,234**	**2,061**
Provisions in the lending business	94	98
Loan loss provisions for items in the statement of financial position and provisions for off-balance-sheet risksin the lending business	**1,328**	**2,159**

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 reflected in the statement of financial position through the recognition of a compensation item, which decreases loan loss provisions accordingly (see Note 2).

The change in loan loss provisions for loans and advances to 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	
	30.06.2015	31.12.2014	30.06.2015	31.12.2014	30.06.2015	31.12.2014
As at 1 January	**14**	**125**	**1**	**1**	**15**	**126**
Additions	–	–	–	–	–	–
Reversals	–	4	–	–	–	4
Utilisation	–	90	–	–	–	90
Reclassifications	–	– 18	–	–	–	– 18
Unwinding	–	–	–	–	–	–
Exchange rate changes	–	1	–	–	–	1
As at 30 June 2015/31 December 2014	**14**	**14**	**1**	**1**	**15**	**15**

The change in loan loss provisions for loans and advances to customers during the reporting period is shown below:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS BEFORE COMPENSATION

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	30.06.2015	31.12.2014	30.06.2015	31.12.2014	30.06.2015	31.12.2014
As at 1 January	**5,777**	**5,811**	**343**	**360**	**6,120**	**6,171**
Additions	671	1,559	11	–	682	1,559
Reversals	451	989	–	35	451	1,024
Utilisation	719	861	–	–	719	861
Reclassifications	–	18	–	–	–	18
Unwinding	– 108	–215	–	–	– 108	–215
Changes in the scope of consolidation	47	52	–	–	47	52
Exchange rate changes	332	402	13	18	345	420
As at 30 June 2015/31 December 2014	**5,549**	**5,777**	**367**	**343**	**5,916**	**6,120**

The valuation allowances relate exclusively to items categorised as loans and receivables (LaR).

21. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

The positive fair value of derivatives used in hedge accounting is accounted for in this item. Only interest rate and cross-currency swaps are currently taken into account as hedging instruments. 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 risk.

Changes in this item are directly related to changes in the item Negative fair value of the 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.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

(€ m)	**30.06.2015**	31.12.2014
Positive fair value of derivatives used in micro fair value hedges	88	102
Positive fair values of derivatives used in portfolio fair value hedges	941	1,303
Total	**1,029**	**1,405**

22. TRADING ASSETS

Only financial assets classified as HfT are stated under Trading assets. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

TRADING ASSETS

(€ m)	**30.06.2015**	31.12.2014
Debentures and other fixed-income securities	1,289	1,471
Shares and other non-fixed-interest securities	1	2
Positive fair value of financial derivatives	6,871	7,681
Other, including promissory notes held for trading	25	9
Receivables from syndicated transactions	100	–
Total	**8,286**	**9,163**

23. FINANCIAL INVESTMENTS

Financial investments include specifically financial instruments not held for trading classified as AfS and LaR and, to a lesser extent, as DFV. This item includes bonds and other fixed-income securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies and holdings in associates and joint ventures not carried at equity in the consolidated financial statements due to immateriality.

FINANCIAL INVESTMENTS

(€ m)	**30.06.2015**	31.12.2014
Debentures and other fixed-interest securities	16,336	18,218
Shares and other non-fixed-interest securities	309	305
Equity holdings in non-affiliated companies	154	164
Interests in affiliated companies	1	1
Total	**16,800**	**18,688**

24. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Shares in associates and joint ventures included in the consolidated financial statements under the equity method are reported in this item.

HSH Nordbank held shares in three associates and one joint venture as at 30 June 2015 (31 December 2014: three associates and one joint venture) that are included in the consolidated financial statements under the equity method. The carrying amount was € 0 million as at 30 June 2015 (31 December 2014: € 1 million).

An overview of the associates and joint venture included in the consolidated financial statements under the equity method can be found in Note 3. Net income from financial investments accounted for under the equity method is disclosed in Note 9.

25. INTANGIBLE ASSETS

INTANGIBLE ASSETS

(€ m)	**30.06.2015**	31.12.2014
Software	22	26
Developed in-house	11	14
Acquired	11	12
Software in development	–	1
Acquired	–	1
Total	**22**	**27**

26. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

(€ m)	**30.06.2015**	31.12.2014
Land and buildings	214	77
Plant and equipment	12	55
Leased assets	174	227
Assets under construction	3	3
Technical equipment and machinery	79	37
Total	**482**	**399**

The increase in land and buildings is attributable to the first-time consolidation of GmbH Altstadt. Further information regarding this can be found in Note 3.

All property held to earn rent or for capital appreciation, but which is not used for the Bank's business activities, is disclosed as investment property. Real estate leased as lessor in the operating leasing business is also included in this item.

INVESTMENT PROPERTY

(€ m)	**30.06.2015**	31.12.2014
Investment property	76	185
Total	**76**	**185**

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

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	**30.06.2015**	31.12.2014
Loans and advances to banks	1	–
Loans and advances to customers	–	34
Property, plant and equipment	61	–
Total	**62**	**34**

This item mainly contains loans and advances to the consolidated subsidiary Amentum Aircraft Leasing No. Ten Limited. It is highly likely that the two aircraft held by this subsidiary will be sold within the next twelve months.

The loans and advances to customers disclosed in the previous year were sold in the reporting period.

28. DEFERRED TAX ASSETS

€ 160 million (31 December 2014: € 190 million) of the deferred tax assets of € 1,076 million (31 December 2014: € 1,190 million) relate to tax loss carryforwards. HSH Nordbank's medium-term income planning shows that the Bank will have sufficient taxable income available in the future, against which the underlying loss carryforwards can be utilised.

29. OTHER ASSETS

OTHER ASSETS

(€ m)	**30.06.2015**	31.12.2014
Unamortised balance of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee	57	91
Tenant loans	–	26
Receivables from insurance contracts	20	20
Other prepaid expenses	10	12
Receivables from participations and affiliated companies	8	7
Receivables from other taxes	6	2
Receivables from fund transactions	1	2
Other assets	82	78
Total	**184**	**238**

€ 86 million of the assets disclosed in the table relate to financial instruments (31 December 2014: € 84 million).

30. LIABILITIES TO BANKS

LIABILITIES TO BANKS

(€ m)	**30.06.2015**	31.12.2014
Payable on demand	1,618	1,246
Other term liabilities	11,917	13,301
Total	**13,535**	**14,547**

31. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS

(€ m)	**30.06.2015**	31.12.2014
Savings deposits	26	26
Other liabilities		
Payable on demand	15,669	13,318
Term liabilities	30,837	29,821
Total	**46,532**	**43,165**

32. SECURITISED LIABILITIES

SECURITISED LIABILITIES

(€ m)	30.06.2015	31.12.2014
Debentures issued	25,060	27,591
Money market securities issued	16	43
Total	**25,076**	**27,634**

Debentures issued include € 669 million of hybrid financial instruments (31 December 2014: € 628 million). The carrying amount of these hybrid financial instruments was determined based on assumptions relating to the future earnings of HSH Nordbank (IAS 39.A8 measurement).

Repurchased own debentures in the amount of € 3,282 million (31 December 2014: € 3,611 million) were deducted in the securitised liabilities item.

33. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

This item shows the negative fair values of derivatives used in hedge accounting. Only interest rate swaps are currently being taken into account as hedging instruments. 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)	30.06.2015	31.12.2014
Negative fair value of derivatives used in micro fair value hedges	106	139
Negative fair value of derivatives used in portfolio fair value hedges	722	1,017
Total	**828**	**1,156**

Changes in this item are directly related to changes in the item Positive fair value of the hedging derivatives (see Note 21). The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

34. TRADING LIABILITIES

Only financial liabilities classified as HfT are disclosed under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as hedging derivatives or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

TRADING LIABILITIES

(€ m)	30.06.2015	31.12.2014
Negative fair values of derivative financial instruments		
Interest-rate-related business	6,819	8,278
Currency-related business	250	274
Other business	594	694
Total	**7,663**	**9,246**

35. PROVISIONS

PROVISIONS

(€ m)	**30.06.2015**	31.12.2014
Provisions for pension obligations and similar obligations	1,057	1,122
Other provisions		
Provisions for personnel expenses	31	41
Provisions in the lending business	94	98
Provisions for restructuring	133	171
Provisions for litigation risks and costs	46	50
Miscellaneous	268	217
Total	**1,629**	**1,699**

The net change in provisions for pension obligations of € –65 million comprises the payment of pensions of € 23 million, additions of € 34 million as well as reversals of € 76 million. The reduction in pension obligations is primarily attributable to the increase in market interest rate levels.

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

PROVISIONS IN THE LENDING BUSINESS

(€ m)	**30.06.2015**	31.12.2014
Specific loan loss provisions for		
Contingent liabilities	26	30
Irrevocable loan commitments	13	8
Other credit risks	5	9
Total	**44**	**47**
Portofolio loan loss provisions for		
Contingent liabilities	42	43
Irrevocable loan commitments	8	8
Subtotal	**50**	**51**
Total	**94**	**98**

36. OTHER LIABILITIES

OTHER LIABILITIES

(€ m)	**30.06.2015**	31.12.2014
Collateral provided for liabilities assumed	790	764
Outstanding payments for the second loss guarantee	100	102
Liabilities for outstanding invoices	30	45
Other tax liabilities	18	16
Liabilities for restructuring	18	6
Deferred income	13	16
Personnel liabilities	13	11
Other	60	84
Total	**1,042**	**1,044**

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

€ 981 million of the liabilities reported here relate to financial instruments (31 December 2014: € 1,011 million).

37. SUBORDINATED CAPITAL

SUBORDINATED CAPITAL

(€ m)	**30.06.2015**	31.12.2014
Subordinated liabilities	4,145	4,128
Silent participations	1,415	1,352
Profit participation capital	13	27
Total	**5,573**	**5,507**

The carrying amounts of silent participations and profit participation capital were determined on the basis of assumptions regarding the future earnings of HSH Nordbank and the exercising of termination and extension options (IAS 39.A8).

38. EQUITY

EQUITY

(€ m)	**30.06.2015**	31.12.2014
Share capital	3,018	3,018
Capital reserve	487	487
Retained earnings	1,140	929
Cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	– 171	– 247
Deferred taxes on cumulative gains and losses arising on the revaluatioin of pension and similar obligations recognised in OCI	54	78
Revaluation reserve	111	108
Currency translation reserve	7	– 16
Group net profit/loss	147	159
Total before non-controlling interests	**4,910**	**4,685**
Non-controlling interests	– 13	– 13
Total	**4,897**	**4,672**

CHANGES IN ORDINARY SHARES

(number of shares)	**30.06.2015**	31.12.2014
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the period	**301,822,453**	**301,822,453**

SEGMENT REPORTING

39. SEGMENT REPORT

(€ m/%)	Shipping, Project & Real Estate Financing		Corporates & Markets		Corporate Center		Consolidation Core Bank		Total Core Bank	
	30.06. 2015	30.06. 2014	**30.06. 2015**	30.06. 2014	**30.06. 2015**	30.06. 2014	**30.06. 2015**	30.06. 2014	**30.06. 2015**	30.06. 2014
Net interest income	248	219	81	91	–33	–194	89	49	385	165
Net commission income	31	28	32	28	–4	–4	–5	–1	54	51
Result from hedging	–	–	–	–	–	–	8	–12	8	–12
Net trading income	16	6	123	103	22	15	–180	–29	–19	95
Net income from financial investments[1]	–	–1	1	29	10	110	–	5	11	143
Total income	**295**	**252**	**237**	**251**	**–5**	**–73**	**–88**	**12**	**439**	**442**
Loan loss provisions	–159	–114	61	–17	4	5	127	169	33	43
Administrative expenses	–78	–79	–151	–157	29	20	2	–2	–198	–218
Other operating income	4	3	5	5	–8	3	6	1	7	12
Expense for European bank levy	–	–	–	–	–	–	–30	–	–30	–
Net income before restructuring	**62**	**62**	**152**	**82**	**20**	**–45**	**17**	**180**	**251**	**279**
Result from restructuring	–	–	–	–	–	–	–9	–6	–9	–6
Expenses for government guarantees	–	–	–	–	–	–	–85	–88	–85	–88
Net income before taxes	**62**	**62**	**152**	**82**	**20**	**–45**	**–77**	**86**	**157**	**185**
Cost/income ratio (CIR)	26%	31%	62%	61%					44%	48%
Return on equity before tax	10%	11%	44%	27%					15%	19%
Average equity	1,228	1,107	697	610	37	61	174	130	2,136	1,908

(€ bn)	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014
Segment assets	**27**	**25**	**32**	**31**	**16**	**18**	**2**	**2**	**77**	**76**

[1] including net income from financial investments accounted for under the equity method.

(€ m/%)	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	30.06. 2015	30.06. 2014	**30.06. 2015**	30.06. 2014	**30.06. 2015**	30.06. 2014	**30.06. 2015**	30.06. 2014
Net interest income	60	82	3	– 16	63	66	448	231
Net commission income	8	22	–	–	8	22	62	73
Result from hedging	–	–	–	–	–	–	8	– 12
Net trading income	57	19	40	– 2	97	17	78	112
Net income from financial investments[1]	45	99	–	–	45	99	56	242
Total income	**170**	**222**	**43**	**– 18**	**213**	**204**	**652**	**646**
Loan loss provisions	– 75	– 67	162	361	87	294	120	337
Administrative expenses	– 104	– 120	–	–	– 104	– 120	– 302	– 338
Other operating income	32	42	–	–	32	42	39	54
Expense for European bank levy	–	–	– 10	–	– 10	–	– 40	–
Net income before restructuring	**23**	**77**	**195**	**343**	**218**	**420**	**469**	**699**
Result from restructuring	–	–	– 3	– 2	– 3	– 2	– 12	– 8
Expenses for government guarantees	–	–	– 150	– 171	– 150	– 171	– 235	– 259
Net income before taxes	**23**	**77**	**42**	**170**	**65**	**247**	**222**	**432**
Cost/income ratio (CIR)							44 %	48 %
Return on equity before tax							9 %	18 %
Average equity	2,388	2,639	261	155	2,649	2,794	4,785	4,702

(€ bn)	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014	**30.06. 2015**	31.12. 2014
Segment assets	**27**	**31**	**4**	**3**	**31**	**34**	**108**	**110**

.[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 and Corporate Center. As at 30 June 2015 the Shipping, Project & Real Estate Financing segment included business conducted with shipping clients, including that under the responsibility of the shipping recovery unit in the Core Bank, with real estate clients as well as the Corporate Finance product division, which provides support to the customer divisions in the form of special financing and advisory solutions. On the one hand, business conducted with corporate clients and with customers in the Energy & Infrastructure division as well as in Wealth Management were combined under the Corporates & Markets segment as at 30 June 2015. On the other hand, this segment is responsible for the development, sales and trading of financial products (capital markets) and the servicing of savings banks, banks and insurance companies. Since the end of 2014 the Corporate Center segment has included the administrative and service divisions, including the transaction banking services (previously Corporates & Markets segment) as well as overall bank positions and equity holdings not allocated to segments.

At the beginning of 2015 the Core Bank's segments were redefined as part of the change in Management Board responsibilities. Under this the Energy & Infrastructure division was allocated to the Corporates & Markets segment (previously Shipping, Project & Real Estate Financing segment). The Corporate Finance division, which was previously part of the Corporates & Markets segment was allocated at the same time to the Shipping, Project & Real Estate Financing segment. The segment amounts disclosed in the previous year were adjusted accordingly.

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 further.

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 they 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. The expense for the European bank levy will also be disclosed in this column from 2015 onwards.

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

The basis for the segment reporting is internal reporting to management. Income and expenses were assigned to the segments in which they originated.

measured at fair value, differences in the mapping of economic hedging relationships as well as changes in the fair 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 on the currency translation gains or losses arising on 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 ori ginated. Effects on the basis of the hedging effects of the second loss guarantee are disclosed in the consolidation columns.

The allocation key for average reported equity capital is the economic capital tied up due to its management relevance.

The 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 10 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 12 for comments on the depreciation of goodwill in the segments. See Note 9 for comments on companies consolidated under the equity method recognised as part of Net income from financial investments.

NOTES ON FINANCIAL INSTRUMENTS

40. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **30.06.2015**	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	6,956	431	–	–	–	–	7,387
Loans and advances to banks	6,361	88	50	–	–	–	6,499
Loans and advances to customers	65,209	101	1,332	–	–	–	66,642
Receivables under finance leases	–	–	–	–	–	113	113
Positive fair value of hedging derivatives	–	–	–	–	–	1,029	1,029
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	375	375
Trading assets	–	–	–	8,286	–	–	8,286
Financial investments	3,386	11,707	1,707	–	–	–	16,800
Non-current assets held for sale and disposal groups	1	–	–	–	–	–	1
Other assets	86	–	–	–	–	–	86
Total assets	**81,999**	**12,327**	**3,089**	**8,286**	**–**	**1,517**	**107,218**
Liabilities							
Liabilities to banks	–	–	153	–	13,382	–	13,535
Liabilities to customers	–	–	2,205	–	44,327	–	46,532
Securitised liabilities	–	–	4,369	–	20,707	–	25,076
Negative fair values of hedging derivatives	–	–	–	–	–	828	828
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	888	888
Trading liabilities	–	–	–	7,663	–	–	7,663
Subordinated capital	–	–	88	–	5,485	–	5,573
Other liabilities	–	–	–	–	981	–	981
Total liabilities	**–**	**–**	**6,815**	**7,663**	**84,882**	**1,716**	**101,076**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) 31.12.2014	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	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	–	–	–	–	–	1,202	1,202
Trading liabilities	–	–	–	9,246	–	–	9,246
Subordinated capital	–	–	99	–	5,408	–	5,507
Other liabilities	–	–	–	–	1,011	–	1,011
Total liabilities	**–**	**–**	**7,001**	**9,246**	**84,863**	**2,358**	**103,468**

41. RECLASSIFICATION UNDER IAS 39 (REV. 2008)

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (Rev. 2008) as LaR where they met the relevant requirements for such classification and which were not intended for short-term sale at the time of reclassification and are due to be held for the foreseeable future. These assets were reclassified in 2008 and 2009 due to the global financial market crisis and the related effect on the measurement of securities portfolios. 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)		30.06.2015		31.12.2014	
	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	2	3
Total of financial assets reclassified as LaR	**2,785**	**2**	**3**	**2**	**3**

The effective interest rate applied in the case of financial instruments in the HfT category was between 0.03 % and 14.72 % and between 2.97 % and 9.75 % for financial instruments in the AfS category. Anticipated repayments amounted to € 2,861 million.

More assets were reclassified in the second quarter of 2009. These are shown in the following table:

(€ m)		30.06.2015		31.12.2014	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from AfS to LaR	6,336	1,148	1,264	1,343	1,481
Total financial assets reclassified as LaR	**6,735**	**1,148**	**1,264**	**1,343**	**1,481**

The effective interest rate applied to financial instruments in the HfT category was between 1.21 % and 5.06 % and between 0.87 % and 5.00 % for financial instruments in the AfS category. Anticipated repayments amounted to € 6,859 million.

The decrease in the carrying amounts and fair values of all reclassified financial instruments was due to extensive changes in holdings.

Financial instruments that have been disposed of or fallen due since reclassification had a carrying amount of € 1,419 million in the HfT category and € 6,831 million in the AfS category at the time of the reclassification. The sales were carried out following the realignment of the HSH Nordbank Group and were neither planned nor anticipated at the time of the reclassification.

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.

No measurement gain or loss would have been recognised in the income statement in the current reporting period for financial instruments reclassified from HfT in the 2009 financial year (same period in the previous year: € 1 million).

A measurement gain of € 11 million would have been recognised in the income statement in the current reporting period for financial instruments reclassified from AfS in the 2009 financial year (same period in the previous year: € 63 million).

Shown below is the actual impact of all holdings reclassified to date on the income statement of the current reporting period:

(€ m)	**January – June 2015**			January – June 2014		
	From HfT	**From AfS**	**Total**	From HfT	From AfS	Total
Net interest income	–	11	11	–	18	18
Net trading income	–	8	8	–	6	6
Net income from financial investments	–	20	20	–	–	–
Total	**-**	**39**	**39**	**-**	**24**	**24**

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

I. 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, collateralised debt obligation model (Gauss-Copula)), if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. Observable market data 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 Part IV of this Note 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 (such as the discounted cash flow method for simple interest rate and cross currency swaps) 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.

DFV liabilities stated under securitised liabilities, liabilities to customers or banks and subordinated capital include complex structured registered and bearer securities with embedded interest, currency, equity and other risks, which are mainly indirectly hedged by corresponding derivatives (so-called back-to-back transactions). Where current market prices 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 (such as option price 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.

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 shown at 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 are 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 price service agencies 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 IFRS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment is allocated to assets or liabilities in proportion to the fair value of the assets or liabilities before taking the valuation adjustment into account. This is only allocated to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called “relative fair value approach” – net approach).

4. Day one profit and loss

The use of a valuation model may give rise to differences between the transaction price and the fair value determined using such a valuation model on the initial recognition date. If the applicable market on which the determination of the fair value is to be based differs from the market, in which the transaction was concluded and the valuation model is not based to any great extent on observable parameters, such differences (so-called day one profits and losses) are accrued to day one profit and loss reserve. This reserve is reversed over the term.

5. Measurement processes

The Bank has implemented various processes and controls for the purpose of determining the fair values of financial instruments and has embedded principles regarding the use of measurement methods in a guideline in the written rules of procedure. These measures also ensure that financial instruments to be assigned to level 3 of the fair value hierarchy are measured in accordance with IFRS 13. The Group Risk Management division, which is independent from the Bank's market departments, is responsible for ensuring that the measurement methods applied are in accordance with external accounting requirements. Information available on the methods applied by other market participants is also taken into account in this regard.

Fair values of financial instruments assigned to level 3 are determined again on a periodic basis – but at least on a monthly basis. Any changes in value that have occurred since the previous period are reviewed for plausibility. Where available, observable market information such as transaction prices or attributes of valuation parameters are also used in the internal price validation. If there are material differences between the fair values determined by the Bank and prices offered by counterparties, the valuation model used is subjected to an ad hoc validation.

Information purchased from pricing service companies is also used. Where possible, the prices and procedures of these service companies are periodically checked for plausibility and reviewed in order to assess the quality of the information provided.

The measurement procedures and models as well as the estimation technique used to determine the level 3 inputs and their parameterisation are periodically reviewed and, if applicable, developed further, re-calibrated or replaced by new measurement procedures or models.

II. Fair values of financial instruments

The fair values of 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)	**30.06.2015**			31.12.2014		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for trading (HfT)						
Trading assets	8,286	8,286	–	9,163	9,163	–
Designated at Fair Value (DFV)						
Loans and advances to banks	50	50	–	49	49	–
Loans and advances to customers	1,332	1,332	–	1,369	1,369	–
Financial investments	1,707	1,707	–	2,190	2,190	–
Available for Sale (AfS)						
Cash reserve	431	431	–	413	413	–
Loans and advances to banks	88	88	–	87	87	–
Loans and advances to customers	101	101	–	97	97	–
Financial investments[1)]	11,707	11,777	70	12,002	12,169	167
of which equity instruments measured at cost	294	–		304	–	
Loans and Receivables (LaR)						
Cash reserve	6,956	6,956	–	5,554	5,554	–
Loans and advances to banks	6,346	6,363	17	6,764	6,790	26
Loans and advances to customers	59,293	61,144	1,851	59,640	61,593	1,953
Financial investments	3,386	3,463	77	4,496	4,593	97
Non-current assets held for sale and disposal groups	1	1	–	34	32	– 2
Other assets	86	86	–	84	84	–
No IAS 39 category						
Positive fair value of hedging derivatives	1,029	1,029	–	1,405	1,405	–
Receivables under finance lease transactions	113	113	–	111	111	–
Value adjustments from the portfolio fair value hedge	375	–	– 375	509	–	– 509
Total assets	**101,287**	**102,927**	**1,640**	**103,967**	**105,699**	**1,732**

[1)] The difference between the carrying amount and fair value of € 294 million (31 December 2014: € 304 million) 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 AfS is attributable to the fact that the adjustment item recognised for these transactions from the portfolio fair value hedge is separately disclosed. 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 in the Value adjustments from the portfolio fair value hedge item and amounted to € 364 million (31 December 2014: € 471 million) for financial investments classified as available for sale (AfS) and € 11 million (31 December 2014: € 38 million) for loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS LIABILITIES

(€ m)	**30.06.2015**			31.12.2014		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading liabilities	7,663	7,663	–	9,246	9,246	–
Designated at Fair Value (DFV)						
Liabilities to banks	153	153	–	162	162	–
Liabilities to customers	2,205	2,205	–	2,370	2,370	–
Securitised liabilities	4,369	4,369	–	4,370	4,370	–
Subordinated capital	88	88	–	98	98	–
Other liabilities						
Liabilities to banks	13,382	13,498	116	14,385	14,597	212
Liabilities to customers	44,327	45,701	1,374	40,795	42,468	1,673
Securitised liabilities	20,707	20,748	41	23,264	23,516	252
Other liabilities	981	981	–	1,011	1,011	–
Subordinated capital	5,485	4,829	– 656	5,408	5,003	– 405
No IAS 39 category						
Negative fair values of hedging derivatives	828	828	–	1,156	1,156	–
Value adjustments from the portfolio fair value hedge	888	–	– 888	1,202	–	– 1,202
Total liabilities	**101,076**	**101,063**	**– 13**	**103,467**	**103,997**	**530**

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.

III. 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			
30.06.2015	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve				
AfS	25	406	–	431
of which debt instruments	25	406	–	431
Loans and advances to banks				
AfS	–	43	45	88
of which debt instruments	–	43	45	88
DFV	–	–	50	50
of which debt instruments	–	–	50	50
Loans and advances to customers				
AfS	–	–	101	101
of which debt instruments	–	–	101	101
DFV	–	62	1,270	1,332
of which debt instruments	–	62	1,270	1,332
Positive fair values of hedging derivatives	–	1,029	–	1,029
of which interest rate derivatives	–	1,029	–	1,029
Trading assets (HfT)	628	7,013	645	8,286
of which debt instruments	628	679	–	1,307
of which contractually linked instruments	–	92	–	92
of which equity and near-equity instruments	–	1	–	1
of which interest rate derivatives	–	4,979	231	5,210
of which cross-currency interest rate derivatives	–	403	–	403
of which currency derivatives	–	147	35	182
of which credit derivatives	–	32	9	41
of which other derivatives	–	62	20	82
of which structured derivatives	–	603	350	953
of which other trading portfolios	–	15	–	15
Financial investments (excl. equity instruments measured at cost)				
AfS [1]	4,536	6,730	147	11,413
of which debt instruments	4,468	6,698	5	11,171
of which contractually linked instruments	58	29	–	87
of which equity and near-equity instruments	10	3	142	155
DFV	953	153	601	1,707
of which debt instruments	953	146	545	1,644
of which contractually linked instruments	–	7	41	48
of which equity and near-equity instruments	–	–	15	15
Total	**6,142**	**15,436**	**2,859**	**24,437**

[1] The difference between the total AfS financial investments in the asset hierarchy table and the fair value disclosures in Section II is attributable to effects in the item Value adjustments from the portfolio fair value hedge in the amount of € 364 million. These effects are not disclosed in the hierarchy table.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
31.12.2014	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 values 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, LIABILITIES

(€ m)	Liabilities recognised at fair value			
30.06.2015	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	28	125	153
of which debt instruments	–	28	125	153
Liabilities to customers				
DFV	–	482	1,723	2,205
of which debt instruments	–	482	1,723	2,205
Securitised liabilities				
DFV	–	3,234	1,135	4,369
of which debt instruments	–	3,194	1,135	4,329
of which contractually linked instruments	–	40	–	40
Negative fair values of hedging derivatives	–	828	–	828
of which interest rate derivatives	–	828	–	828
Trading liabilities (HfT)	–	6,708	955	7,663
of which interest rate derivatives	–	5,789	570	6,359
of which cross-currency interest rate derivatives	–	457	–	457
of which currency derivatives	–	203	47	250
of which other derivatives	–	40	16	56
of which structured derivatives	–	219	322	541
Subordinated capital				
DFV	–	88	–	88
of which debt instruments	–	88	–	88
Total	**–**	**11,368**	**3,938**	**15,306**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
31.12.2014	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 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**

Of the financial instruments allocated to level 3, € 2,356 million of assets (31 December 2014: € 2,664 million) and € 3,549 million of liabilities (31 December 2014: € 3,748 million) are in economic hedging relationships (at micro level), so that existing uncertainties and risk positions due to unobservable parameters offset each other at the level of the 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)

30.06.2015	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)	100	–60	60	–100	–	–
of which debt instruments	100	–60	60	–100	–	–
Financial investments (excl. equity instruments measured at cost)						
AfS	1,815	–4,384	4,384	–1,815	–	–
of which debt instruments	1,757	–4,382	4,382	–1,757	–	–
of which contractually linked instruments	58	–	–	–58	–	–
of which equity and near-equity instruments	–	–2	2	–	–	–
DFV	953	–	–	–953	–	–
of which debt instruments	953	–	–	–953	–	–
Total	**2,868**	**–4,444**	**4,444**	**–2,868**	**–**	**–**

TRANSFER, ASSETS

(€ m)

31.12.2014	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**

No liabilities were transferred during the reporting period.

TRANSFER, LIABILITIES

(€ m)

31.12.2014	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**

IFRS 13 and the accounting standard IDW RS HFA 47 specify the principles to be applied in determining the fair value. They also include the 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.

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)		Change in balance affecting income		
30.06.2015	**1 January 2015**	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	45	– 1	– 1	
of which debt instruments	45	– 1	– 1	
DFV	49	1	–	
of which debt instruments	49	1	–	
Loans and advances to customers				
AfS	97	– 1	–	
of which debt instruments	97	– 1	–	
DFV	1,307	– 36	–	
of which debt instruments	1,307	– 36	–	
Trading assets (HfT)	736	– 86	–	
of which equity and near-equity instruments	–	–	–	
of which interest rate derivatives	272	– 45	–	
of which currency derivatives	20	15	–	
of which credit derivatives	3	22	–	
of which other derivatives	45	– 26	–	
of which structured derivatives	396	– 52	–	
Financial investments (excl. equity instruments measured at cost)				
AfS	152	–	– 6	
of which debt instruments	14	–	1	
of which equity and near-equity instruments	138	–	– 7	
DFV	910	– 14	–	
of which debt instruments	558	– 16	–	
of which contractually linked instruments	336	2	–	
of which equity and near-equity instruments	16	–	–	
Total	**3,296**	**– 137**	**– 7**	

	Quantitative change in balance			Transfers						
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**30 June 2015**	Net income from assets held as at 30 June 2015
										–
	–	–	–	–	–	–	2	–	45	– 1
	–	–	–	–	–	–	2	–	45	– 1
	–	–	–	–	–	–	–	–	50	1
	–	–	–	–	–	–	–	–	50	1
	–	–	–	–	–	–	5	–	101	– 1
	–	–	–	–	–	–	5	–	101	– 1
	–	– 4	–	–	–	–	3	–	1,270	– 41
	–	– 4	–	–	–	–	3	–	1,270	– 41
	2	– 2	– 16	–	–	–	11	–	645	49
	2	– 2	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	4	–	231	40
	–	–	–	–	–	–	–	–	35	– 15
	–	–	– 16	–	–	–	–	–	9	– 7
	–	–	–	–	–	–	1	–	20	23
	–	–	–	–	–	–	6	–	350	8
	–	– 11	–	–	–	–	12	–	147	–
	–	– 11	–	–	–	–	1	–	5	–
	–	–	–	–	–	–	11	–	142	–
	–	– 1	– 300	–	–	–	6	–	601	– 14
	–	–	–	–	–	–	3	–	545	– 16
	–	–	– 300	–	–	–	3	–	41	2
	–	– 1	–	–	–	–	–	–	15	–
	2	**– 18**	**– 316**	**–**	**–**	**–**	**39**	**–**	**2,859**	**– 7**

RECONCILIATION, ASSETS

(€ m) 31.12.2014	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				
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, LIABILITIES

(€ m)		Change in balance affecting income		
30.06.2015	**1 January 2015**	Realised net income (income statement)	Net income not recognised in profit or loss	
Balance sheet line item/category/instrument type				
Liabilities to banks				
DFV	133	–2	–	
of which debt instruments	133	–2	–	
Liabilities to customers				
DFV	1,872	–27	–	
of which debt instruments	1,872	–27	–	
Securitised liabilities				
DFV	1,201	–	–	
of which debt instruments	1,201	–	–	
Trading liabilities (HfT)	1,096	–144	–	
of which interest rate derivatives	656	–87	–	
of which currency derivatives	27	20	–	
of which other derivatives	41	–25	–	
of which structured derivatives	372	–52	–	
Subordinated capital				
DFV	16	–1	–	
of which debt instruments	16	–1	–	
Total	**4,318**	**–174**	**–**	

	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	**30 June 2015**	Net income from assets held as at 30 June 2015
	4	–	–	–10	–	–	–	–	–	125	2
	4	–	–	–10	–	–	–	–	–	125	2
	4	–	–	–121	–	–	–9	4	–	1,723	21
	4	–	–	–121	–	–	–9	4	–	1,723	21
	–1	–	33	–129	–	–	–	31	–	1,135	4
	–1	–	33	–129	–	–	–	31	–	1,135	4
	1	–	–	–1	–	–	–	3	–	955	143
	1	–	–	–	–	–	–	–	–	570	86
	–	–	–	–	–	–	–	–	–	47	–20
	–	–	–	–	–	–	–	–	–	16	25
	–	–	–	–1	–	–	–	3	–	322	52
	–	–	–	–15	–	–	–	–	–	–	–
	–	–	–	–15	–	–	–	–	–	–	–
	8	**–**	**33**	**–276**	**–**	**–**	**–9**	**38**	**–**	**3,938**	**170**

RECONCILIATION, LIABILITIES

(€ m) 31.12.2014	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			
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**

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 30 June 2015				
30.06.2015	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										
AfS	– 1	–	–	– 1	– 1	– 1	–	–	– 1	– 1
of which debt instruments	– 1	–	–	– 1	– 1	– 1	–	–	– 1	– 1
DFV	–	1	–	1	–	–	1	–	1	–
of which debt instruments	–	1	–	1	–	–	1	–	1	–
Loans and advances to customers										
AfS	– 1	–	–	– 1	–	– 1	–	–	– 1	–
of which debt instruments	– 1	–	–	– 1	–	– 1	–	–	– 1	–
DFV	11	– 47	–	– 36	–	6	– 47	–	– 41	–
of which debt instruments	11	– 47	–	– 36	–	6	– 47	–	– 41	–
Trading assets (HfT)	14	– 100	–	– 86	–	21	28	–	49	–
of which interest rate derivatives	8	– 53	–	– 45	–	12	28	–	40	–
of which currency derivatives	–	15	–	15	–	–	– 15	–	– 15	–
of which credit derivatives	–	22	–	22	–	–	– 7	–	– 7	–
of which other derivatives	–	– 26	–	– 26	–	–	23	–	23	–
of which structured derivatives	6	– 58	–	– 52	–	9	– 1	–	8	–
Financial investments (excl. equity instruments measured at cost)										
AfS	–	–	–	–	– 6	–	–	–	–	– 7
of which debt instruments	–	–	–	–	1	–	–	–	–	–
of which equity and near-equity instruments	–	–	–	–	– 7	–	–	–	–	– 7
DFV	8	– 22	–	– 14	–	8	– 22	–	– 14	–
of which debt instruments	8	– 24	–	– 16	–	8	– 24	–	– 16	–
of which contractually linked instruments	–	2	–	2	–	–	2	–	2	–
Total	**31**	**– 168**	**–**	**– 137**	**– 7**	**33**	**– 40**	**–**	**– 7**	**– 8**

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net incomefrom assets still held as at 30 June 2014				
30.06.2014	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										
AfS	– 1	–	–	– 1	–	– 1	–	–	– 1	–
of which debt instruments	– 1	–	–	– 1	–	– 1	–	–	– 1	–
DFV	– 1	1	–	–	–	– 1	1	–	–	–
of which debt instruments	– 1	1	–	–	–	– 1	1	–	–	–
Loans and advances to customers										
AfS	– 2	–	17	15	– 13	– 1	–	–	– 1	– 14
of which debt instruments	– 2	–	17	15	– 13	– 1	–	–	– 1	– 14
DFV	7	71	–	78	–	7	71	–	78	–
of which debt instruments	7	71	–	78	–	7	71	–	78	–
Trading assets (HfT)	44	16	–	60	–	23	72	–	95	–
of which interest rate derivatives	12	16	–	28	–	15	22	–	37	–
of which currency derivatives	–	– 1	–	– 1	–	–	–	–	–	–
of which other derivatives	–	– 19	–	– 19	–	–	– 19	–	– 19	–
of which structured derivatives	32	20	–	52	–	8	69	–	77	–
Financial investments (excl. equity instruments measured at cost)										
AfS	–	–	–	–	5	–	–	– 1	– 1	4
of which debt instruments	–	–	–	–	1	–	–	– 1	– 1	–
of which equity and near-equity instruments	–	–	–	–	4	–	–	–	–	4
DFV	8	29	–	37	–	– 8	– 28	–	– 36	–
of which debt instruments	8	29	–	37	–	– 8	– 30	–	– 38	–
of which contractually linked instruments	–	2	–	2	–	–	–	–	–	–
of which equity and near-equity instruments	–	– 2	–	– 2	–	–	2	–	2	–
Total	**55**	**117**	**17**	**189**	**– 8**	**19**	**116**	**– 1**	**134**	**– 10**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net incomefrom assets still held as at 30 June 2015				
30.06.2015	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										
Liabilities to banks										
DFV	–	2	–	2	–	–	2	–	2	–
of which debt instruments	–	2	–	2	–	–	2	–	2	–
Liabilities to customers										
DFV	– 6	33	–	27	–	– 10	31	–	21	–
of which debt instruments	– 6	33	–	27	–	– 10	31	–	21	–
Securitised liabilities										
DFV	– 18	18	–	–	–	– 17	21	–	4	–
of which debt instruments	– 18	18	–	–	–	– 17	21	–	4	–
Trading liabilities (HfT)	– 7	151	–	144	–	– 8	151	–	143	–
of which interest rate derivatives	– 14	101	–	87	–	– 15	101	–	86	–
of which currency derivatives	–	– 20	–	– 20	–	–	– 20	–	– 20	–
of which other derivatives	–	25	–	25	–	–	25	–	25	–
of which structured derivatives	7	45	–	52	–	7	45	–	52	–
Subordinated capital										
DFV	–	1	–	1	–	–	–	–	–	–
of which debt instruments	–	1	–	1	–	–	–	–	–	–
Total	**– 31**	**205**	**–**	**174**	**–**	**– 35**	**205**	**–**	**170**	**–**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net incomefrom assets still held as at 30 June 2014				
30.06.2014	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 lineitem/category/ instrument type										
Liabilities to banks										
DFV	–	– 5	–	– 5	–	–	– 5	–	– 5	–
of which debt instruments	–	– 5	–	– 5	–	–	– 5	–	– 5	–
Liabilities to customers										
DFV	– 8	– 32	–	– 40	–	– 11	– 58	–	– 69	–
of which debt instruments	– 8	– 32	–	– 40	–	– 11	– 58	–	– 69	–
Securitised liabilities										
DFV	– 15	– 30	–	– 45	–	– 14	– 5	–	– 19	–
of which debt instruments	– 15	– 30	–	– 45	–	– 14	– 5	–	– 19	–
Trading liabilities (HfT)	– 4	– 105	–	– 109	–	– 5	– 109	–	– 114	–
of which interest rate derivatives	– 12	– 82	–	– 94	–	– 12	– 84	–	– 96	–
of which currency derivatives	–	1	–	1	–	–	–	–	–	–
of which other derivatives	–	20	–	20	–	–	20	–	20	–
of which structured derivatives	8	– 44	–	– 36	–	7	– 45	–	– 38	–
Subordinated capital										
DFV	–	–	–	–	–	–	–	–	–	–
of which debt instruments	–	–	–	–	–	–	–	–	–	–
Total	**– 27**	**– 172**	**–**	**– 199**	**–**	**– 30**	**– 177**	**–**	**– 207**	**–**

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) 30.06.2015			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)	87	87
	DFV	Debt instruments	50	–	Option pricing model	Basket correlation	33 % – 95 %	73 %
Loans and advances to customers	AfS	Debt instruments	101	–	DCF method Price	Spread (bps) Price	17 – 34 75	28 75
	DFV	Debt instruments	1,270	–	Option pricing model	Mean reversion	0 % – 10 %	2 %
						Interest rate volatilities	15 % – 60 %	26 %
						Interest rate FX correlation	–77 % – 34 %	– 5 %
					Price	Price	93 – 97	94
Trading assets/trading liabilities	HfT	Interest rate derivatives	231	570	Option pricing model	Mean reversion	0 % – 10 %	2 %
						Interest rate volatility	15 % – 60 %	26 %
						Interest rate correlation	–6 % – 99 %	30 %
						Interest rate FX correlation	–77 % – 34 %	-5 %
		Currency derivatives	35	47	Option pricing model	FX correlation	19 % – 54 %	35 %
		Credit derivatives	9	–		Option pricing model		
		Other derivatives	20	16	Option pricing model	Securities FX correlations	–42 % – 13 %	–23 %
		Structured derivatives	350	322	Option pricing model	Mean reversion	0 % – 10 %	2 %
						Interest rate volatilities	15 % – 60 %	26 %
						Interest rate correlation	–6 % – 99 %	30 %
						Interest rate FX correlation	–77 % – 34 %	–5 %
						FX correlation	19 % – 54 %	35 %
						Securities FX correlation	–42 % – 13 %	–23 %

FAIR VALUE

(€ m) **30.06.2015**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Financial investments	AfS	Debt instruments	5	–	Price	Price	2 – 78	77
		Equity and near-equity instruments	142	–	Price	Price	46 – 99	79
	DFV	Debt instruments	545	–	Option pricing model	Mean reversion	0 % – 10 %	2 %
						Interest rate volatilities	15 % – 60 %	26 %
					Price	Price	88 – 97	94
		Securitised instruments	41	–	Price	Price	86	86
		Equity and near-equity instruments	15	–	Price	Price	22 – 82	77
Liabilities to banks	DFV	Debt instruments	–	125	Option pricing model	Interest rate volatilities	15 % – 60 %	26 %
						Interest rate FX correlation	–77 % – 34 %	–5 %
Liabilities to customers	DFV	Debt instruments		1,723		Interest rate volatilities	15 % – 60 %	26 %
						Interest rate correlation	–6 % – 99 %	30 %
						Interest rate FX correlation	–77 % – 34 %	–5 %
						Securities FX correlation	–42 % – 13 %	–23 %
				1,135	Option pricing model	Mean reversion	0 % – 10 %	2 %
Securitised liabilities	DFV	Debt instruments				FX correlation	19 % – 54 %	35 %
						Securities FX correlation	–42 % – 13 %	–23 %
						Price	81 – 97	88
			2,859	**3,938**				

(€ m) 31.12.2014			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 %

(€ m) **31.12.2014**			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**				

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 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 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 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 +/- 50 bp, respectively.

A) Financial instruments for which there are no economic hedging relationships in place (at the micro level)

FAIR VALUE CHANGES LEVEL 3

(€ m)			30.06.2015		31.12.2014	
			advantageous	**disadvantageous**	advantageous	disadvantageous
Loans and advances to customers	AfS	Debt instruments	1	1	1	1
Trading assets/trading liabilities	HfT	Interest rate derivatives	3	3	2	2
		Other derivatives	1	1	2	2
		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
			10	**10**	**10**	**10**
of which measured in profit or loss			6	6	6	6
of which not measured in profit or loss			4	4	4	4

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 value.

B) Financial instruments for which there are economic hedging relationships in place (at the micro level)

FAIR VALUE CHANGES LEVEL 3

(€ m)			**30.06.2015**		31.12.2014	
			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	2	2
		Currency derivatives	–	–	1	1
		Credit derivatives	–	–	6	6
		Structured derivatives	4	4	4	4
Financial investments	DFV	Debt instruments	1	1	1	1
		Contractually linked instruments	–	–	6	6
		Equity and near-equity instruments	1	1	–	–
Liabilities to banks	DFV	Debt instruments	1	1	1	1
Liabilities to customers	DFV	Debt instruments	1	1	1	1
Securitised liabilities	DFV	Debt instruments	3	3	1	1
			14	14	24	24
of which measured in profit or loss			14	14	24	24
of which 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)	**30.06.2015**	31.12.2014
Holdings as at 1 January	**24**	**30**
Additions not recognised in profit or loss	1	–
Reversals recognised in profit or loss	3	6
Holdings as at 30 June	**22**	**24**

The day one profit and loss reserve is solely attributable to financial instruments classified as HfT.

VI. Equity instruments measured at cost

Equity instruments, which are not listed and whose fair value cannot be reliably determined by other methods, are subsequently measured at cost (acquisition 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 equities and other non-interest-bearing securities measured at cost amounts to € 140 million (31 December 2014: € 140 million). Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 154 million (31 December 2014: € 164 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 period under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 9 million (31 December 2014: € 27 million) were disposed of. This resulted in a profit of € 3 million (31 December 2014: € 11 million).

43. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED STATES

The following tables contain overviews of HSH Nordbank's commitments in selected 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 for the hedging derivatives are not taken into account.

ASSETS CLASSIFIED AS LAR

(€ m)	Gross carrying amount		Individual valuation allowance		Fair value	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Portugal	204	207	8	6	189	214
Country	171	168	–	–	169	182
Banks	4	–	–	–	–	–
Corporates/Other	29	39	8	6	20	32
Ireland	–	218	66	61	116	156
Banks	–	43	–	–	64	43
Corporates/Other	–	175	66	61	52	113
Italy	653	675	24	25	572	596
Country	53	55	–	–	53	51
Banks	11	–	–	–	11	–
Corporates/Other	589	620	24	25	508	545
Greece	1,273	1,104	207	206	1,102	920
Corporates/Other	1,273	1,104	207	206	1,102	920
Russia	107	89	13	6	92	83
Corporates/Other	107	89	13	6	92	83
Spain	1,391	1,478	77	78	1,330	1,423
Country	156	161	–	–	151	170
Banks	–	21	–	–	–	21
Corporates/Other	1,235	1,296	77	78	1,179	1,232
Hungary	81	82	–	–	83	84
Country	5	5	–	–	5	6
Banks	–	–	–	–	–	–
Corporates/Other	76	77	–	–	78	78
Cyprus	1,429	1,691	215	506	1,207	1,188
Country	–	–	–	–	–	–
Banks	–	21	–	–	–	22
Corporates/Other	1,429	1,670	215	506	1,207	1,166
Croatia	106	120	106	–	109	122
Corporates/Other	106	120	106	–	109	122
Total	**5,244**	**5,664**	**716**	**888**	**4,800**	**4,786**

FINANCIAL TRANSACTIONS ALLOCATED TO THE HOLDING CATEGORY

(€ m)	HfT		Hedge		DFV		AfS	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Portugal	–	–	–	–	102	100	4	3
Country	–	–	–	–	102	100	–	–
Banks	–	–	–	–	–	–	4	3
Ireland	4	8	5	5	–	–	–	–
Banks	4	5	5	5	–	–	–	–
Corporates/ Other	–	3	–	–	–	–	–	–
Italy	17	20	–	–	400	541	46	47
Country	–	–	–	–	400	540	46	47
Banks	–	1			–	–	–	–
Corporates/ Other	17	19	–	–	–	1	–	–
Greece	16	15	–	–	–	–	3	6
Country	–	–	–	–	–	–	3	6
Corporates/ Other	16	15	–	–	–	–	–	–
Russia	46	40	–	–	–	–	–	–
Banks	5	5	–	–	–	–	–	–
Corporates/ Other	41	35	–	–		–	–	–
Spain	82	93	15	23	1	1	88	200
Banks	37	41	15	21	–	–	–	53
Corporates/ Other	45	52	–	2	1	1	88	147
Hungary	–	–	–	–	–	–	13	13
Country	–	–	–	–	–	–	13	13
Cyprus	1	7	–	–	–	–	–	–
Corporates/ Other	1	7	–	–	–	–	–	–
Croatia	1	2	–	–	–	–	–	–
Corporates/ Other	1	2	–	–	–	–	–	–
Total	**167**	**185**	**20**	**28**	**503**	**642**	**154**	**269**

The cumulative measurement result recognised directly in equity for financial instruments held in the AfS category amounted to € –9 million for the selected countries (31 December 2014: € –10 million). No cumulative measurement result was recognised through profit or loss as was also the case as at 31 December 2014.

44. 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	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Held for trading (HfT)								
Trading assets	1,729	2,163	2,220	3,667	2,775	1,872	881	717
Designated at Fair Value (DFV)								
Loans and advances to banks	50	49	–	–	–	–	–	–
Loans and advances to customers	1,211	1,246	–	–	–	–	–	15
Financial investments	157	161	790	915	743	1,083	5	–
Assets held for sale and disposal groups	–	–	–	–	–	–	–	–
Available for Sale (AfS)								
Cash reserve	431	413	–	–	–	–	–	–
Loans and advances to banks	64	61	17	21	5	2	2	3
Loans and advances to customers	–	–	–	–	–	–	101	97
Financial investments	8,389	8,367	2,303	2,930	648	215	316	431
Assets held for sale and disposal groups	–	–	–	–	–	–	–	–
Loans and Receivables (LaR)								
Cash reserve	6,956	5,554	–	–	–	–	–	–
Loans and advances to banks	1,803	1,699	2,143	3,226	2,343	1,773	58	67
Loans and advances to customers	4,482	4,761	4,649	4,836	14,708	14,136	15,900	15,849
Financial investments	1,128	1,939	560	696	207	330	383	585
Assets held for sale and disposal groups	–	3	–	3	–	10	–	11
Other assets	–	–	–	–	–	–	–	–
No IAS 39 category								
Positive fair values of hedging derivatives	329	252	396	580	272	455	25	105
Receivables under finance lease transactions	9	11	11	11	34	32	37	36
Value adjustments from the portfolio fair value hedge	120	91	144	210	99	165	9	38
Total	**26,858**	**26,770**	**13,233**	**17,095**	**21,834**	**20,073**	**17,717**	**17,954**

CREDIT QUALITY

(€ m)	10 to 12		13 to 15		16 to 18	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Held for Trading (HfT)						
Trading assets	64	101	353	374	264	269
Designated at Fair Value (DFV)						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	75	75	46	33
Financial investments	7	7	4	5	1	19
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	–	–	–	–	–	–
Financial investments	2	–	13	18	10	9
Non-current assets held for sale and disposal groups	–	–	–	–	–	–
Loans and Receivables (LaR)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	2,938	3,180	3,767	3,766	2,686	2,665
Financial investments	60	74	157	198	206	98
Non-current assets held for sale and disposal groups	–	2	–	3	–	2
Other assets	86	84	–	–	–	–
No IAS 39 category						
Positive fair values of hedging derivatives	7	10	–	3	–	–
Receivables under finance lease transactions	7	7	9	8	6	6
Value adjustments from the portfolio fair value hedge	3	4	–	1	–	–
Total	**3,174**	**3,469**	**4,378**	**4,451**	**3,219**	**3,101**

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	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Loans and Receivables (LaR)								
Loans and advances to customers	684	1,246	358	215	332	804	1,592	1,012
of which hedged by the second loss guarantee	422	676	321	170	308	798	1,489	917
Total	**684**	**1,246**	**358**	**215**	**332**	**804**	**1,592**	**1,012**

Payments of € 107 million were received on transactions with a carrying amount of € 607 million in the period of ten days after the reporting date of 30 June 2015. 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 at the reporting date. The financial assets are broken down by category.

IMPAIRED FINANCIAL ASSETS

(€ m)	Gross carrying amount of impaired financial assets		Impairment		Carrying amount of financial assets after impairment	
	30.06.2015	31.12.2014	**30.06.2015**	31.12.2014	**30.06.2015**	31.12.2014
Loans and Receivables (LaR)						
Loans and advances to banks	14	14	14	14	–	–
Loans and advances to customers	13,113	13,289	5,549	5,777	7,564	7,512
Financial investments[1]	1,064	959	379	383	685	576
Available for Sale (AfS)						
Financial investments[1]	144	140	118	108	26	32
Total	**14,335**	**14,402**	**6,060**	**6,282**	**8,275**	**8,120**

[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 transfers by way of security mainly comprise physical assets.

€ 13,020 million (31 December 2014: € 13,198 million) of the total carrying amount of impaired financial assets of € 14,335 million (31 December 2014: € 14,402 million) are secured by the second loss guarantee, of which none is attributable to loans and advances to banks (31 December 2014: none), € 12,279 million to loans and advances to customers (31 December 2014: € 12,434 million) and € 741 million to financial investments in the LAR and AfS holding categories (31 December 2014: € 764 million).

Further details on the second loss guarantee can be found in Note 2.

IV. Credit risk exposure

With the exception of Loans and advances to banks and customers, the credit risk exposure in accordance with IFRS 7.36 (a) as at the reporting date corresponds to the carrying amount of the financial assets as presented in Note 40 as well as the off-balance-sheet liabilities as presented in Note 45.

In the case of Loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after value adjustments as presented in Note 20. The maximum default risk of the loans and advances Designated at Fair Value (DFV) is not reduced by associated credit derivatives.

Collateral as well as other risk-reducing agreements are not reflected in these amounts.

V. Collateral received

A) Collateral values of financial assets reducing default risk

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the 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 instruments and the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
30.06.2015	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
HfT				
Trading assets	8,286	470	39	820
DFV		–		–
Loans and advances to banks	50	–	46	–
Loans and advances to customers	1,332	–	–	–
Financial investments	1,707	–	–	–
AfS				
Cash reserve	431	–	–	–
Loans and advances to banks	88	–	–	–
Loans and advances to customers	101	–	36	–
Financial investments	11,707	–	–	–
LaR				
Cash reserve	6,956	–	–	–
Loans and advances to banks	6,361	22	178	1,195
Loans and advances to customers	65,209	26,257	1,389	1,877
Financial investments	3,386	–	–	–
Non-current assets held for sale and disposal groups	1	–	–	–
Other assets	86	35	–	5
No IAS 39 category				
Positive fair value of hedging derivatives	1,029	–	–	–
Value adjustments from the portfolio fair value hedge	375	–	–	–
Receivables under finance lease transactions	113	–	–	–
Contingent liabilities	2,962	292	44	103
Irrevocable loan commitments	6,842	923	67	110
Total assets	**117,022**	**27,999**	**1,799**	**4,110**

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
31.12.2014	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	509	–	–	–
Receivables under finance lease transactions	111	–	–	–
Contingent liabilities	2,716	261	30	111
Irrevocable loan commitments	7,081	765	72	120
Total assets	**119,899**	**27,889**	**2,066**	**3,560**

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank (see Note 2).

B) Thereof collateral received for which there are no restrictions on disposal or realisation even if there is no default in payment

The HSH Nordbank Group received collateral from counterparties with a total fair value of € 2,230 million (31 December 2014: € 1,584 million). The collateral received is split up as follows: € 844 million (31 December 2014: € 651 million) relate to OTC derivatives and structured transactions. The Group received collateral in the amount of € 1,386 million (31 December 2014: € 933 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 767 million (31 December 2014: € 604 million). Of the collateral received, an amount of € 1,305 million (31 December 2014: € 325 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank is obliged to return the resold or pledged collateral in full to the collateral provider.

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.

C) Other collateral received

In the reporting period no assets were recognised from the realisation of collateral (31 December 2014: € 0 million).

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

45. RESTRUCTURED OR MODIFIED LOANS

The following tables show the gross carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to place the debtor in a position to continue to service or resume servicing its capital debt despite financial difficulties.

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Restructuring Unit		
30.06.2015	Rating class 1–15	Rating class 16–18	Rating class 1–15	Rating class 16–18	**Total**
Loans and Receivables (LaR)	1,299	5,378	1,349	10,720	18,746
Loans and advances to banks	–	14	–	1	15
Loans and advances to customers	1,299	5,362	1,349	10,719	18,729
Financial investments	–	2	–	–	2
Irrevocable and revocable loan commitments	40	50	15	159	264
Total	**1,339**	**5,428**	**1,364**	**10,879**	**19,010**

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Restructuring Unit		
31.12.2014	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**

Loan loss provisions in the amount of € 5,118 million (previous year: € 5,396 million) were 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 87% (previous year: about 92%).

46. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

CONTINGENT LIABILITIES

(€ m)	**30.06.2015**	31.12.2014
Contingent liabilities	2,962	2,716
Irrevocable loan commitments	6,842	7,081
Total	**9,804**	**9,797**

As at the reporting date, the fair value of irrevocable loan commitments amounts to € 14 million (31 December 2014: € 11 million).

The litigation risk included in contingent liabilities has not changed materially compared to that disclosed at the year end.

OTHER DISCLOSURES

47. 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 Group 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. Under these provisions HSH Nordbank is exempt from the disclosure requirements regarding public authorities, unless transactions are involved that have a significant impact on the consolidated financial statements.

The guarantee amount with regard to the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR is identified as a significant transaction within the meaning of IAS 24. Please refer to Notes 2 and 15 for more details.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS

(€ m)	**30.06.2015**	31.12.2014
Loans and advances to customers	78	120
Loan loss provisions	–9	–17
Financial investments	1	1
Other assets	–	1
Total	**70**	**105**

SUBSIDIARIES – LIABILITIES

(€ m)	**30.06.2015**	31.12.2014
Liabilities to customers	17	16
Provisions	21	17
Other liabilities	2	2
Total	**40**	**35**

SUBSIDIARIES – INCOME STATEMENT

(€ m)	**January – June 2015**	January – June 2014
Net interest income	1	2
Loan loss provisions	6	–1
Net trading income	–	1
Other operating income	2	3
Total	**9**	**5**

III. Associates

The following tables show the transactions with associates:

ASSOCIATES – ASSETS

(€ m)	30.06.2015	31.12.2014
Loans and advances to customers	67	64
Loan loss provisions	– 38	– 35
Financial investments	166	176
Other assets	8	6
Total	**203**	**211**

ASSOCIATES – LIABILITIES

(€ m)	30.06.2015	31.12.2014
Liabilities to customers	10	–
Total	**10**	**–**

ASSOCIATES – INCOME STATEMENT

(€ m)	January – June 2015	January – June 2014
Net interest income	1	1
Net trading income	–	– 1
Net income from financial investments	– 10	–
Administrative expenses	– 2	– 4
Total	**– 11**	**– 4**

Other financial liabilities to associates amount to € 2 million (31 December 2014: € 66 million).

IV. Joint ventures

The following tables show the transactions with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	30.06.2015	31.12.2014
Loans and advances to customers	100	62
Loan loss provisions	– 67	– 62
Total	**33**	**–**

JOINT VENTURES – LIABILITIES

(€ m)	30.06.2015	31.12.2014
Liabilities to customers	22	23
Total	**22**	**23**

JOINT VENTURES – INCOME STATEMENT

(€ m)	January – June 2015	January – June 2014
Loan loss provisions	– 5	–
Total	**– 5**	**–**

V. Other related parties and companies

Transactions concluded with individuals in key positions at HSH Nordbank AG and their close relatives or companies controlled by these individuals were immaterial (under € 1 million) as at the reporting date. The same applies to the previous year.

48. MANAGEMENT BOARD MEMBERS

Constantin von Oesterreich
Born in 1953
Chair

Stefan Ermisch
Born in 1966
Deputy Chair
Chief Financial Officer
Chief Risk Officer (on a temporary basis)

Torsten Temp
Born in 1960
Shipping, project and real estate financing

Matthias Wittenburg
Born in 1968
Corporates & Markets

Hamburg/Kiel, 25 August 2015

Constantin von Oesterreich | Stefan Ermisch

Torsten Temp | Matthias Wittenburg

REVIEW OPINION

To HSH Nordbank AG, Hamburg and Kiel

We have reviewed the condensed interim Group financial statements – comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and selected explanatory notes – together with the interim Group management report of the HSH Nordbank AG, Hamburg and Kiel, for the period from 1 January to 30 June 2015 that are part of the semi annual financial report according to § 37w WpHG ("Wertpapierhandelsgesetz": "German Securities Trading Act"). The preparation of the condensed interim Group financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim Group management report in accordance with the requirements of WpHG applicable to interim Group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim Group financial statements and the interim Group management report based on our review.

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

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

Without qualifying this opinion, we refer to the comments made in the interim Group management report in the section entitled "Opportunities and risks resulting from the EU state aid proceedings" and in number 1 in the interim Group financial statements. It is stated there that 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.

Hamburg, 25 August 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 interim Group financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the HSH Nordbank Group and that the interim Group management report presents the course of business, including the results of the business and the HSH Nordbank Group's situation in such a manner that it gives a true and fair view and describes the main opportunities and risks for the HSH Nordbank Group's foreseeable performance over the remainder of the financial year.

Hamburg/Kiel, 25 August 2015

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Matthias Wittenburg

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NOTE

If at times only the masculine form is used for 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 interim report was published on 1 September 2015 and is available for download at www.hsh-nordbank.com.

This is an English translation of the original German version of the interim report.

FORWARD-LOOKING STATEMENTS

This interim report includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks and other factors, many of which are beyond our control. 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 interim report also 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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