

INTERIM REPORT

AS AT 30 JUNE 2016

KEY FIGURES

INCOME STATEMENT

(€ m)	January- June 2016	Januar- Juni 2015
Net income before restructuring	395	469
Net income before taxes	171	222
Group net income	160	147

BALANCE SHEET

(€ bn)	30.06.2016	31.12.2015
Equity	4.9	4.9
Total assets	90.8	97.0
Business volume	99.1	106.2

CAPITAL RATIOS ¹⁾

(%)	30.06.2016	31.12.2015
CET1 ratio	13.5	12.3
Tier 1 capital ratio	17.3	16.4
Regulatory capital ratio	22.2	20.6

EMPLOYEES

(computed on a full-time equivalent basis)

	30.06.2016	31.12.2015
Total	2,290	2,384
Germany	2,184	2,264
Abroad	106	120

LONG-TERM-RATINGS

	Unguaranteed liabilities	Guaranteed liabilities ²⁾	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3 dev. ³⁾	Aa1 stable	Aa2	Aa3	Baa2
Fitch	BBB- neg.	AAA stable	-	-	-

¹⁾ According to the same period calculation under the Capital Requirements Regulation (CRR).

²⁾ Liabilities covered by guarantor's liability (Gewährträgerhaftung).

³⁾ dev.: Developing.

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 2016

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

First half of 2016 characterised by geopolitical uncertainties and volatile financial markets.

The global economy, triggered by a slump on the Chinese stock market, started 2016 in turmoil. Geopolitical uncertainties, not least in Europe and the European context, also increased again in the middle of the year. Economic growth was generally disappointing and slowed down particularly in the USA and China compared to the final quarter of 2015. On the other hand, growth momentum was above expectations in the eurozone, whilst the recession in Russia and Brazil eased slightly. Monetary policy remained expansionary worldwide, whereby the ECB in particular approved additional measures. At the end of the first half of the year, the situation in the financial markets was dominated by the result of the referendum on Great Britain's membership of the European Union (EU). The majority of the electorate voted to leave the EU, the so-called Brexit. This caused considerable volatility on the capital markets. And, whilst the results of the EBA stress tests confirmed an overall improvement in the capitalisation of European banks, the details, particularly for German banks, highlighted a significant weakness in earnings, which is not least a reflection of the difficult and highly competitive banking environment.

Moderate global economic growth

Gross domestic product in the USA increased only slightly in the first half of the year. Significant contributions to growth were made by investments in housing, increased public expenditure and private household consumption. Developments in the US labour market are very satisfactory. Outside the agricultural sector, an average of just under 200,000 new jobs have been created per month since the beginning of the year, which was more than expected by market participants according to a Bloomberg survey. It still has to be established whether the USA is on a fairly moderate growth path. The slowdown in growth in China continued in the first quarter. According to official data from the Chinese statistical office, the Chinese economy grew by 6.7% in the second quarter. On the other hand, based on our estimates, India's economy grew slightly faster during the first months of the year. In the case of Brazil and Russia, whose national economies fell into a deep recession in the past year due to political uncertainty and lower commodity prices, the indicators for the first half of 2016 show that the bottom had already been reached.

Gross domestic product grew moderately in the euro area in the first half of 2016 and was therefore within our expectations. Key growth drivers were private consumption and demand for capital goods. These developments were supported by the continued low level of oil prices compared to the previous year and favourable refinancing conditions. The unemployment rate declined only slightly and inflation remained at a very low level, near the 0% mark. Although lending to companies increased slightly in Germany and France, it decreased significantly in Italy and Spain. Although the referendum in Great Britain on whether the country should remain in the EU was the subject of much discussion, this has not yet visibly fed through to the current economic indicators for the eurozone.

As with the eurozone, the German economy was able to grow faster than expected in the first quarter of 2016. According to the Ifo Index, the situation has in fact improved even further in the second quarter. Investment rose considerably in the first quarter and exports have also increased at a robust pace despite the relatively weak global economic environment. According to estimates Germany's GDP increased overall by 1.6% in the first half of the year.

Nervous financial markets and sustained low level of interest rates

At the beginning of the year, the sharp fall in prices on the Chinese stock market caused nervousness on financial markets and resulted in falling share prices and declining yields for German and US government bonds. The situation then calmed down in the first quarter of 2016 before volatility returned to the financial markets at the end of June 2016 as a result of Brexit. This resulted in yields on German government bonds declining to a new all-time low so that the yield on all German government bonds with a maturity of up to 15 years was negative at the end of June.

In this environment, the US Federal Reserve did not further tighten monetary policy following its increase in the key interest rates to 0.25% up to 0.50% in December 2015. On the other hand, the European Central Bank (ECB) increased its bond purchase programme from a monthly amount of € 60 billion to € 80 billion and has also been purchasing bonds of non-financial companies since June 2016. The ECB also introduced a new long-term refinancing programme, under which commercial banks are able to borrow ECB liquidity for a period of four years at an interest rate of up to -0.4%. Following the announcement of these measures, risk premiums for companies and government bonds decreased.

The DAX fluctuated within a range of between 8,753 and 10,743 points in the first half of 2016. It was trading in the middle of the year at about 10% lower than at the 2015 year end, which is attributable, inter alia, to the fall in prices on the Chinese stock market and the result of the EU referendum in Great Britain.

On the currency markets, the euro appreciated against the US dollar compared to the 2015 year end. The EUR/USD exchange rate was 1.107 at the end of June (2015 year end: EUR/USD 1.087). The EUR/USD currency pair reached a temporary high of EUR/USD 1.153 in May 2016 after the Fed indicated a more cautious approach with regard to increases in the federal funds rate. The oil price (BRENT) increased in the first half of the year by 32.2% to USD 49.7 per barrel. This was attributable to outages in Canada, Nigeria and Libya in addition to the slowing down of oil extraction in the USA.

Uneven trends in relevant markets

There were few signs in the first half of 2016 of a sustained recovery in the shipping markets. The demand for container ships and bulkers again fell short of the expectations of market participants. The oil tanker market was not able to stabilise at the relatively high level achieved and came under greater pressure at the end of the 2nd quarter than had been initially expected. Ship values declined across all segments.

The container ship market has not recovered from its collapse in the second half of 2015. It should be noted that the charter rates for the large Post-Panamax ships have in the meantime stabilised at the operating cost level. Panamax ships, which were displaced on their traditional routes with the opening of the new Panama Canal lock, also performed weakly. Prices for second-hand ships have also declined recently to well below their historic lows. So far there have been no indications of the usual seasonal recovery in the middle of the year. Whilst the demand for container capacity has only stabilised at a low level, the fleet is still growing. The proportion of unemployed container ships slightly decreased during the course of the first half of the year to an overall high level. A positive factor in this regard has been the almost total absence of new orders for the first time since 2009.

The trend for bulkers came out of its long-term low in the first quarter of 2016. Rates and prices have stabilised since then. Demand was weak as expected. On the supply side, shipping lines are trying to curtail fleet growth by scrapping and deferring or cancelling orders for ships. Charter rates in all sub-segments were for the most part at the level of operating costs over the whole of the first half of the year.

The oil tanker market weakened markedly during the first half of 2016. This is primarily attributable to the renewed increase in the oil price. Demand for storage capacity also decreased. There was a marked acceleration in fleet growth as a result of numerous deliveries. At the same time hardly any new orders were placed, which may have a positive impact on utilisation in the future.

Trends in the German real estate markets were largely positive. Rents and prices continued to increase quite noticeably, especially in the residential real estate markets in most large cities. So far the dampening effect of the restrictions on rent increases has hardly been felt apart from a few exceptions. The sustained high level of demand for housing clearly exceeded completions, which have recently increased more slowly, resulting in a decrease in vacancy levels. Furthermore, weaker regions are also benefiting from a higher demand for residential properties due to the high number of refugees. However, the increase in rents slowed down in the office and retail real estate markets in the first half of the year. Nevertheless, the underlying conditions remain very favourable. Demand for office space grew more strongly than completions, which also increased, so that vacancy levels declined again. The retail sector continued to benefit from strong private consumption and generated significant growth in sales, particularly in e-commerce. Retail stores also participated in this. Demand for modern retail space, especially in prime locations in large cities, remained buoyant. On the investment markets, there was a noticeable shortage of supply on a high level of investor interest. Whilst market values of office properties continued to increase, commercial properties have recently remained stable.

Trends in office property markets in foreign markets were mixed at the beginning of the year. Whilst the recovery continued quite significantly in some markets such as Madrid and Stockholm, some other regions still remained weak. In these there were persistent high levels of vacancies, whereas rents stagnated. Following a protracted boom, the property markets in London passed their peak such that market values have no longer been rising recently. It remains to be seen what the effect of the Brexit vote will be on the London property market. In the rest of Europe, however, real estate markets continued to increase slightly due to high investor demand. The upwards trend continued in the USA in both the office and residential real estate markets on a slight fall in vacancies and increasing rents and market values.

The expansion of renewable energy has progressed unevenly over the last six months. New installations of onshore wind energy plants in fact increased in Germany to above the comparable number in the record year of 2014, whilst there was a return to normal levels in the offshore sector. In the rest of Europe, the slowdown in momentum for adding capacity noticeable since 2013 continued in 2016. The negative trend continued in the photovoltaic segment in Germany. Net capacity added again decreased significantly in the first five months of the year compare to the same period in the previous year. This is, inter alia, the result of the shift to a competitive bidding process that has already been implemented in this sector.

According to preliminary figures, the project financing volume for transport infrastructure fell sharply in the first half of 2016. The proportion of public private partnership projects to overall volume decreased at the same time. The largest proportion of the financing was arranged for road projects. Transactions relating to airports and ports were also implemented. The regional focus of the activities was France, Spain, Great Britain and the Netherlands. The major institutional investors include pension funds and insurance companies, which regard infrastructure investments as an investment alternative in the low interest rate environment. Revenues in the logistics sector were weaker in the first six months of the year than in the same period of the previous year.

Production growth in the manufacturing industry was significantly higher than in the same period of the previous year. Trends were uneven in the individual sectors. Whilst production volume decreased in the chemical sector, engineering, electrical engineering, the metal industry and companies in the pharmaceutical and automobile industries reported slight growth. In the food industry, sales of milk and milk products decreased significantly, whilst sales in the meat industry stagnated. However, bakery and pasta products generated growth in sales.

Wholesalers did not make a positive start to 2016, which is primarily attributable to production-related wholesalers. Wholesalers for consumer-related goods recorded slight growth. Compared to the wholesale sector the sales performance of the retail sector was positive. Both the food retail industry and other segments of the retail sector were able to increase their sales. Only the clothing retail sector has recorded a drop in sales since the beginning of the year.

The healthcare market is growing constantly as a result of demographic trends and medical advances. The financial situation of many hospitals remains strained despite increasing revenues. It is expected that this will be eased in future due to the entry into force of the Hospital Structure Act in January 2016.

Challenging environment for banks

Volatile market environment in the first half of the year

Against the backdrop of significant uncertainty regarding the future policy of large central banks and the growth prospects of important emerging markets, namely China, Brazil and Russia, the market environment for banks was characterised by considerable volatility in the first half of the year. Whereas global issues caused a sharp decline in share prices of banks, especially in the first two months of the year, the vote of the British electorate regarding remaining in the EU (Brexit) was – following a brief recovery between March and May – an additional uncertainty factor that created turbulence.

The fears of market participants regarding the impact of Brexit are not restricted to British banks but, due to the central role of the London financial centre for the EU banking market, also apply to other large European financial institutions. This resulted in worsening of the negative market mood, particularly the already simmering concerns regarding the stability of the Italian banking system.

An ongoing, but substantial, issue that has receded into the background was the debt moratorium announced at the beginning of March 2015 for the Austrian Heta Asset Resolution AG (HETA). Following the rejection of an initial buyback offer from the federal province of Carinthia to the creditor banks, which provided for the repurchase of the bonds at a price of 75%, an agreement was signed off in May. Carinthia has reached a compromise with the most important creditors, under which the investors are to get back 90% of their funds. However, a final, generally legally binding agreement is still pending.

In view of the significant economic and political uncertainty, the central banks, especially the ECB, maintained their expansive monetary policy, which now also provides for the purchase of corporate bonds thereby extending the outlook for market participants to a continuing low interest rate environment that adversely impacts bank earnings. This creates pressure, not least through a flatter interest rate curve, on net interest income due to lower earnings generated from the maturity transformation and lower interest on equity items.

Against this backdrop, the banks feel challenged to constantly review their strategic direction, as the increasing pressure on earnings in the banking sector entails, in connection with the weak loan demand of German companies, the risk that loan financing is not priced on a risk commensurate basis. At the same time, higher expenses for the European bank levy and costs for the increasing regulatory requirements are clearly 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.

Banking supervision in light of the SREP

In addition to the difficult market environment, the banking environment was mainly characterised in the first half of 2016 by regulatory changes as part of the continued implementation of the European Banking Union and Basel III. The Bank Recovery and Resolution Directive (BRRD) entered into force as at 1 January 2016. The German Act on the Recovery and Resolution of Credit Institutions (SAG) had already come into force a year earlier than at the European level. In this connection, the final responsibility for resolution plans of banks was transferred from the national resolution authority (Federal Agency for Financial Market Stabilisation (FMSA)) to the European Single Resolution Board (SRB) as at 1 January 2016.

Monitoring of banks by the banking supervision authority has also been intensified by the expansion of the Banking Union and guarantee schemes. Regulatory monitoring was substantially increased for banks directly supervised by the ECB through the supervisory review and evaluation process (SREP). The ECB already set out its priorities at the beginning of 2016 for the topics to be examined in detail in the SREP process. The five priorities identified by the supervisory authorities are a review of the business models of banks, credit risk, appropriateness of capital and liquidity resources, as well as governance and data quality. The main focus will be on risks associated with the business models and earnings weakness in the low interest rate environment. The review of credit risk will focus on the treatment of and reduction in non-performing loans.

The SREP process includes in particular large-scale data analyses, so-called "short-term exercises". This also affected not least the German ship financing banks, which had to deliver extensive data to the banking supervisory authority. The business models, funding plans and internal risk models of banks are reviewed by the ECB and national supervisory authorities, and EU-wide benchmark analyses, for example as part of the transparency exercise in Autumn 2016, are made greater use of for assessment purposes than under previous supervisory practices. The objective of the more comprehensive regulatory monitoring approach is to identify failings at banks at an early stage and to take appropriate countermeasures. At the same time, market transparency is to be strengthened by the increase in disclosure obligations.

The European banks were also occupied in working on the stress test published on 29 July 2016. This was started in the first quarter of 2016 with the publication of the methodology and scenarios. Whilst only a selection of European banks with total assets in excess of EUR 100 billion participated in the EBA stress test in 2016, other banks directly supervised by the ECB had to go through a so-called SREP stress test, the contents of which are to essentially cover those defined in the EBA stress test, but which are not to be published for the institutions not participating in the EBA stress test. HSH Nordbank participated in the ECB stress test as part of the SREP process.

The key substantive areas of focus in the stress test are directly linked to the current challenges in the banking environment. The stress test provided in particular for the modelling of the effects of the low interest rate environment, currency fluctuations and exposure to legal risk. The stress test results will be incorporated by the supervisors into the assessment of the banks' business models as part of the SREP process. At the same time, both the banking supervisory authorities and market participants focused in the stress test results on the appropriateness of capital resources with regard to future regulatory requirements.

The comprehensive and stricter regulatory requirements have made a significant contribution in their entirety to strengthening the stability of the European banking system. Against the backdrop of stricter capital requirements through the gradual implementation of Basel III and planned introduction of additional regulatory capital buffers German banks have further strengthened their capital base in the first half of 2016. In addition to capital measures taken in the market the reduction of balance sheet and risk positions as well as retained earnings also contributed to this.

HSH Nordbank's business impacted by underlying conditions

The volatile and highly competitive environment was also reflected in the Bank's business performance. Trends in the markets relevant for the Bank were uneven in the first half of 2016. Whilst the real estate environment in Germany was largely positive, the situation in the shipping markets remained challenging. The solid liquidity base of clients and persistent low interest rate environment had a tangible impact in the increasingly highly competitive environment. In the context of these market developments, the Bank was able to confirm its good position in the target markets even while continuing to comply with strict risk and income requirements. Nevertheless, lending margins are slightly below plan and new business volume remained overall below expectations and below the previous year's levels. The Real Estate division again confirmed its good market position but could not compensate for the subdued developments in the Corporate Clients division. Business was transacted on an extremely selective basis in the Shipping division against the backdrop of the difficult market position.

The Bank's earnings and financial position were affected by the uncertainty in the financial markets, not least in the run-up to and after Brexit, as well as the related significant adverse impact on financial instruments, the widening of CDS spreads and a further decline in bond yields. The slight appreciation and marked volatility of the US dollar against the euro also had an impact on earnings, net assets and the financial position, even though the Bank's dependence on movements in the EUR/USD exchange rate has decreased significantly following the transfer of loans of a nominal amount of € 5 billion, primarily denominated in US dollars, to the federal state owners. This also tangibly relieved the pressure on the Bank's refinancing requirements and liquidity position.

The uneven trends in the relevant markets were also reflected not least in the loan loss provisions. Due to the ongoing difficult situation in the shipping industry, the Bank again recognised high loan loss provisions for the relevant legacy portfolios covered by the federal state guarantee. On the other hand, the good earnings situation, particularly of German companies, permitted the release of loan loss provisions in this segment.

The Bank also responded to the constant challenge regarding the cost base appropriate for the market environment, not least with regard to the intended change in ownership. Administrative expenses were further substantially reduced compared to the same period in the previous year as part of the consistent implementation of cost-saving measures. The Bank is also using these measures to counteract the cost increases caused by a large number of new regulatory requirements and charges incurred in the first half of 2016 for the European bank levy and HSH Nordbank's contribution to the deposit guarantee scheme.

The EU proceedings and 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 2016

FORMAL DECISION IN THE CURRENT EU STATE AID PROCEEDINGS

On 2 May 2016, the EU Commission issued a formal decision in the current EU state aid proceedings and thereby approved the replenishment of the second-loss guarantee provided by the federal states from € 7.0 billion to € 10.0 billion. This formal decision confirms the informal agreement of 19 October 2015 and, in principle, defines it in concrete terms. It is based on a list of conditions and commitments provided by the Federal Republic of Germany to the EU Commission. The structural measures agreed should result in an improved financial and risk situation following implementation and form the basis for a sound structure and viable business model for HSH Nordbank.

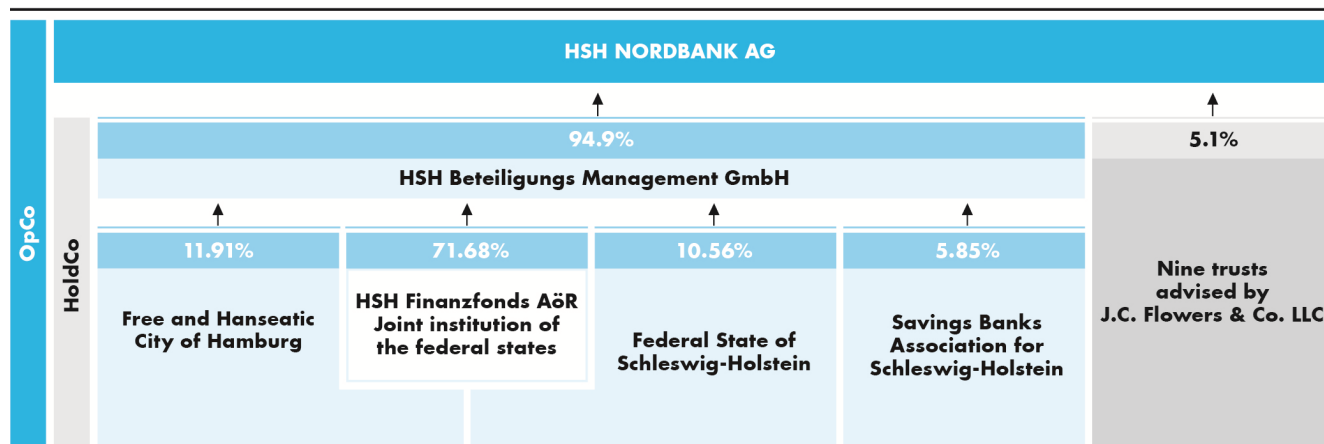
The structural measures relate to the transfer of non-performing loans of € 5.0 billion to the federal state owners at market values determined by the EU Commission under state aid aspects and the sale of a portfolio of € 3.2 billion in the market. A further point in the EU decision is the change to the fee structure for the second-loss guarantee, which is linked to the formation of a holding company and a subsidiary that comprises HSH Nordbank's operating business and is to be privatised. Furthermore, it is intended to sell the operating company by 28 February 2018. This divestment deadline is met upon the signing of a purchase agreement and may be extended by up to six months with the consent of the EU Commission where there are delays in the technical implementation of the model for reasons outside the control of the federal states.

The impact of the informal agreement, which was confirmed in detail and defined in concrete terms by the formal decision, on the net assets, financial position and earnings had to be recognised in the 2015 single-entity and Group financial statements in accordance with the applicable accounting rules given the conditions established by the federal state owners as at the 2015 year end. The implementation of the structural measures planned for the first half of 2016 was completed on schedule. On the one hand, a portfolio of non-performing shipping loans of € 5 billion (31 December 2015 reporting date) was transferred as at 30 June 2016 to the federal state-owned HSH portfoliomanagement AöR, under which the Bank was relieved of the burden of legacy loans to an appreciable extent. In this regard, the Bank received from HSH portfoliomanagement AöR the market price of € 2.4 billion as stipulated by the EU Commission. The loss incurred of € 2.6 billion is charged under the guarantee as part of the invoicing of losses. On the other hand, the holding structure was established which provided the operating HSH Nordbank with considerable relief from guarantee fees. Under this the operating company pays from 1 January 2016 a base premium of 2.2% (previously 4%) for the provision of the second-loss guarantee, which is calculated solely on the unutilised, i.e. undrawn, portion of the guarantee.

The implementation of the holding structure is accompanied by a change in the ownership structure of HSH Nordbank AG.

The principal owner of the operating HSH Nordbank AG is HSH Beteiligungs Management GmbH with 94.9% as at 30 June 2016. Private investors advised by J.C.Flowers & Co. LLC also hold 5.1%. The Free and Hanseatic City of Hamburg and Federal State of Schleswig-Holstein hold a total shareholding of 89.35% and the Savings Bank Association 5.55% in HSH Nordbank AG indirectly via HSH Beteiligungs Management GmbH.

OWNERSHIP STRUCTURE



Besides the implementation of the EU agreement, in the third quarter of 2016 the Bank has started with preparations for the planned portfolio sales of up to € 3.2 billion in the market. The Bank's owners have for their part initiated measures for the upcoming change in ownership. In this connection, the Bank has made personnel and organisational changes in order to further strengthen the business model and thereby contribute to a successful sales process.

Further details regarding the EU proceedings and their impact on the Bank are set out in the forecast, opportunities and risk report section as well as in the Management Report for the 2015 financial year.

OVERVIEW OF BUSINESS DEVELOPMENTS IN THE FIRST HALF OF 2016

Developments in the first half of 2016 were mainly characterised by the preparations for and implementation of the EU decision and centre on the bank's operating activities. The focus was on the transfer of the € 5 billion portfolio of non-performing legacy loans to the federal state owners and at the same time the development of the Core Bank's new business in a continuing demanding environment. Troubled assets were further reduced in the Restructuring Unit, in particular in the shipping and capital markets portfolios. Restructuring activities were further intensified in the shipping sector. The Bank has also made progress in line with the plan in optimising the organisation and processes as part of the ongoing cost reduction programme, which is currently being further expanded with a view to the sales process. Overall, the Group's development was characterised by a satisfactory operating result for the Core Bank and structurally related charges in the Restructuring Unit.

Focused new business development in the Core Bank in a highly competitive environment

New business in the Core Bank amounted to € 3.5 billion for the first half of 2016 and is, under observance of strict internal risk and income requirements, in total noticeably below the projected volume and that of the same period in the previous year (€ 4.9 billion). The Real Estate division recorded the most pronounced decrease, but at the same time in line with the plan, compared to the same period in the previous year due to the selective expansion of new business. New business in the Corporate Clients division was slightly above the previous year's level. However, new business in the reporting period fell significantly short of expectations, primarily as a result of subdued client loan demand and adherence to the defined level of profitability in an overall highly competitive environment. The targeted reduction in new business in the shipping sector because of the difficult market conditions also contributed to the overall weaker new business trend.

Details on new business concluded in the individual divisions are set out in the "Segment results" section.

The ratio of new loans disbursed to new business concluded (disbursement ratio) increased compared to the previous year and is above the pro rata target level. Interest margins achieved in the highly competitive environment declined compared to the previous year, but were just below the defined level of profitability. Cross-selling income generated by banking services over and above loan financing was in line with the plan. Investment products were among the services most in demand with Core Bank clients. Loan commissions received are largely on plan, whilst cross-selling income in the derivatives area is below the pro rata plan and level of the same period in the previous year due in particular to market conditions. Lower loan commissions were received for restructuring activities in both the Shipping division and Restructuring Unit as a result of the progress made in reducing risk, which was the main contributory factor in cross-selling income being overall slightly below that for the same period in the previous year.

Accelerated winding down of legacy portfolios

Following the sharp reduction in the previous year the legacy portfolios continued to be wound down in the first half of 2016 according to plan. The portfolio was reduced by € 4 billion; a significant portion of this reduction was in connection with a portfolio transferred to the federal state owners.

Despite the continuing very difficult conditions in the shipping industry, the winding down of non-performing ship financing transactions was also continued in 2016 by means of structural solutions for shipping loans. These solutions transfer shipping loan tranches to investors thus reducing the risks of the Bank in the portfolio. At the same time, the Bank in the course of the transactions secures the option to benefit from a recovery of the shipping industry. Five new transactions of this type totalling USD 0.5 billion were concluded in the first half of 2016.

HSH Nordbank has also further reduced the capital markets sub-portfolios in the Restructuring Unit. The capital markets portfolio was decreased by a total amount of € 0.9 billion in the first half of 2016. Furthermore, troubled assets of € 0.4 billion held in the real estate portfolio were repaid.

Cost optimisation is further expanded

The ongoing cost reduction programme through which HSH Nordbank is countering the increasing pressure on earnings in a highly competitive banking market on the one hand and increasing costs for regulatory requirements on the other hand was continued in recent months in line with the plan. In this connection, HSH Nordbank has further streamlined the organisational structure in the first half of 2016. In particular, preparations were made for the integration of the Restructuring Unit into the CRO department,

which will optimise business processes and make greater use of cross-divisional efficiency potential.

Taking account of the strategic direction in the privatisation process and the objective of achieving a sustainable, appropriate cost–income ratio of below 50% for the Bank, the Management Board decided in the second quarter of 2016 to expand the ongoing cost reduction programme. The impact of measures relating to personnel and operating expenses will be evident at the 2016 year end. Further provisions for the additional reduction in employees for the period to 2019 were recognised in the “Result from restructuring” for the first half of 2016.

Progress made in implementing the IT strategy

Further significant progress was made in 2015 in implementing the IT strategy defined in 2014 and to be implemented by 2018. The modernisation of IT was also completed, as were additional measures taken to strengthen the stable, secure and proper IT operations. The Bank’s new direction benefited substantially from the setting up of a strict cost management process and creating the basis for strategic sourcing decisions. Furthermore, the building of a central data architecture, which has already been started, forms a core part of the future IT architecture.

Management system and defined management indicators of the IFRS Group

The Bank’s integrated management system is aimed at the management of key value drivers – income, expense, capital, liquidity and risk – on a targeted basis. For this purpose, the Bank uses a risk-adjusted key indicator and ratio system that ensures that the Overall Bank, Core Bank and Restructuring Unit are managed in a uniform and effective manner. The HSH Nordbank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS).

Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. The focus is, on the one hand, on the trend of these indicators during the year to date compared to the same period in the previous year and, on the other hand, on their expected change during the rest of 2016 (“Forecast, opportunities and risk report” section). Further information on the management system and defined management indicators of the HSH Nordbank Group can be found in the HSH Nordbank’s Group Management Report for the 2015 financial year in the “Management system” subsection in the “Basis of the Group” section.

New members of the Management Board of HSH Nordbank appointed

The Supervisory Board approved the following changes to the Management Board in its meeting of 9 May 2016: Stefan Ermisch, formerly Chief Financial Officer and Deputy Chairman of the Management Board, became head of HSH Nordbank AG on 10 June 2016 and, as Chairman of the Management Board, has managed the Bank since then in the crucial phase of the intended change in ownership. Constantin von Oesterreich stepped down as Chairman following the annual results press conference on 9 June 2016, thereby initiating the change in leadership at the beginning of the privatisation process. Matthias Wittenburg, board member responsible for markets, left the Bank on 10 June 2016 by mutual agreement. On this date, Torsten Temp became the sole board member responsible for markets. Oliver Gatzke, who was previously head of the Finance division, is the new Chief Financial Officer from 1 July 2016.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

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

Core Bank results above expectations

The Core Bank, in which the strategic divisions of HSH Nordbank are combined, generated significantly above plan and previous year net income before taxes of € 261 million for the first six months of 2016 (same period in the previous year: € 143 million).

These results were positively driven by total income (€ 555 million, same period in the previous year: € 424 million), which exceeded that for the previous year by € 131 million. On the one hand, increased net interest income of € 448 million, which basically reflects the slightly above-plan trend in operating interest income and effects arising from the sale of promissory notes and securities, made a contribution to this and, on the other hand, net trading income of € 66 million also made a significant contribution. Furthermore, the Core Bank results were positively impacted by the effect of the invoicing of losses, which is disclosed within loan loss provisions. This provided total relief of € 56 million (same period in the previous year: € 34 million) after taking account of the compensation under the second-loss guarantee disclosed within loan loss provisions and the hedging effect of the credit derivative second-loss guarantee.

The ongoing cost reduction programme was implemented in the first half of 2016 in line with the plan. Administrative expenses amounted to € –203 million, which are at the plan level and that of the same period in the previous year. The bank levy and contributions to the deposit guarantee fund as well as the reduction in expenses for government guarantees also had an impact on the Core Bank results. Specific charges against earnings arose in connection with the significant increase in restructuring expenses (€ –76 million) due to the expansion of the ongoing cost reduction programme. Substantial provisions were recognised for planned personnel measures.

The Core Bank achieved a return on equity of 21% (previous year: 13%) on the basis of its positive results, which also include other effects in net interest income and loan loss provisions. The Core Bank's cost-income ratio was 35% (previous year: 44%).

In terms of segments, the Corporate Clients and Real Estate Clients divisions made the main contributions to the overall satisfactory performance of the Core Bank. Corporate Clients and Real Estate Clients generated strong earnings contributions of € 74 million and € 71 million, respectively. The results continued to be adversely impacted by scheduled and early repayments of loans by customers, which reduced the interest-bearing loan volume compared to the same reporting date in the previous year. The low interest rate environment and intensive competition also had a negative effect on the

results. The Core Bank performance was also adversely impacted by the results of the Shipping segment (€ –227 million).

Results of the Restructuring Unit impacted by portfolio measures

Net income before income taxes of the Restructuring Unit amounted to € –90 million as at 30 June 2016 (same period in the previous year: € 79 million) and included administrative expenses of € –74 million and an expense of € –77 million for the base premium for the second-loss guarantee. This significant decrease is mainly attributable to the continued and accelerated reduction in the portfolio and the setting of loans to a non-accrual basis as part of the recognition of loan loss provisions. This resulted in a further reduction in the interest-bearing volume of loans and advances and corresponding sharp fall in net interest income. Net income was also negatively impacted by measurement effects relating to customer derivatives. The total income of the Restructuring Unit was € –14 million (same period in the previous year: € 221 million) and was adversely impacted by a net trading income of € –26 million. Net income before taxes was also adversely impacted by higher loan loss provision expense for shipping loans. However, this was largely compensated for by the guarantee in the guaranteed portfolio. Taking account of the compensation under the second-loss guarantee and the Hedging effect of the credit derivative second-loss guarantee, loan loss provision expense charged to the Restructuring Unit could amount to € 95 million after guarantee (same period in the previous year: € 93 million).

Satisfactory developments in the Group exceed expectations

Group net income before taxes amounted to € 171 million and is significantly above expectations but appreciably below that for the same period in the previous year (€ 222 million). Otherwise the group net result after taxes of € 160 million was above that of the same period in the previous year (€ 147 million).

Total income of € 541 million exceeded the plan but is below that of the same period in the previous year (€ 645 million). Net interest income amounted to € 374 million as at the reporting date compared to € 448 million as at 30 June 2015. Income effects attributable to new business performance were offset by the adverse impact of the marked reduction in the interest-bearing volume of loans and advances compared to the same reporting date in the previous year. This is mainly due to additions to loan loss provisions and the associated setting of loans to a non-accrual basis in the previous year, which has now resulted in a corresponding decrease in net interest income. Furthermore, the low interest rate environment and intense competition had a negative effect on Group earnings. This was partially offset by the impact of the sales of promissory notes and an increase in net income from financial investments.

A high amount of impairment losses had to be recognised again in the first half of 2016 for shipping loans following the very high loan loss provisions already recognised in the 2015 financial year in order to

take account of the continuing severely difficult market conditions in the shipping industry. On the other hand, the corporate clients and real estate clients portfolios were affected by the net release of loan loss provisions, which was based on loan principal repayments and improved risk assessments. Loan loss provision expense and direct write-downs amounted to € -520 million (same period in the previous year: € -199 million). The relief provided amounted in total to € 151 million (same period in the previous year: € 127 million) after taking account of the compensation disclosed in loan loss provisions and including the hedging effect of the credit derivative second-loss guarantee (as a component of the second-loss guarantee). The loan loss provision results were also positively affected by the settlement of losses following the compensation of the second-loss guarantee. In connection with the settlement of losses under the guarantee with HSH Finanzfonds AöR, interest payments not received in the past could also be charged in addition to loan losses. However, the relief provided in the past year benefited in particular from a debt waiver, which had a positive impact on the compensation item.

Against the backdrop of the ongoing cost reduction programme the marked reduction in operating and personnel expenses in the Group compared to the same period in the previous year also made a positive contribution to net income for the first six months. Administrative expenses decreased markedly by € 25 million to € -277 million and are in line with the plan. The Bank has recognised considerable additional provisions in connection with the expansion of the ongoing cost reduction programme and the planned personnel measures. The resulting increase in restructuring expenses had a significant negative effect of € -98 million in total on Group results (same period in the previous year: € -12 million).

Furthermore, the bank levy and contributions to the deposit guarantee fund had an effect at the Group level. The reduction of € -126 million in expenses for government guarantees following the implementation of the holding structure in the meantime had an effect on Group results (same period in the previous year: € -235 million).

Further details on the reasons underlying the business performance are set out in the following “Earnings”, “Net assets and financial position” and “Segments” sections.

EARNINGS SITUATION

INCOME STATEMENT

(€ m)	January – June 2016	January – June 2015	Change in %
Interest income	1,846	2,330	-21
Interest expense for investments and derivatives	-79	-19	> 100
Interest expenses	-1,399	-1,812	-23
Interest income from investments and derivatives	69	9	> 100
Net income from hybrid financial instruments	-63	-60	-5
Net interest income	374	448	-17
Net commission income	50	62	-19
Result from hedging	2	8	-75
Net trading income	40	71	-44
Net income from financial investments	74	56	32
Net income from financial investments accounted for under the equity method	1	-	100
Total income	541	645	-16
Loan loss provisions	559	120	> 100
Hedging effect of the credit derivative second-loss guarantee	-408	7	>-100
Administrative expenses	-277	-302	-8
Other operating income	43	53	-19
Expenses for bank levy and deposit guarantee fund	-63	-54	17
Net income before restructuring	395	469	-16
Result from restructuring	-98	-12	>-100
Expenses for government guarantees	-126	-235	-46
Net income before taxes	171	222	-23
Income taxes	-11	-75	-85
Group net result	160	147	9
Group net result attributable to non-controlling interests	-	-	-
Group net result attributable to HSH Nordbank shareholders	160	147	9

Year-on-year decrease in total income in line with plan

Total income decreased in the first half of 2016 to € 541 million compared to € 645 million in the same period in the previous year. Based on the expected decrease in the interest-bearing loan volume, the Bank assumed in its planning that total income would decrease accordingly.

Total income for the first six months was primarily driven by net interest income, which amounted to € 374 million compared to € 448 million in the same period in the previous year. Net interest income resulted, on the one hand, from the new business concluded and loan prolongations. On the other hand, net interest income included the effect of sales of promissory notes and thereby exceeded the planned amount. The average interest-bearing loan volume decreased as at 30 June 2016 in line with the plan. Net operating interest income is slightly above plan as at reporting date. The overall positive earnings effect of customer business was partially offset by the accelerated reduction in the Restructuring Unit's portfolio and a higher level of loan principal repayments.

Net commission income amounted to € 50 million as at 30 June 2016 compared to € 62 million as at the same reporting date in the previous year. This decrease is primarily attributable to lower restructuring fees in the Restructuring Unit associated with the significant reduction in the portfolio.

Net trading income made a contribution of € 40 million to total income for the first six months of 2016 (same period in the previous year: € 71 million). Operating successes in customer business (€ 86 million including hedging effects), positive effects arising from assets measured at fair value (€ 56 million) and the measurement result for EUR/USD basis swaps (€ 18 million) had a positive impact on the performance. Net trading income was adversely impacted by € -97 million relating to measurement effects in the derivative area that arose primarily as a result of the decrease in long-term EUR and USD interest rates and substantial widening of CDS spreads.

Net income from financial investments amounted to € 74 million and was driven by gains on the sale of securities (€ 64 million) and write-ups of HETA securities (€ 38 million). It was adversely impacted by impairment losses of € -29 million recognised on profit participations. Overall, net income was significantly above that for the same period in the previous year (€ 56 million).

HSH Nordbank continued to measure the securities portfolio (notional amount: € 220 million) of Heta Asset Resolution AG (HETA) at current market value as at the reporting date. This resulted in the above-mentioned write-up of € 38 million being recognised in net income from financial investments as at the reporting date. Due to the hedging of transactions under the second-loss guarantee, this write-up was offset by the recognition of an expense to the equivalent amount

in loan loss provisions resulting from a corresponding reduction in the hedging effect of the second-loss guarantee.

Continuing high level of loan loss provisions

Loan loss provisions for the first six months of 2016 continued to be dominated by additions in the shipping portfolio to reflect the ongoing very difficult market developments. Loans for bulkers and container ships accounted primarily for the additional loan provision expense recognised in the first half of 2016 for legacy shipping portfolios due to the continued very weak charter rates in these ship segments.

However, the risk trend in other business sectors remained insignificant. The corporate clients and real estate clients portfolios were affected to a significant extent by the net release of loan loss provisions, which was based on loan principal repayments and improved risk assessments.

This resulted in a net loan loss provision expense of € -520 million, which was considerably higher than the pro rata plan, before taking account of the compensation effect of the guarantee (same period in the previous year: € -199 million). Loan loss provisions recognised in particular for legacy portfolios continued to be compensated for by the guarantee in the first six months of 2016 if they related to portfolios covered by the guarantee.

Compensation under the second-loss guarantee for the guaranteed portfolio, which is disclosed under "Loan loss provisions", amounted to € 1,079 million taking account of currency translation gains and losses (same period in the previous year: € 319 million). After the compensation effect under the second-loss guarantee, loan loss provision expense amounted to € 559 million (same period in the previous year: € 120 million) after taking current loan loss provision expense into account. After taking account of the hedging effect of the credit derivative second-loss guarantee of € -408 million (30 June 2015: € 7 million), loan loss provision expense would amount in total to € 151 million (30 June 2015: € 127 million) after the guarantee.

The hedging effect of the credit derivative second-loss guarantee decreased as at 30 June 2016 in light of the invoicing of losses, which primarily related to the executed federal state transaction.

Loan loss provisions were positively affected as at 30 June 2016 by the results of the invoicing of losses via the compensation mechanism under the second-loss guarantee. Interest payments not received in the past could also be charged in addition to loan losses in the invoicing of losses under the guarantee with HSH Finanzfonds AöR.

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

(€ m)	2016	2015
Loan loss provisions before currency translation gains or losses and compensation (net)	- 520	- 199
of which Core Bank	- 226	- 124
Shipping	- 263	- 156
Real estate clients	- 1	- 3
Corporates	31	60
Other	7	- 25
of which Restructuring Unit	- 294	- 75
Shipping loans	- 362	- 202
Real estate loans	40	65
Corporate loans	11	64
Other	17	- 2
Loan loss provisions after currency translation and compensation (net) including credit derivative	151	127
of which Core Bank	56	34
of which Restructuring Unit	95	93

The hedging effect of the guarantee gave rise for the first time to a cash drawdown of the guarantee after taking account of the transfer of the non-performing shipping loans to the federal state owners. The Bank's first-loss piece (€ 3.2 billion) was exceeded by € 1.6 billion as at the reporting date as a result of losses incurred mainly in connection with the invoicing of losses under the federal state transaction.

The effective payments under the guarantee are offset by significant fees already paid for the guarantee. Base premiums recognised through profit or loss by HSH Nordbank and paid to the guarantors (excluding the one-off payment of € 0.5 billion) have increased to € 2.9 billion as at 30 June 2016 (current base premium plus subsequent base premium payment for the replenishment of the guarantee facility in the middle of 2013).

Noticeable reduction in administrative expenses

As expected, administrative expenses for the first half of 2016 decreased markedly to € - 277 million (same period in the previous year: € - 302 million). Overall, the decrease compared to the same period in the previous year reflects the savings realised under the ongoing cost reduction programme.

The further planned decrease in the number of employees as part of the headcount reduction had a positive impact on personnel expenses,

which decreased from € - 141 million to € - 129 million. Compared to the 2015 year end, the number of employees within the Group declined by 94 to 2,290 (computed on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) decreased slightly to € - 132 million compared to € - 140 million in the same period in the previous year. Savings were achieved in particular by reducing building costs. Higher costs incurred for restructuring commitments also had an adverse impact in the same period in the previous year. These savings continue to be offset by high costs incurred in implementing regulatory and accounting requirements.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € - 16 million compared to € - 21 million in the same period in the previous year. Reduced amortisation of software, inter alia, had a positive impact in this regard.

Other operating income amounted to € 43 million (same period in the previous year: € 53 million).

Reduction in base premium expense

The base premium expense for the second-loss guarantee amounted to € - 126 million for the first six months (same period in the previous year: € - 235 million). The decrease in the premium is primarily attributable to the approved reduction under the EU decision of the base premium from 4% (calculated on the guarantee facility) to 2.2% (calculated on the undrawn, i.e. unutilised, portion of the guarantee) from 1 January 2016.

Satisfactory development in the Group exceeds expectations

After taking account of the operating developments and against the backdrop of structural measures, HSH Nordbank generated overall positive net income before income taxes of € 171 million, which was significantly above plan (previous year: € 222 million). After deducting tax effects there remains Group net income of € 160 million (same period in the previous year: € 147 million).

The income taxes line item comprised current tax expense of € 3 million and deferred tax expense of € 8 million.

Return on equity for the Group calculated on the basis of net income before taxes was an above-plan 7% (same period in the previous year: 9%). The cost-income ratio, which was also above plan, increased slightly to a satisfactory 47% (same period in the previous year: 43%).

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS ON THE STATEMENT OF FINANCIAL POSITION

(€ m)	30.06.2016	31.12.2015	Change in %
Assets			
Cash reserve	2,494	3,394	-27
Loans and advances to banks	5,078	5,595	-9
Loans and advances to customers	54,422	56,575	-4
Loan loss provisions	2,139	-1,065	>- 100
Credit derivative under the second-loss guarantee	260	663	-61
Trading assets	7,530	7,356	2
Financial investments	16,150	16,636	-3
Non-current assets held for sale and disposal groups	5	5,082	-100
Other assets	2,718	2,737	-1
Total assets	90,796	96,973	-6
Liabilities			
Liabilities to banks	9,424	14,398	-35
Liabilities to customers	44,580	44,567	-
Securitised liabilities	16,736	18,616	-10
Trading liabilities	7,381	6,758	9
Liabilities relating to disposal groups	-	1	-100
Subordinated capital	3,495	3,452	1
Equity	4,933	4,885	1
Other liabilities	4,247	4,296	-1
Total equity and liabilities	90,796	96,973	-6

Total assets significantly reduced by portfolio transfer

Total Group assets decreased significantly to € 90,796 million as at 30 June 2016 (31 December 2015: € 96,973 million). This decrease was mainly attributable to the transfer of non-performing shipping loans of € 5 billion to the federal state-owned HSH portfoliomangement AöR (corresponding reduction in the “Non-current assets held for sale and disposal groups” line item). In addition there was an ongoing reduction in the Restructuring Unit portfolio in line with the plan.

There was a decrease in all material balance sheet line items on the asset side. Cash reserves decreased to € 2,494 million compared to the previous year end (31 December 2015: € 3,394 million). This was attributable to the measures taken as part of liquidity management. Loans and advances to banks also decreased and amounted to € 5,078 million (31 December 2015: € 5,595 million), which was mainly due to lower time deposits. Loans and advances to customers also declined slightly to € 54,422 million (31 December 2015: € 56,575 million). New business transacted in the Core Bank was more than offset by the winding down of portfolios in the Restructuring Unit in line with the plan as well as regular and premature loan repayments.

Loan loss provisions disclosed as at the 30 June 2016 reporting date of € 2,139 million (31 December 2015: € -1,065 million) are positive. The transfer of the portfolio to HSH portfoliomangement AöR resulted in a decrease in loan loss provisions (before taking account of the compensation) to € -6,214 million (31 December 2015: € -8,227 million). However, the compensation item still includes payment claims against the guarantor for payment defaults in the portfolio transferred and payment defaults from previous years until they are settled by the guarantor. For the first time these effects resulted, as at 30 June 2016, in the loan loss provisions being overcompensated by the compensation item.

Trading assets increased slightly to € 7,530 million (31 December 2015: € 7,356 million). Whilst the interest-bearing securities held in the trading portfolio decreased as a result of the winding down of the portfolio, the positive fair values of derivatives held in the trading portfolio increased. Financial investments decreased to € 16,150 million (31 December 2015: € 16,636 million). Both the sales of equity holdings and winding down of securities portfolios had a noticeable impact in this regard.

On the liabilities side, liabilities to banks decreased to € 9,424 million (31 December 2015: € 14,398 million). In particular, liabilities to domestic central banks decreased significantly. Liabilities to customers of € 44,580 million (31 December 2015: € 44,567 million) remained constant. Securitised liabilities decreased to € 16,736 million (31 December 2015: € 18,616 million).

Reported equity capital increased slightly to € 4,933 million (31 December 2015: € 4,885 million). Group net income had a positive impact as at the 30 June 2016 reporting date. The “Equity” line item was adversely impacted by the measurement of pension provisions against the backdrop of the low level of interest rates.

Significant decrease in business volume

Business volume decreased significantly to € 99,081 million (31 December 2015: € 106,176 million). The main reason for this was lower total assets but off-balance sheet business also decreased. Sureties and guarantees decreased to € 2,499 million (31 December 2015: € 2,833 million), and irrevocable loan commitments to € 5,786 million (31 December 2015: € 6,370 million).

STRUCTURE OF LIABILITIES BY FINANCIAL INSTRUMENTS

(€ m)	30.06.2016		31.12.2015	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	15,748	13,922	17,161	14,415
Pfandbriefe	10,035	8,657	10,653	8,887
Other secured funding	5,713	5,265	6,508	5,528
Unsecured liabilities	36,711	2,264	40,068	1,596
Unsecured (senior unsecured)	17,657	15,202	19,746	16,446
Profit participation certificates and other subordinated liabilities	2,132	1,177	2,122	2,105
Silent participations	1,988	1,988	1,936	1,936
Total	74,236	34,553	81,033	36,498

The above table breaks down HSH Nordbank's liabilities by financial instrument and thereby takes into account the requirements of capital markets participants. Liabilities with a maturity of more than one year are shown separately. The carrying amounts of financial instruments excluding principal repayments and accrued interest are assigned to maturity bands in the above table.

Securitised debt instruments (Pfandbriefe, asset-based funding) account for most of the long-term liabilities. These mainly include debt instruments issued under Pfandbrief programmes (mortgage, public sector and ship Pfandbrief programmes) as well as other asset-based funding issues, repo transactions and deposits from development banks. The total amount of secured debt instruments outstanding was € 15,748 million as at 30 June 2016.

Unsecured liabilities include call and time deposits comprising mainly client deposits and bearer and registered bonds as well as other unsecured financing instruments and amounted to € 36,711 million as at the reporting date. Call and time deposits account for most of the client deposits. The volume of bearer and registered bonds (senior unsecured) € 17,657 million as at 30 June 2016.

The two line items “Profit participation certificates and other subordinated liabilities” (€ 2,132 million) and “Silent participations” (€ 1,988 million) represent total subordinated capital. € 624 million of the silent participations (Resparc I and Resparc II) are disclosed under the “Securitised liabilities” balance sheet line item.

Capital and funding

ELIGIBLE OWN FUNDS

(SAME PERIOD CALCULATION)

(€ bn)	30.06.2016	31.12.2015
Regulatory capital	7.7	7.7
of which Tier 1 capital	6.0	6.1
of which CET1 capital	4.6	4.6
of which: additional Tier 1 capital	1.3	1.5
of which supplementary capital	1.7	1.6
Risk assets (RWA)	34.5	37.4
of which risk assets counterparty default risk	26.0	26.8
Leverage exposure	87.6	97.6

REGULATORY CAPITAL RATIOS

(SAME PERIOD CALCULATION)

(%)	30.06.2016	31.12.2015
Total capital ratio	22.2	20.6
Tier 1 capital ratio	17.3	16.4
CET1 ratio	13.5	12.3
CET1 ratio (full implementation of Basel III)	12.8	11.6
Leverage ratio	6.8	6.3

CET1 ratio increases to 13.5% as a result of the federal state transaction and Q2 results

The CET1 ratio (under the Basel III transitional arrangements, phase-in) increased to 13.5% as at 30 June 2016 and therefore reached a solid level from the Bank's perspective and exceeded the ratio planned for the 2016 year end. This increase compared to 31 December 2015 (12.3%) took account of a significant reduction in RWA due to the transfer of non-performing loans to the federal state owners and the positive results for the first half of the year. This was offset by higher deductions from equity under the Basel III phase-in rules and charges recognised in OCI (other comprehensive income) due to the low level of interest rates.

Under the assumption of full implementation of the Basel III rules (fully loaded), HSH Nordbank's CET1 capital ratio increased to 12.8% compared to 31 December 2015 (11.6%).

As part of the supervisory process in the Banking Union, HSH Nordbank was assigned an individual minimum ratio by the ECB that is reviewed annually in the SREP process. This ratio was adhered to at all times in the first half of 2016.

RWA decreased compared to 31 December 2015 by € 2.9 billion to € 34.5 billion and are in line with the plan. The reduction in RWA resulted in particular from the transfer of non-performing loans, which were primarily denominated in US dollars, to the federal states. The trend of the Bank's key risk parameters over the past six months was slightly negative.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second-loss guarantee. The risk weight calculated as at 30 June 2016 is around 2.6%, which is equivalent to about € 0.7 billion of free capacity for expected and unexpected losses/guarantee buffer (31 December 2015: 0.3%, which is equivalent to about € 1.7 billion of free capacity for expected and unexpected losses/guarantee buffer). The guarantee buffer has the effect that negative risk trends in the guaranteed portfolio do not have a material impact on the capital ratios, as long as the regulatory minimum risk weight for the senior tranche of the guarantee structure is below 20%.

The decrease in the risk weight and reduction in the guarantee buffer compared to 31 December 2015 was attributable to the deterioration in the shipping risk parameters and invoicing of losses in connection with the federal state transaction.

HSH Nordbank's leverage ratio was a very solid 6.8% as at 30 June 2016 (31 December 2015: 6.3%). A statutory binding minimum leverage ratio value has not yet been defined.

Detailed information regarding the capital and RWA forecast as well as potential developments and guarantee buffers is set out in the "Forecast, opportunities and risks" report.

Funding activities again expanded

HSH Nordbank has successfully continued to implement its funding strategy in the first half of 2016 by using different sources of funding.

Retail funding performed well in the challenging low interest environment. The raising of funding including placements to institutional investors was above plan in the first half of 2016.

The issuing of Pfandbriefe continued to be a priority in the refinancing mix. In the reporting period, the Bank used the capital markets to issue two large-volume Pfandbriefe and thereby successfully continued its strategy to be regularly active in the market with liquid issues and to expand the investor base. A public sector Pfandbrief of € 500 million was followed in April by a 7-year mortgage Pfandbrief to the same amount of € 500 million, which was increased to € 850 million in July 2016.

Asset-based funding (ABF) is a further important refinancing instrument for the Bank. A further large volume transaction was concluded in the first half of the year via the ABF platform. Long-term borrowings of USD 215 million were raised on the basis of infrastructure loans, which strengthen the primary US dollar refinancing base. Further transactions are in the pipeline.

Besides the issuing activities, the level of deposits contributed to the implementation of the funding strategy. Total deposits amounted to € 35 billion as at 30 June 2016 (31 December 2015: € 35 billion). Furthermore, at the end of the second quarter of 2016, the Bank held liquidity reserves in the form of credit balances at central banks of € 2.3 billion and collateral eligible for refinancing at central banks of € 14.8 billion, which the Bank can access at any time.

The transfer of the portfolio to the federal state owners in the middle of 2016 resulted in a further strengthening of the liquidity situation due to the receipt of the purchase price of € 2.4 billion. The regulatory requirements for HSH Nordbank's liquidity ratios were met in the reporting period. The liquidity ratio as defined in the German Liquidity Regulation (LiqV) declined slightly to 1.84 as at 30 June 2016 (31 December 2015: 1.89), which was still within plan and significantly above the regulatory minimum requirements. The liquidity coverage ratio (LCR, short-term minimum liquidity ratio) was 140% as at 30 June 2016 (31 December 2015: 112% in accordance with QIS Basel framework) and was also significantly above the minimum requirements. The increase in the ratio was primarily attributable to the receipt of the payment for the transfer of the portfolio to the federal state owners.

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

The rating agencies have already implemented new liability cascade rules a year before the introduction of the amended Section 46f of the German Banking Act (KWG) to be applied from 2017 onwards. At the end of January 2016 Moody's carried out a rating action against this backdrop that, for German banks, tended to improve deposit ratings and downgrade the senior unsecured ratings especially relevant for refinancing on the capital markets for some banks due to the subordination provided therein of senior bonds (financial instruments classified as senior unsecured) compared to deposits. Moody's confirmed both HSH Nordbank's deposit rating and senior unsecured rating at the current Baa3. HSH Nordbank's subordinated bonds were downgraded by a notch from B1 to B2 in January 2016 due to the previously higher number of maturities of these bonds.

Final assessment of HSH Nordbank's position

The formal decision of the EU Commission together with the measures implemented in the reporting period made a significant contribution to the marked improvement in the Bank's financial and risk situation as at 30 June 2016. The NPE ratio (total of all risk positions of borrowers in default in relation to total exposure) was improved significantly following the transfer of non-performing shipping loans of € 5 billion to the federal state owners. Furthermore, the CET1 ratio increased noticeably as a result of the reduction in the RWA. The Bank's refinancing requirements, particularly in US dollars, are also decreasing as a result of the continuous reduction in total assets, which is having a positive effect on the liquidity situation. At the same time HSH Nordbank has performed satisfactorily overall from an operating standpoint under the current conditions. New business concluded on a focused basis under difficult underlying conditions, and the sale of products in the Core Bank together with the further reduction in high-risk legacy portfolios contributed to this. The Bank's positive performance is being supported by the implemented and additionally planned cost measures and ongoing optimisation of processes and organisational structures.

The Core Bank results show that the market successes and efficiency improvements achieved in the business divisions in the past six months in tough underlying conditions (including deterioration in market conditions in the shipping industry, low level of interest rates, intense competition, EU proceedings) are having an impact, and HSH Nordbank is also operationally on the right track with the implementation of its business model.

Nevertheless, the continuing very difficult market conditions in the shipping industry and resulting high additions to loan loss provisions for troubled assets had an adverse impact in the reporting period. However, this was largely compensated for by the guarantee as in the past. Against this backdrop and because of the volatile movement in the US dollar HSH Nordbank deliberately placed restrictions on new shipping business in particular. Furthermore, subdued client demand and a difficult competitive environment in the German banking market were felt in the corporate clients business.

HSH Nordbank assesses its performance over the past six months as good overall taking into account the final agreement reached in the current EU proceedings and operating progress achieved. Overall, the improvements achieved in the Bank's financial and risk situation form a solid starting point for intensively pressing ahead with the planned structural measures and, in particular, the planned change in ownership.

Details regarding continuing challenges as well as opportunities and risks can be found in the "Forecast, opportunities and risk report".

SEGMENT REPORTING

Core Bank results above expectations

The Core Bank, in which HSH Nordbank combines its strategic divisions, made progress in implementing its client- and sector-based strategy despite the partly very challenging environment and was therefore able to consolidate its position in the target markets.

The Core Bank generated net income before taxes of € 261 million for the first six months of 2016, significantly above plan and previous period (same period in the previous year: € 143 million). The overall satisfactory operating performance of the segments under current conditions, with the exception of the Shipping division, contributed to this.

Total income of the Core Bank increased significantly from € 424 million to € 555 million, which is above plan. The increase is attributable to a rise in net interest income (€ 448 million, same period in the previous year: € 377 million), which also includes, in addition to the slightly above-plan operating interest income, the appreciable effect of the sale of promissory notes as well as securities and measurement effects recognised in net trading income, which amounted in total to € 66 million (same period in the previous year: € -26 million). This was offset by a slight decrease in net commission income, which amounts to € 41 million as compared to € 54 million as at 30 June 2015.

The results continued to be adversely impacted by scheduled and early loan repayments made by customers, also in the Corporate Clients division, and the ongoing recovery activities (forbearance measures

such as deferrals) in the Shipping division, which caused the interest-bearing loan volume to decrease in total compared to 30 June 2015. The results were also negatively affected by the expenses for the bank levy and deposit guarantee fund (€ -47 million), which were recognised in the first quarter 2016. Furthermore, the result from restructuring of € -76 million, which includes provisions for the reduction in employees, had an adverse impact.

The Corporate Clients and Real Estate Clients divisions in particular contributed to the overall satisfactory performance of the Core Bank. Corporate Clients and Real Estate Clients generated strong earnings contributions of € 74 million and € 71 million, respectively. On the other hand, the Core Bank was adversely impacted by losses of € -227 million generated by the Shipping segment market conditions as a result of the extremely difficult conditions.

The Core Bank achieved a return on equity of 21% (previous year: 13%) on the basis of its positive results, which also includes one-off items in net interest income and loan loss provisions. The Core Bank's cost-income ratio was 35% (previous year: 44%).

Total assets of the Core Bank amounted to € 68 billion as at 30 June 2016 (31 December 2015: € 70 billion) against the backdrop of the business performance and movement in the EUR/USD exchange rate (portfolio effect: € -0.2 billion). The increase attributable to new business was offset by scheduled and early loan principal repayments.

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

SEGMENT OVERVIEW JANUARY TO JUNE 2016¹⁾

(€ m)		Shipping, Project & Real Estate Financing	Corporates & Markets	Corporate Center	Consoli- dation Core Bank	Total Core Bank	Restruc- turing Unit	Consoli- dation Restruc- turing Unit	Total Restruc- turing Unit
Total income	2016	179	188	34	154	555	-25	11	-14
	2015	252	281	-15	-94	424	178	43	221
Loan loss provisions (including credit derivative)	2016	-264	31	6	283	56	-294	389	95
	2015	-159	61	4	128	34	-75	168	93
Administrative expenses	2016	-66	-126	-18	7	-203	-77	3	-74
	2015	-78	-152	29	3	-198	-104	-	-104
Net income before taxes	2016	-150	93	45	273	261	-378	288	-90
	2015	19	194	10	-80	143	31	48	79
Segment assets (€ bn)	30.06								
	2016	23	24	17	4	68	18	5	23
	31.12								
	2015	24	26	17	3	70	22	5	27

¹⁾ Including hedging effect of the credit derivative second-loss guarantee.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

As at 30 June 2016, 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, business with real estate clients and business with the Corporate Finance product division, which provides support to the customer divisions in the form of special financing and advisory solutions and within the framework of syndications.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

(€ m)	Shipping, Project & Real Estate Financing		Shipping	Real Estate Clients	Corporate Finance
	H1-2016	H1-2015			
Total income	179		76	98	5
	H1-2015	252	144	105	3
Loan loss provisions before currency translation gains or losses and compensation	-264		-263	-1	-
	H1-2015	-159	-156	-3	-
Administrative expenses	-66		-41	-26	1
	H1-2015	-78	-50	-28	-
Other operating income	1		1	-	-
	H1-2015	4	3	1	-
Net income before taxes	-150		-227	71	6
	H1-2015	19	-59	75	3
Segment assets (€ bn)	30.06.2016	23	11	12	-
	31.12.2015	24	13	11	-

Good performance in the real estate sector and continuing high level of loan loss provisions in the shipping portfolio

The Shipping, Project & Real Estate Financing segment benefited from the continuing good new business performance in the real estate clients business, which is according to plan and reflected in stable net income before taxes. The segment results were adversely impacted by high loan loss provisions caused by the continuing difficult market developments in the shipping sector

In the Shipping division, the transfer of portfolios to HSH portfolio management AöR and the continuing need for restructuring in the Core Bank's shipping loan recovery unit (legacy portfolio) resulted in a decrease in total income and the need to recognise a high loan loss expense amount of € -263 million (same period in the previous year: € -156 million) before the hedging effect of the guarantee. Against this backdrop net income before taxes decreased to € -227 million compared to € -59 million in the same period in the previous year. The challenging market environment in the shipping markets resulted in a lower, and also expected, new business volume of € 0.2 billion for the first half of 2016. These transactions were concluded with counterparties with a good credit standing. In the second half of the year, the portfolio is to be further developed and diversified by new business concluded with domestic and international customers.

The Real Estate Clients division made the largest contribution to earnings and net income with € 71 million compared to € 75 million in the same period in the previous year. As a key driver of earnings, new business of € 1.9 billion for the first half of 2016 was in line with the plan, whilst the net margin is slightly below expectations. The Real Estate Clients division was able to exploit its good market position and benefit from the current market situation. It was successful in increasing new business in the West German metropolitan regions and maintaining its strong market position in the core region of North Germany. Business conducted with new customers and international institutional clients again made a substantial contribution this year to the positive developments in the real estate sector.

The Corporate Finance product division provides support to the client business – particularly with products and services in the fields of syndication, M&A and acquisition financing. Net income increased slightly compared to the same period in the previous year. Under the Bank's business management policy, net income of Corporate Finance is almost fully disclosed in the client divisions.

CORPORATES & MARKETS SEGMENT

As at 30 June 2016 the Corporates & Markets combined the corporate client business with the Logistics & Infrastructure, Energy & Utilities, Commerce & Food, Industry & Services, Healthcare and Wealth

Management business fields as well as the Capital Markets division, which is responsible for the development, sale and trading of financial products and the servicing of savings banks, banks and insurance companies.

CORPORATES & MARKETS SEGMENT

(€ m)		Corporates & Markets	Capital Markets	Corporate Clients
Total income	H1-2016	188	72	116
	H1-2015	281	119	162
Loan loss provisions before currency translation gains or losses and compensation	H1-2016	31	0	31
	H1-2015	61	1	60
Administrative expenses	H1-2016	-126	-50	-76
	H1-2015	-152	-75	-77
Other operating income	H1-2016	-	-3	3
	H1-2015	4	0	4
Net income before taxes	H1-2016	93	19	74
	H1-2015	194	45	149
Segment assets (€ bn)	30.06.2016	24	12	12
	31.12.2015	26	14	12

Corporates & Markets burdened by low interest rate environment

Net income before taxes for the Corporates & Markets segment amounted to € 93 million and was therefore significantly below the same period in the previous year (€ 194 million). This result is still satisfactory given the continuing intense competition and low interest rate environment and was overall above the pro rata plan due to the above-plan positive change in loan loss provisions.

The Corporate Clients division generated net income before taxes of € 74 million for the first half of 2016 compared to € 149 million in the same period in the previous year. This includes total income of € 116 million (same period in the previous year: € 162 million), in which new business developments are reflected in particular. New business volume of € 1.4 billion for the first six months increased slightly compared to the same period in the previous year. However, customer demand for financing was still low in the current interest rate environment and was one of the reasons why the new business volume in this division has so far fallen short of the Bank's plan. As a result of the good liquidity situation of companies, total income was adversely impacted by scheduled and early loan principal repayments, which led to a decrease in the interest-bearing loan volume. Furthermore, losses were recognised in net trading income due to measurement effects in the derivatives area relating to the fall in long-term interest rates and widening of CDS spreads. New business margins were also below expectations in light of the competition. Net income from cross-selling products stabilised at the level of the previous year. The continuing solid business situation of many clients was reflected in the

loan loss provision income of € 31 million (same period in the previous year: € 60 million). In addition, the improved cost situation had a positive impact against the backdrop of the ongoing cost reduction programme.

Competition is still intense in the Logistics & Infrastructure business field. New business of € 0.4 billion was concluded in this sector in the first half of 2016 due to very good market penetration. In addition to the conclusion of significant project financing transactions, the railway transport sector projects were completed in the district heating system sector and another project in the data structure segment.

The Energy & Utilities business field was able to continue its good new business performance from the first quarter. Successful project completions resulted in new business volume increasing to € 0.5 billion after six months. The focus was on structured project financing transactions in the wind energy sector (onshore projects) in Germany and Scandinavia and corporate client business in Germany.

New business of € 0.2 billion was concluded in the Trade and Food Industry business fields in the first half of the year. The market environment for business conducted with small and medium-sized enterprises is still characterised by an overall restrained loan demand and intense competition, which had a negative impact on business concluded and margins. The Trade business field was able to increase business against this trend with clients in the commodity sector and drop-shipping. This resulted in stronger earnings with products in the payment transaction and documentary business compared to the same period in the previous year. Financing transactions were concluded throughout Germany with newly acquired, well-known customers in the food industry with the focus on food trading and production.

In the Industry & Services and Health Care business fields, the Bank was successfully able to conclude new transactions with existing and new customers in the first half of the year through its expertise in the area of structured financing (capital structuring). In summary, new business of € 0.3 billion was concluded and the customer base significantly expanded to include all German locations. The available excellent sector know-how of the corporate client relationship managers and M&A specialists will be used to give impetus to financing and advisory solutions and provide individual solutions, particularly for global trade finance, payment transactions and currency/interest rate hedging.

In the first half of the year, the impact of the low interest rate policy on client portfolios was the focus of business conducted with Wealth Management clients. The market trend towards adjusting the asset allocation and changes in maturities for money market and financial investments were the key drivers. As a result, the Wealth Management business field continued to contribute to the success of the Corporate Clients division.

The Capital Markets division generated net income before taxes of € 19 million (same period in the previous year: € 45 million) despite a volatile and risk-averse market environment together with a continuingly subdued client demand. Earnings from the sale of risk management products was at about the level of the previous year, and therefore in line with the sector trend; however, customer deposit business with savings banks and institutional clients developed positively compared to the previous year. The central bank functions of the capital markets business continued to deliver stable earnings for the Core Bank with slightly improved market conditions in the second quarter of 2016 whilst consistently complying with the risk requirements. This division continued to be adversely impacted by a structurally high level of administrative expenses.

The reduction in the Corporates & Markets segment assets compared to 30 June 2015 is mainly attributable to the reduction in the excess liquidity built up in advance of the extensive maturities of bonds covered by the guarantor liability as at the end of 2015.

CORPORATE CENTER SEGMENT

Net income before taxes of the Corporate Center segment, which includes the Overall Bank positions and administration and service divisions including Transaction Banking, amounted to € 45 million compared to € 10 million in the same period in the previous year. Transaction Banking generated product net income of € 8.6 million, which is noticeably below that for the same period in the previous year (€ 11.8 million). The resulting net incomes include in particular incomes from a more extensive use of products by customers in the area of payment transactions, account management and foreign trade transactions. The division was thus able to make a tangible contribution to the Bank's cross-selling income. Under the Bank's business management policy, net income of the Transaction Banking product division is disclosed in the customer divisions.

NET INCOME FOR THE CORE BANK TAKES CONSOLIDATION EFFECTS INTO ACCOUNT

The compensation effect under the second-loss guarantee had an overall significant positive impact on the Core Bank's consolidation items. These include reimbursements of the loss of interest in the past, which was paid by HSH Finanzfonds AöR to the Bank in connection with the federal state transaction as part of the invoicing of losses. Furthermore, the result from restructuring, expenses for bank levy and the deposit guarantee fund as well as expenses for government guarantees line items not allocated to the operating business had an impact in the consolidation column. In total, net income before taxes of the consolidation item amounted to € 273 million (same period in the previous year: € – 80 million). This resulted in total in net income before income taxes of € 261 million for the Core Bank (same period in the previous year: € 143 million).

RESTRUCTURING UNIT SEGMENT

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

RESTRUCTURING UNIT SEGMENT

(€ m)		
	1H-2016	-25
Total income	1H-2015	178
Loan loss provisions before currency translation and compensation	1H-2016	-294
	1H-2015	-75
Administrative expenses	1H-2016	-77
	1H-2015	-104
Other operating income	1H-2016	18
	1H-2015	32
Net income before taxes	1H-2016	-378
	1H-2015	31
Segment assets (€ bn)	30.06.2016	18
	31.12.2015	22

Highly negative net income of the Restructuring Unit attributable to portfolio reduction

The Restructuring Unit generated net income before taxes of € -378 million at the segment level for the first half of 2016 (same period in the previous year: € 31 million). The decrease in net income is mainly attributable, on the one hand, to the continued reduction in the portfolio, which resulted in a further decrease in the interest-bearing loan volume and a resulting sharp decrease in net interest income. Total income amounted to € -25 million (same period in the previous year: € 178 million). In addition to the sharp decrease in net interest income, total income of the segment was impacted by net trading income of € -38 million, which was negatively affected by measurement effect on customer derivatives. At € 57 million, net trading income had made a positive overall contribution to the Restructuring Unit's net income in the previous year. On the other hand, net income from financial investments (€ 77 million, same period in the previous year: € 45 million) had a positive impact due to gains realised on the sale of securities. Higher loan loss provision expense for shipping loans,

which were recognised due to the continuing difficult market conditions, continued to have a negative effect. Loan loss provisions had to be released for European real estate financing transactions.

Overall, the Restructuring Unit disclosed a significantly higher loan loss provision expense of € -294 million than the pro rata plan expense before taking account of the compensation effect of the guarantee (same period in the previous year: € -75 million).

Loan loss provisions continued to be largely compensated for by the guarantee in the reporting period. The compensation for the guaranteed portfolio recognised in loan loss provisions in the consolidation item amounted to € 582 million taking account of currency translation gains and losses. The relief provided in the same period in the previous year amounted to € 162 million because of the favourable debt waiver.

After taking the compensating effects under the guarantee into account, loan loss provision expense amounted to a positive € 288 million (same period in the previous year: € 87 million). Taking account of the hedging effect of the credit derivative second-loss guarantee, total loan loss provision expense would have amounted to € 95 million compared to income of € 93 million in the same period in the previous year.

Including the consolidation effects net income before taxes of the Restructuring Unit amounted in total to € -90 million (same period in the previous year: € 79 million). The considerable decrease compared to the same period in the previous year is attributable to a lower total income and negative impacts on net trading.

Total assets of the Restructuring Unit decreased to € 23 billion as at 30 June 2016 (31 December 2015: € 27 billion) as a result of the portfolio reduction taking into account the movement in the US dollar exchange rate (portfolio effect: € -0.1 billion). Consolidation items account for € 5 billion of this (31 December 2015: € 5 billion). Total assets of the Restructuring Unit segment therefore amounted to € 18 billion (31 December 2015: € 22 billion).

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the first half of 2016 that have 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 the HSH Nordbank's corporate planning. The occurrence of future events is subject to uncertainty, risks and other factors, 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 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, second-hand prices and 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 an individual valuation allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of an individual valuation allowance based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a recovery in the shipping markets and/or a significant recovery in the container shipping industry, as well as the continuation in general of the current recovery strategy, and therefore on the assumption of HSH Nordbank's willingness to continue to finance problem loans remaining after the planned transactions have been executed in order to achieve the planned significant 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 will address in detail the material opportunities and risks of the forecasts for the key management parameters as well as the going-concern assumptions. Opportunities are defined as possible future developments or events that may give rise to a positive divergence from the forecast or an objective for HSH Nordbank. In contrast, as part of the forecast 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.

The following forecast relates solely, unless otherwise expressly stated below, to the operating company of HSH Nordbank, which was created following the implementation of the legal separation of the former HSH Nordbank into an operating company and a holding company, which was approved as part of the EU decision. By means of this separation, the operating company of HSH Nordbank has been relieved from the additional premium obligations, the obligation to pay base premiums on the drawn down portions of the guarantee and the base premium payable for the unutilised portions of the guarantee from 2016 onwards. Corresponding obligations were assumed by the holding company. Furthermore, the operating company has been relieved as at 30 June 2016 of the burden of non-performing loan portfolios of € 5 billion through transfers to HSH portfoliomanagement AöR, the resolution institution of the federal states of Hamburg and Schleswig-Holstein. The operating company of HSH Nordbank plans to make further sales in the market of mainly non-performing loans to the amount of up to € 3.2 billion over the coming months.

ANTICIPATED UNDERLYING CONDITIONS

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

Second half of the year characterised by significant uncertainty

The second half of 2016 will be characterised by significant uncertainty, especially in Europe, due to the result of the referendum in Great Britain. The most recent developments in Turkey could lead to new uncertainties, not least with regard to the refugee issue, and, together with intensive discussions about the future direction of the EU, compromise the political stability in Europe. HSH Nordbank assumes that this will have a negative effect on economic growth and result in volatile developments on the financial markets. Global economic growth is nevertheless expected to be at a level comparable to the previous year for the whole of 2016 (2015: 3.1%).

Weaker economic growth in Europe

HSH Nordbank expects only a slight increase in growth momentum in the USA. This is based, on the one hand, on a slightly weaker labour market, which should dampen consumption growth, and, on the other, on the slowdown in growth in many emerging countries and in Europe, which is expected to have an effect on the export business. Inflation will probably not accelerate, as capacity is still not sufficiently utilised.

Based on the most recent economic data, growth in China should remain at the same level as in the first half of the year. The Bank

expects Brazil and Russia to perform moderately better by the year end, in particular because of the current slight increase in commodity prices.

In the eurozone, the increasing reluctance to invest is likely to become apparent at the end of 2016, primarily as a result of the uncertainty emanating from Great Britain. Private consumption could also fall. Nonetheless, the Bank expects this to have hardly any effect on growth in the eurozone for 2016 as a whole. However, the Bank assumes in this connection that this will lead to stronger negative effects, mainly in 2017.

In view of this uncertainty in Europe, the Bank assumes that, even in Germany, many companies will defer their investments or cancel them completely. The threat of other referendums on EU membership is likely to have an adverse impact on the political and economic stability in Europe. This could not least have negative consequences for the strongly export-oriented German economy.

High level of uncertainty in the financial markets

After the first half of 2016 ended in turmoil as a result of the referendum in Great Britain, there are uncertainties regarding possible contagion effects and their repercussions for stability on the capital markets. The Bank of England announced that it would ease its monetary policy and provide liquidity in order to prevent tensions on the money markets. Against this backdrop, it is also no longer likely that the Federal Reserve Bank will increase the key interest rate in 2016, whilst the European Central Bank may once again reduce the deposit rate. An increase in the bond purchase programme also cannot be excluded.

In this environment, long-term yields on German and US government bonds are likely to remain at the current very low, or in some cases negative, levels or decline even further. The euro will remain prone to depreciation against the US dollar, as new referendums in euro countries are likely not least to bring the stability of the eurozone into question. The oil price could come under renewed pressure, as recent recession fears should result in a lower demand for oil.

Outlook for relevant markets

The strained situation in the shipping markets is expected to continue over the short and medium term.

It is no longer expected that the container ship market will recover in 2016. Growth in the fleet will only weaken sufficiently enough next year for the start of a potential recovery. However, the Brexit scenario, which has to be accepted now, is having a negative effect again, particularly in the container ship market. Although it is likely that the reluctance to place new orders will continue, an improvement in capacity utilisation is now only expected from 2018 onwards.

The weak demand trend for bulkers is also expected to continue. However, given the current lack of new orders, growth in the supply of tonnage should decrease appreciably from the second half of 2016. In summary, it can be assumed that charter rates and ship values will stabilise and slightly increase from 2017 onwards. The Brexit scenario should have no noticeable effect on bulkers.

The oil tanker market will probably continue to cool down. Although demand is expected to grow in 2016 at a rate above its long-term historic average, supply should increase even more as a result of ships due to be delivered. The current lack of new orders indicates a withdrawal of investors from this market. Against this backdrop, the scenario of a soft landing with relatively good and stable prices is expected beyond 2017.

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

The German real estate markets should also continue to develop positively for the most part in the second half of 2016. Excess demand in residential markets in most of the large cities will continue due to the continued high influx of migrants and despite the increased construction activity. The retail sector will continue to benefit from positive consumer sentiment and increasing household income. Only a slight decrease in vacancies can be expected in the office property markets on a higher number of completions and falling demand for space. Office rents should nevertheless increase moderately again in central locations, whereas growth in secondary locations is likely to weaken slightly more. Rents for commercial and residential property should also increase at a slower rate given the increasing number of completions. The effect of the legal restrictions on rent increases on re-letting homes is only likely to be realised over the medium term with further supplementary measures. Although housing prices and market values of commercial properties are likely to increase, this will be at a much slower rate than in the previous year.

The outlook for the expansion of renewable energies also remains patchy for the second half of 2016. Whilst the capacity added is stagnating at a good overall level in Europe, there are definitely growth opportunities throughout the world. However, a distinction must be made between wind and solar energy. The substantial addition of capacity in the German wind energy segment over recent years should continue. The shift to a competitive bidding process approved by the EEG amendment is likely to give rise to a temporary increase in

demand, especially for smaller projects. New installations in the rest of Europe should reach their lowest point later in 2016 following stronger figures in previous years and then increase again in subsequent years. The absolute increase in generation capacity in the solar energy sector in Germany – and also in Europe as a whole – should stabilise at a moderate level over the coming years. The outlook is clouded by the implemented and intended restrictions on state subsidies in particular.

In the transport infrastructure sector the growth in transport demand on the one hand and high maintenance requirements on the other are generating positive stimuli for investment. Institutional investors will continue to be important. Revenues of companies in the logistics sector should increase faster over the whole of 2016 than in 2015. However, this cyclical sector is subject to the risks of a general macroeconomic downturn and a weakening in global trade. It is not expected that Brexit will have any noticeable effect on the real economy of the logistics sector and on trade flows with Great Britain in the second half of the year.

The economic slowdown in China is worrying for not only the heavily export-oriented sectors of the manufacturing industry such as automotive, engineering, electronics and chemicals. The consequences of the Brexit vote cannot yet be predicted. A downturn in business is only expected for engineering, electronics, metal production and the automotive sector in the medium term so that a slowdown in growth momentum is not expected until the year end. The economic upswing in the USA and the weak euro are to be regarded as positive factors. The slightly positive growth rates for 2016 will therefore be maintained. It is expected that growth will decline in the engineering sector. The continuous growth in the food industry is likely to continue due to the positive consumer behaviour of private households.

The lack of growth momentum in German industry will also make the outlook for the international business of wholesale and foreign trade companies a little less positive. The cyclical business-to-business sector in particular will suffer from this.

Positive underlying conditions together with wage increases and a good employment situation continue to have a positive impact on the retail sector. E-commerce remains a growth driver.

Investment budgets of companies should initially remain stable over the coming months across sectors, which could have a positive impact on loan demand at banks. However, as competition between banks remains intense in Germany, the pressure on credit margins will continue.

Ongoing challenging environment for banks

Against the backdrop of the political and economic uncertainties arising in connection with the vote of the British electorate to leave the EU (Brexit) and higher volatility on the financial markets linked to this, as well as continuing geopolitical tensions and a significant slowdown in growth in important emerging countries, the macroeconomic environment is also likely to remain challenging for banks in the second half of 2016.

In view of the macroeconomic uncertainty, the ECB in particular is likely to maintain its expansive monetary policy with the effect that the pressure on net interest income resulting from the low interest rate environment will continue to increase gradually. Institutions will attempt to offset this negative effect on profitability by expanding income sources not dependent on interest rates (e.g. commission income) and by further reducing costs.

Intense competition for medium-sized clients and continuing subdued loan demand, particularly in Germany, are putting additional strain on the earnings of banks. 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 common restructuring fund, which was again significantly higher in 2016, also had a tangible effect.

The results of the stress test published on 29 July 2016 and the findings of the Transparency Exercise, which is planned to be conducted again in the autumn, will be incorporated by the supervisor into the assessment of the business models of banks as part of the SREP process. At the same time, both the banking supervisory authorities and market participants are likely to focus in the stress test results and Transparency Exercise on the appropriateness of capital resources with regard to future regulatory requirements.

Besides the introduction of additional capital buffers (capital retention, early warning and systemically relevant buffers), this is particularly important regarding the extent to which banks are prepared for future regulatory standards for bail-in eligible liabilities. These relevant capital requirements that form part of the resolution mechanism include in particular the institution-specific minimum requirements for regulatory capital and eligible liabilities (MREL) to be defined by the national banking supervisory authorities and resolution authorities in the second half of the year.

Other fundamental adjustments can already be identified in addition to these capital requirements that are currently being defined. The changes discussed under Basel IV, which will serve, amongst other things, to improve the comparability of RWA profiles, are at the same time aimed at the harmonisation of supervisory practices in the EU

and are to improve transparency vis-à-vis the markets. The discussed change includes in particular capital floors when using internal models (so-called “CSA floors”), limiting capital savings through the use of internal “IRB constrained” risk parameters, closer attention to interest rate risk in the banking book and an adjustment of the approaches adopted for capital backing of securitisations.

In addition, more focus is placed on preparations for the new requirements for accounting for financial instruments under IFRS 9, which 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. A major uncertainty regarding this is the amount of loans that may have to be measured at fair value in the future, which could accordingly lead to future charges against capital and earnings from the lending business.

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. It is likely in this connection that most banks will have to invest a considerable amount to develop a comprehensive reporting system to meet the regulatory requirements (Anacredit). The increasing focus on the issue of cyber security will also require adjustments to IT systems to meet the new challenges.

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 varied regulatory requirements accompanied, on the one hand, by noticeably higher costs and, on the other, by exacting regulatory requirements for capital resources, banks will be required to continuously 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 appropriate preparations targeted at the above-mentioned regulatory and accounting requirements and already initiated implementation projects for the introduction of IFRS 9 and BCBS 239, among other things. Also with regard to the challenges posed by the low interest rate environment, the necessary management impulses were provided at an early stage. Additional requirements should arise from the further development of the Basel III Framework (Basel IV), for example for securitisations such as HSH Nordbank's second-loss guarantee and capital backing under the credit risk standard approach. The focus is placed in this context on

the detailed definition of the requirements for HSH Nordbank and on ensuring that the new standards are applied on a timely basis. In general, any quantitative effects, if known, arising, for example, from the expected IFRS 9 or Basel IV requirements have been included in HSH Nordbank's bank planning.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

2016 characterised by the implementation of the agreed structural measures

The final decision in the current EU proceedings and structural measures already implemented, especially the transfer of non-performing shipping loans of € 5 billion to the federal state owners and the associated relief from guarantee fees provided to the Bank, form a good basis to actively step up the preparations for the change in ownership. New business is to be further increased on a targeted basis and, at the same time, high-risk portfolios are to continue to be wound down over and above the planned sales in the market on the basis of the improvement in the Bank's financial and risk situation as a result of the implementation of the structural measures. In addition, the ongoing cost reduction programme will be expanded in order to further increase the tangible progress already achieved at the cost and process level and thereby increase the Bank's performance on a sustained basis.

Earnings forecast

For the second half of the year HSH Nordbank expects to be able to further expand new business and cross-selling at a moderate pace following an overall subdued performance in the first half of the year. The increased planning certainty following the conclusion of the current EU proceedings should have a positive effect. Nevertheless, it became obvious after the second quarter of 2016 that the original new business targets cannot be met in view of the continuing low level of interest rates and highly competitive corporate client environment whilst complying with appropriate and, in particular, risk commensurate margins. In light of this, the Bank is now expecting the new business performance for the whole of 2016 to be at best at the previous year's level. Furthermore, HSH Nordbank expects new business margins to continue to be risk commensurate, but at significantly lower levels than in the previous year. At the same time, sales of the range of services offered over and above loan financing will continue to be driven forward to optimally exploit the business and earnings potential.

The earnings side is strengthened by the focused increase in new business and product sales, which will be used to offset the pressure on income as a result of the portfolio transactions of € 8.2 billion, the winding down of non-strategic portfolios and increase in impaired shipping loans. In total, HSH Nordbank still expects a significant decline at the Group level and a noticeable decrease in the Core Bank's total income, which benefited from non-recurring items (primarily revaluation of hybrid instruments) in the 2015 financial year.

Based on the above-plan total income as 30 June 2016 for both the Group and Core Bank, the Bank assumes nonetheless that the plan total income, which is below that of the previous year, will be achieved at the 2016 year end for both the Group and Core Bank. In the Core Bank, the overall satisfactory operating earnings performance will be driven by the Corporate Clients and Real Estate Clients divisions.

A further significant reduction in the Restructuring Unit's balance sheet is planned in order to reduce risk positions. This will focus on winding down measures in different asset classes under which a significant reduction in risk is to be achieved. Total income in the Restructuring Unit will continue to decrease through the continuous winding down of the portfolio in the future.

The commitments undertaken in accordance with the catalogue of conditions and commitments were reflected in the Bank's planning. Under these, the Bank is required to limit annual new shipping business to € 1.2 billion. Furthermore, total assets may not exceed € 98 billion at the end of 2017 (on an average USD exchange rate of 1.10). Asset-based aircraft financing business, which had already been discontinued, will not be resumed. The existing restriction on external growth by prohibiting the acquisition of control in other companies and extension of the ban on proprietary trading will continue to apply. Furthermore, the list of requirements contains conditions regarding the corporate clients business (restricted to German clients and their investments in Germany and abroad and to foreign clients provided that they are seeking transactions in Germany).

Opportunities and risks in the earnings forecast

Opportunities

The business opportunities in the corporates sector as mentioned in the formal EU decision in the catalogue of conditions and commitments, particularly the opportunity to finance German clients and also their foreign investments as well as foreign clients provided they are seeking transactions in Germany, could have a positive impact on the new business planned for the corporate clients sector.

A sharper increase in income of the Core Bank could arise if, for example, new business and product distribution with clients develops better than expected, for example as a result of higher margins achieved in the market, stronger than planned product sales or an unexpected high loan demand.

Furthermore, a sharper, strategic focus of the Corporate Clients division on the renewable energy sector, among others, as well as other possible strategic alignments such as, for example, the planned expansion of asset management activities for institutional clients, could have a positive impact on the Core Bank's total income.

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 than assumed demand trend for loan financing. 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.

The Bank's increased funding costs due to its restricted access to the capital markets and resulting increased margin requirements may limit the volume of new business planned and, as a result, reduce the earnings base.

Despite the significant reduction in the amount of high-risk securities held, higher measurement losses on debt instruments and derivatives arising as a consequence of market developments or tensions in the financial markets also cannot be ruled out. IFRS measurement effects arising from the movement in the US dollar and interest rates as well as basis swaps could have a more negative impact than expected, although US dollar sensitivity has already decreased markedly following the execution of the portfolio transactions and will decrease further. Future planned results may be adversely impacted – as a result of possible additional winding down measures – by a further appreciation of the US dollar.

The implementation of the commitments as part of the formal decision, particularly in relation to the business model and reduction in total assets, may have an adverse impact on the development of new business, cross-selling and refinancing of the Bank and thereby also on the Bank's earnings situation. Furthermore, the existing restrictions may have a negative effect on potential transactions. The implementation of the agreed relieving measures that are still outstanding at a date later than that assumed in the plan could have an adverse impact on the Bank's future earnings situation. In particular, the delayed invoicing of losses under the guarantee arising on the planned sale of loan portfolios in the market would have a significant negative impact on HSH's earnings situation (for example as a result of the reduction in the relief from the adverse impact of premium payments for the guarantee).

Should uncertainties arise in relation to the risks described in the Capital and RWA forecast and formal decision in the EU state aid proceedings sections, this may result in a significant negative effect on the earnings situation.

Even in the event that the viability review of the new corporate structure and approval of the acquisition by the EU Commission, which is required in connection with the change in ownership to be concluded by 28 February 2018, is not or not fully successful or not successful within the specified time period, this may have a significant adverse impact on the development of new business, cross-selling, and the refinancing of the Bank and create a burden on the future earnings situation.

If sales of asset positions are more extensive than planned and new business expansion is consciously curtailed, this could result in a sharper reduction in total income at the Group level due to the elimination 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, to lower income from the investment of liquidity position.

Furthermore, potential adjustments to the business model and the planned expansion of asset management activities may not be reflected in earnings as expected.

Forecast for administrative expenses

The aim of HSH Nordbank on the cost side is to continue to gradually reduce administrative expenses significantly in order to achieve an appropriate cost-income ratio on a sustained basis of no more than 50% until the end of the planning horizon of 2018 for the Bank.

HSH Nordbank assumes a further noticeable decrease in administrative expenses for the whole of 2016 compared to 2015. The plan is based on the cost reduction programme initiated in 2014, which will be further extended over the coming months following the announcement in the second quarter of 2016. For example, it is intended to further reduce staff and operating expenses in the planning period. This has been started with the implementation of personnel management measures. A compensation package and social plan have been agreed with the Group works council. Details regarding the additional measures for operating expenses are in the process of being further developed; some operating expense targets have already become operational. Under the catalogue of conditions and commitments that forms the basis for the formal decision of the EU Commission, the Bank undertakes in principle to gradually reduce administrative expenses during the sales phase to € 540 million (excluding any potential IFRS 10 effects) in 2017.

The aim of the cost reduction programme is, inter alia, the further streamlining of the organisational structure, simplification of key

processes, optimisation of the product portfolio and realignment of the Bank's IT, and has already had an effect in the past year. Administration expenses decreased significantly in the first half of 2016 compared to the same period in the previous year.

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 restructuring expenses are expected to be incurred in subsequent years in implementing the cost reduction programme. The bank levy determined for the first time in 2015 on the basis of the Bank Recovery and Resolution Directive (BRRD) and harmonised at the EU level, as well as the contribution to the deposit guarantee fund of the Savings Banks Finance Group (disclosed on a separate line item), are also payable in subsequent years.

As regards the planned temporary servicing of HSH Portfoliomanagement AöR by HSH Nordbank, the Bank assumes that any additional expenses incurred for IT, personnel, etc. will be settled taking applicable fiscal requirements into account.

The number of employees will be gradually further reduced until 2019 as part of the expanded cost reduction measures. A further moderate reduction is planned for the whole of 2016. 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 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. In addition, unexpected cost increases in individual divisions resulting from, inter alia, the constantly increasing regulatory requirements could offset cost reductions achieved in other areas. The amount of these increases is difficult to estimate, but unavoidable consequences for administrative expenses are possible.

It cannot be excluded that the reduction in headcount associated with the measures may not be implemented as planned or may result in higher operational risk or implementation risk, for instance in the field of internal projects of the Bank. The risk of losing key expertise may also be increased as a result of the personnel measures taken.

It may not be possible to identify other measures required in connection with the initiated and continuing cost reduction programme to achieve cost savings to the extent necessary or such measures may only be implemented by incurring higher restructuring expenses, resulting in the planned cost savings not being achieved.

HSH Nordbank may also be required to make special payments because of its membership in the support fund of the Landesbanks and the European bank levy in the event that future compensation and support measures result in the underfunding of these organisations. It is currently not possible due to the calculation method used, which is based on the relative development of institution-specific parameters compared to the sector, to assess whether and to what amount such payments will arise. However, such payments may adversely impact earnings.

Forecast for loan loss provisions

HSH Nordbank assumes that further significant loan loss provisions will have to be recognised in the second half of 2016 due to strongly deteriorating shipping markets. The Bank expects that net additions to be recognised in the Group and Restructuring Unit will be significantly below the very high levels in the 2015 financial year, even after adjusting for the loan loss provisions (€ -1,584 million) for the transaction portfolios. The focus of the loan loss provisions will continue to be on problem shipping loan commitments, especially in the container and bulker market segments. It can be expected that loan loss provision measures will also be required especially in the shipping industry for transactions not covered by the guarantee in view of the very difficult sector environment. Loan loss provisions recognised for legacy portfolios covered by the guarantee will be largely compensated for under the guarantee.

Currency translation gains or losses recorded in loan loss provisions are 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 has already been significantly reduced by the transfer of

non-performing shipping loans of € 5 billion, primarily denominated in US dollars, to the federal state owners and will be gradually reduced further by the ongoing reduction in the US dollar legacy portfolios. If the currency translation relates to guaranteed portfolios, it is compensated for by the guarantee. Hedging instruments continue to be used for foreign exchange positions held in portfolios not covered by the guarantee.

Loan loss provisions to be recognised for legacy portfolios under the guarantee will be largely compensated for by the guarantee in the whole of 2016. Compared to the disclosure of loan loss provision income after compensation under the guarantee in 2015, a significant reduction in the positive amount is expected to be disclosed for the Group and Restructuring Unit for 2016, as the one-off reversal of existing premiums disclosed under “Loan loss provision expense” in the 2015 Group financial statements will not apply in future.

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

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, and the Bank's empirical values in critical situations, in addition to portfolio developments and key macroeconomic data (including the EUR/USD exchange rate, charter rates and second-hand prices). 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 an individual valuation allowance based on the assumption of the continuation of the borrower's business) or “not capable of recovery” (and therefore recognition of an individual valuation allowance based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a recovery in the shipping markets and/or a significant recovery in the container shipping industry, as well as the continuation in general of the current recovery strategy and therefore the assumption of HSH Nordbank's willingness to continue to finance problem loans remaining after the planned transactions have been executed in order to achieve the planned significant reversals of impairment losses in the future.

Details on the loan loss provision plan and expected payment defaults are set out in the “Default risk” section (“Planning for loan loss provisions and losses”) in the Risk Report.

Opportunities and risks in the forecast for loan loss provisions

Opportunities

Loan loss provisions would be lower than expected if the relevant market parameters and macroeconomic environment developed more favourably than assumed. It is conceivable that the world economy

could grow more strongly over the remainder of 2016 than forecast, which in turn could support a gradual recovery of the shipping markets.

This would provide relief to HSH Nordbank primarily in the form of lower loan loss provision expense in the non-guaranteed portfolio.

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

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

The results from settling losses arising on the drawdown of the second-loss guarantee may be higher compared to the assumptions made by the Bank regarding the hedging effect of the guarantee and may lead to a reduction in loan loss provisions.

Risks

Estimates regarding the long-term trend in both loan loss provisions and loss planning and, consequently, regarding the final drawdown of the second-loss guarantee are subject to considerable uncertainty due to the long planning horizon. This applies in particular to the movement in the US dollar exchange rate and key market parameters in the shipping industry such as cargo and charter rates and second-hand prices, which are key input parameters for determining the loan loss provisions. In view of the existing or increasing overcapacity in the shipping markets, also due to low liquidity costs, it cannot be ruled out that the extent and timing of the market recovery and recoverability of individual commitments may not be achieved in the planning period as assumed in the loan loss provision plan. Due to this, and in particular in the case of falling charter rates, loan loss provisions required may continue to increase significantly. This could have a substantial impact over the long term on the total expected payment defaults and therefore on the expected drawdown of the guarantee and, in this regard, also on the guarantee premiums payable by the Bank in the future. A higher drawdown of the guarantee will result in a reduction in the guarantee premiums payable in the future. Financial burdens for HSH Nordbank would mainly arise from higher than planned loan loss provisions in the non-guaranteed portfolio.

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

It also cannot be excluded that the euro debt crisis in Europe will increasingly become the focus of attention again or that the cohesion of the EU will be further weakened following the Brexit vote in Great Britain, which could result in a weakening in the relevant markets.

This in turn could result in additional impairment losses having to be recognised. Market turbulence in emerging countries, as well as geopolitical risks, such as those surrounding Russia and Ukraine, could have a negative impact.

Further financial burdens may arise if the portfolio solutions to further reduce risk positions, especially in the shipping loan portfolio, cannot be implemented as planned due to market conditions. Under these solutions, 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. Against this backdrop, it cannot be excluded that additional loan loss provisions would have to be recognised in the future.

With regard to the sale of loan portfolios totalling € 3.2 billion in the market, this could lead to material loan loss provision expenses if the actual transaction prices are lower than the prices assumed by the Bank as at the respective transaction date on which the loan loss provision calculation is based. Additional loan loss provision expense could also be incurred in connection with changes in the composition of the portfolios selected by the Bank (for example, due to transfer obstacles on individual assets).

There is also the risk that, contrary to the Bank's assumptions, losses arising on the transfer or sale of the transaction portfolios, which are hedged under the guarantee, might not be settled to the amount assumed by the Bank if, for example, a so-called loan value based on the credit rating is higher than the respective transaction price or certain losses are not accepted by the guarantor. In these cases, the hedging effect of the guarantee only includes the difference between the loan value based on creditworthiness and the nominal value less any loan loss provisions existing at the time the guarantee was issued. This rule is intended to prevent losses not based on creditworthiness (such as fluctuations in base rate, currency or other market parameters) from being settled under the guarantee. If the loan value based on the credit rating, which is still to be agreed with the guarantor, is higher than the transaction price or the loss actually incurred on the sale is higher than the loss based on the credit rating, a reduction in the assumed hedging effect could have a significant adverse impact on loan loss provision expense.

The results of the invoicing of losses on the drawdown of the second-loss guarantee may be lower than those based on the assumptions made by the Bank regarding the hedging effect of the guarantee (for example, if certain losses are not accepted by the guarantor) and result in a charge to the P&L arising from the reversal of the corresponding compensation amount previously recognised.

Furthermore, unscheduled losses could also be incurred beyond 2016 if additional assets were to be sold at market value in an unfavourable environment as part of a further acceleration in the reduction in risk or if the recovery strategy, particularly the Bank's willingness to continue to finance problem loans, were to be 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.

A decrease in the EUR/USD exchange rate would cause the amount of payment defaults in the US dollar portfolios to increase and would therefore result in an increase in loan loss provisions, as loan loss provisions are partly held in US dollars.

New accounting rules (such as IFRS 9 from 2018) may also adversely affect the loan loss provisions. For example, measurement at fair value, which may be required under IFRS 9 under certain circumstances, might adversely impact loan loss provisions. The adverse effects described above might, if they relate to the portfolio hedged by the second-loss guarantee, result in higher balance sheet utilisation of the second-loss guarantee from 2018 compared to the current loan loss provision plan.

Capital and RWA forecast

HSH Nordbank assumes that the capital ratios will remain at an adequate level in the second half of 2016. HSH Nordbank expects to be able to continue to disclose a regulatory CET1 ratio of above 12.0% despite more stringent requirements resulting from the gradual implementation of Basel III in accordance with the Basel III transitional rules (phase-in). This demonstrates that HSH Nordbank is well prepared for additional regulatory capital requirements in the remainder of 2016, for example as a result of the Supervisory Review and Evaluation Process (SREP) in the Banking Union and associated ECB stress test.

The movement in RWA will be mainly influenced by new business and the continued reduction in the portfolio including the further portfolio transactions of € 3.2 billion in total, as well as by risk and market parameters, especially the significant deterioration in the shipping markets expected in the second half of 2016 and the EUR/USD exchange rate. Based on a stable EUR/USD exchange rate HSH Nordbank expects RWA to decline moderately for the whole of 2016 due to the expected new business and taking account of the executed federal state transaction and an active risk management. The relief provided by the planned market transactions should take effect in the second half of 2016 and in 2017.

The transfer of the majority of the shares in HSH Nordbank AG from the current shareholders to the holding company has resulted in the creation of a financial holding group subject to banking supervision, at the level of which banking supervision requirements, particularly minimum capital requirements (CET1 4.5%) and additional capital buffer requirements, are to be complied with. According to the plan the Pillar 1 minimum capital requirements pursuant to CRR (CET1, 4.5%) will be complied with at this banking supervisory application level, which is temporarily relevant until the sale of HSH Nordbank AG is completed. In light of the gradual increase in the capital buffer requirements in accordance with the transitional provisions of Section 64r KWG the Bank currently expects that these will no longer be fully met in the year of the privatisation and associated elimination of the financial holding group.

The transposition of the Bank Recovery and Resolution Directive – BRRD) into national law (Recovery and Resolution Act – Sanierungs- und Abwicklungsgesetz – SAG) will result in new capital requirements in 2016. The European Single Resolution Board will set an institution-specific ratio for the regulatory capital and eligible liabilities to be maintained at a minimum for institutions directly supervised by the ECB and therefore for HSH Nordbank (Minimum Requirements on Eligible Liabilities – MREL). Based on current discussions with the supervisors HSH Nordbank expects to comply with the MREL requirements.

Opportunities and risks in the capital and RWA forecast

Opportunities

Opportunities for capital ratios result from more favourable trends in the relevant market and risk parameters, especially in the case of a stronger euro against the US dollar, and a more rapid reduction in risk in the guaranteed legacy portfolio. The RWA relief provided by the intended sale of portfolios in the market could be used up more quickly than previously planned.

Risks

Material risks for the capital ratios and RWA result from a potential deterioration in market and risk parameters in the Bank's core markets including a stronger US dollar, a lower than planned reduction in the portfolios and the regulatory environment, for instance from supervisory audits. In 2015, the ECB carried out a review of the accounting applied to the second-loss guarantee for regulatory purposes.

The Bank expects that the ECB will inform the Bank of the implementation and change requirements resulting from its review in the second half of 2016. This may lead to a significant reduction in the relief provided by the guarantee, particularly in relation to the guarantee buffer and associated hedging effect for the Bank's capital ratio, which results from the difference between the regulatory minimum risk weight and the significantly lower calculated risk weight of the hedged portfolio. It also cannot be excluded that the guarantee buffer will be used up by the implementation of the ECB audit findings. In this case, developments that result in an increase in risk-weighted assets (RWA) in the hedged portfolio (these include, for example, declining charter rates or a lower EUR/USD exchange rate) also have a direct, adverse impact on the Bank's CET1 ratio. Non-occurrence of the recovery in the shipping markets assumed in the plan may result in a significant negative impact on the capital ratios. The impact of such developments in the guaranteed portfolio on the capital ratio was offset in the past by a corresponding guarantee buffer.

Any potential deterioration in the market values determined by the Bank for the planned sale of loan portfolios in the market up to the planned date of sale at the end of 2016 or in the middle of 2017 or an increase in loan loss provisions in the hedged portfolio may, particularly in combination with the findings of the supervisory review, may have a further significant adverse impact on the Bank's CET1 ratio. A potential decrease in the market values may result from the valuation uncertainty regarding the movement in the relevant market prices up to the planned date of sale. Lower market values achieved than those determined by the Bank or changes to the composition of the portfolios to be sold in the market may result in higher losses, thereby adversely impacting the Bank's CET1 ratio.

It is also possible that additional individual and increased capital requirements or additional requirements in other prudential regulatory areas such as liquidity will arise from the regular Banking Union SREP process in conjunction with the current ECB stress test. Additional discretionary decisions made by the supervisory authorities and sector-wide capital requirements (capital buffer for systemic risk) could adversely impact the capital ratios and significantly reduce the effectiveness of the guarantee.

There is a risk with regard to the financial holding group subject to banking supervision that not all capital buffer requirements, which exceed the Pillar 1 minimum requirements pursuant to CRR (CET1 4.5%), cannot be fully complied with at the financial holding group level. Non-compliance with the capital buffer requirements, which exceed the Pillar 1 minimum requirements pursuant to CRR, would mean that a capital conservation plan would have to be prepared for the Group in accordance with Section 10i (3) KWG and, until its

approval, additional restrictions under Section 10i, for example regarding the possibility of making distributions on equity instruments, would have to be observed.

There is also the risk that even the Pillar 1 minimum requirements pursuant to CRR (CET1 4.5%) could not be fully complied with in the planning period (e.g. on a deterioration in market and risk parameters) without taking additional measures. Non-compliance with the minimum capital requirements could have material repercussions for the operating company and, for example, require measures to be taken to strengthen capital in order to avert such a scenario.

Furthermore, there is also a risk regarding the financial holding group subject to banking supervision in that the banking supervisory authorities could stipulate additional capital requirements over and above the Pillar 1 minimum requirements and buffer requirements applicable uniformly across institutions, particularly if the conditions stipulated by the competent banking supervisory authority in order to shield HSH Nordbank AG were not met with regard to the future holding company. The banking supervisory authority has considerable discretionary powers in respect of the above-mentioned risks regarding non-compliance with capital requirements.

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. A tightening of the supervisory set or rules regarding securitisation due to the further development of the Basel III framework (Basel 3.5), which is likely to come into force at the latest by 2020 through its implementation in the EU, could significantly reduce the RWA relieving effect and therefore the efficiency of the guarantee.

Delays in implementing the portfolio sale of € 3.2 billion to the federal states planned for the 2016 year end and in the first half of 2017 or delayed invoicing of the resulting losses under the guarantee could have a negative effect on the planned capital ratios.

The capital ratios may be significantly impacted in future by the intended changes to the regulatory requirements (sometimes referred to as "Basel IV"), particularly from 2019. A large number of changes in the area of market, operational and counterparty risk are consolidated in this regard under Basel IV. Stricter rules concerning counterparty risk will be of particular relevance for HSH Nordbank. HSH Nordbank extensively uses models approved by the supervisory authorities to map counterparty risk (Internal Ratings Based Approach – IRBA). The supervisory authorities are planning under Basel IV to significantly restrict the use of IRBA models by basing the capital backing more closely on the standard approach (CSA floor),

by limiting the use of the IRBA to certain exposure classes and limiting the use of internal risk parameters (constrained IRB).

A legal issue is the ruling of the German Federal Court of Justice (Bundesgerichtshof) with respect to the standard master agreement for derivative transactions under German law. The Court decided that the contractual arrangements in the netting provision of the master agreement are not consistent with German insolvency law, insofar as German insolvency law applies. At the same time, the Federal Financial Supervisory Authority issued a general ruling regarding the supervisory treatment and ordered that contractual netting arrangements must still be applied as agreed. However, there is currently legal uncertainty regarding the future recognition of the netting effect that mitigates risk and reduces RWA, and, in the event of non-recognition, the capital could be adversely impacted. The legislator therefore intends to create the legal basis under which netting agreements for derivatives can continue to be applied.

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

Risks relating to non-compliance with the MREL ratio lie in the ongoing discussions of the European supervisory authorities regarding the qualitative requirements for eligible liabilities. Resolutions regarding tighter requirements have already been adopted for institutions that are relevant for the system on a global scale (TLAC – Total Loss Absorbency Capacity). A potential tightening of the requirements also for institutions that are not of relevance for the system on a global scale may be mitigated by means of a transitional period for complying with the MREL ratio, as the case may be.

The movement in the EUR/USD exchange rate has a marked effect on the RWA trend. A lower than planned exchange rate would result in an increase in RWA and directly reduce the Bank's CET1 ratio.

Funding forecast

The Bank expects to continue to successfully implement its diversified funding strategy for the whole of 2016. 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. In addition, the retention of the investment grade rating is a key prerequisite for the implementation of the funding strategy. 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.

For the remainder of 2016, the Bank expects the regulatory liquidity ratio as defined in the Liquidity Regulation (LiQV) to be at the level prevailing at the 2015 year end. HSH Nordbank also expects that the trend of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) will be stable compared to the 2015 year end and consequently that the corridor of 80% to 120% provided for in the catalogue of conditions and commitments will be complied with. HSH Nordbank also expects that all other supervisory requirements, such as the survival period in the liquidity development report for the combined stress scenario, will continue to be complied with and the ratios will stay at roughly the previous year's level.

Deposit business is a key component of the Bank's refinancing mix. HSH Nordbank aims to further reduce the high proportion of short-term deposits, which is partly attributable to building up surplus liquidity in advance of the extensive maturities of guarantor liability bonds, and depositor concentration. The regulatory liquidity ratios and requirements will be complied with at all times, also under stress conditions. Details regarding this can be found under "Liquidity risk" in the Risk report section.

The portfolio transfer to the amount of € 5 billion to the federal state owners has already made a decisive contribution to easing the liquidity position. The future planned sales of portfolios in the market (up to € 3.2 billion) will also further improve the liquidity position. In this regard, the Bank has assumed in its liquidity planning that the purchase price payments are made on the respective transaction dates and the associated losses incurred in the market portfolio are invoiced six to nine months after the respective transaction. It is assumed that the market portfolio will be sold as at 31 December 2016 and 30 June 2017, respectively. 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.

Under the catalogue of conditions and commitments which forms the basis for the formal decision and was accordingly reflected in the Bank's planning, the proportion of USD business in the Core Bank refinanced by primary USD funding (and not by derivatives) is to be at least 55% as at the 2016 and 2017 year ends.

The two rating agencies, Moody's and Fitch, regard the conclusion of the EU proceedings as important milestones and assess the structural measures which ought to lead to an improvement in the financial and risk profile as positive in principle. This applies in particular to the portfolio transfer that relieved the Bank of non-performing loans. Nevertheless, the agencies consider, in particular, the uncertainty during the divestment period and the ambitious time frame for a change in ownership, as well as the one-off payment in the first half of 2016 and liquidity resources provided to the holding company, to be a burden. The Bank's future rating position will be determined by the further implementation of the structural measures in line with the plan against the backdrop of a challenging environment and by the progress made regarding the sale of the Bank.

Opportunities and risks in the funding forecast

Opportunities

The fulfilment of the funding objectives is mainly influenced by external factors. A positive capital market environment should support the implementation of the issuing strategy in 2016. A sustained expansive monetary policy on the part of the ECB and the associated expansion of liquidity is likely to tend to have a positive impact on the refinancing options and costs.

The currently restricted access to the capital markets would gradually improve on the successful implementation of the planned structural measures in line with the plan, as uncertainty factors would be reduced. This is also of key importance for assessments made by the rating agencies. Like this, ratings that continue to be confirmed as investment grade would significantly underpin the implementation of the funding targets.

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

Risks

Execution of funding measures in the market would be made more difficult by potential tensions in the financial markets. For example, the implementation of a more restrictive monetary policy than expected by key central banks could significantly limit the refinancing options and increase funding costs.

Lastly, despite the refinancing successes achieved in the past year, there is no unrestricted access to the capital markets. The privatisation of HSH Nordbank required under the catalogue of conditions and commitments, the viability review of the new corporate structure required in this connection and approval of the acquisition by the EU Commission might also lead to possible investor reluctance in the long-term area, which could have a significant adverse impact on the funding of the Bank.

If the implementation of the formal decision and catalogue of conditions and commitments, particularly the privatisation to be completed by 28 February 2018 and the viability review of the new corporate structure required in this connection, as well as approval of the acquisition by the EU Commission, is not or not fully successful or not successful within the specified time frame, this could have a significant adverse impact on funding and funding costs, trigger outflows of short-term funds or fundamentally restrict HSH Nordbank's funding options. In this case, additional measures will be required to strengthen the liquidity situation.

Should there be delays in settling the losses and purchase price for the portfolios to be sold in the market, this could have a negative effect – on the respective settlement date – on the Bank's planned liquidity position. Furthermore, the planned liquidity relief could be delayed compared to the assumptions made in the Bank's planning in case it takes longer to settle losses, particularly in the case of the settlement of losses arising on the sale of market portfolios.

Should access to other refinancing sources such as the German Savings Bank's Association and other financial institutions significantly be hampered, this would also severely limit the funding options and would adversely impact the rating of the Bank.

Potential rating downgrades, which cannot be excluded despite the formal decision of the EU in the EU state aid proceedings, would fundamentally restrict the refinancing options via the capital markets, trigger outflows of short-term funds and increase funding costs. A rating downgrade by both Moody's and Fitch would result in a rating outside investment grade. Adverse developments in the privatisation period (e.g. reduced capitalisation, elimination of the guarantee buffer, liquidity charges or an unplanned deterioration in net income) may negatively affect the rating.

Most of the assets denominated in foreign currency are refinanced via derivatives (for example, via EUR/USD basis swaps). An appreciation in the US dollar results in an increase in the cash collateral to be provided and therefore in pressure on the liquidity situation under otherwise 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.

In this case, the Bank has plans to sharply reduce the assets to be refinanced, for instance through selling loans and securities and reducing the expansion of new business. These possible measures could have a negative impact on earnings. In addition, HSH Nordbank is exposed to the risk that these measures may not be able to be implemented or not at the desired point in time.

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 continues to be placed on the reduction of US dollar assets in different asset classes in the course of the winding down of portfolios in the Restructuring Unit. This may result in unscheduled losses that could not be invoiced under the guarantee. Furthermore, the restrictions on US dollar business will be maintained.

The regulatory liquidity ratio of the German Liquidity Regulation (LiqV), as well as other liquidity ratios such as those of the LCR, NSFR and LDR, would deteriorate regardless of any conscious control measures taken such as, for example, the reduction in short-term deposits. Additional liquidity requirements could arise under the ECB's SREP process.

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

Formal decision in the EU state aid proceedings

The replenishment of the second-loss guarantee from € 7 billion to € 10 billion executed by the federal state owners in June 2013 against the backdrop of changed underlying conditions and future regulatory requirements was initially provisionally approved by the EU Commission on 2 May 2016. This guarantee measure was provisionally approved by the EU Commission in the 2013 financial year and has strengthened the Bank's CET1 capital ratio since then. At the same time, the EU Commission instituted state aid proceedings to investigate whether the replenishment of the guarantee is consistent with the state aid rules. These state aid proceedings were concluded by the final decision of the EU Commission.

The formal decision is based on a catalogue of conditions and commitments under which the Federal Republic of Germany as representative of HSH Nordbank's federal state owners and the EU Commission agreed measures to provide troubled asset relief to the Bank. These measures are generally in line with the informal agreement already announced in the 2015 financial year. These include in particular the reduction in guarantee fees, formation of a holding structure and sale of non-performing loans to an initial amount of € 5 billion to the federal state owners and to the amount of up to € 3.2 billion in the market as well as a one-off payment of € 210 million from HSH Nordbank to the holding company and the provision of liquidity of € 50 million to the holding company to ensure its operations.

The planned structural measures and resulting expected effect on the net assets, financial position and earnings are taken into account in the Bank's new planning for the coming years. In the past months, individual structural measures were implemented in line with the plan, such as the formation of a holding structure in order to relieve the operating company of HSH Nordbank from guarantee obligations and the transfer of non-performing loans of € 5 billion as at 30 June 2016 to the federal state owners. The planned sale of non-performing loans of up to € 3.2 billion in the market will be driven forward over the coming months.

Following the recognition of the relief provided in the 2015 single-entity and Group financial statements a large proportion of the permanent structural improvements for the Bank's financial and risk situation, particularly due to the significant reduction in the base premium and tangible improvement in the NPE ratio, was achieved with the implementation of the measures mentioned. The aim is also the rapid reduction of the troubled assets remaining at the Bank which are still covered by the guarantee facility issued by the federal states over and above the portfolios of € 3.2 billion to be sold in the market. This will improve the conditions for a sustainable long-term business model for the Bank. HSH Nordbank's capital adequacy is to be strengthened by improved profit retention opportunities. Furthermore, the Bank's refinancing requirements, particularly for the US dollar business, will also decrease due to the removal of loan transactions from the balance sheet. This also strengthens the liquidity position affected by movements in the US dollar.

The replenishment of the second-loss guarantee is technically classified by the EU Commission as so-called resolution aid and HSH Nordbank is regarded as not being viable in terms of state aid prior to the restructuring. The operating company is to be restructured in such a way that enables the successful sale of this company until 28 February 2018. This divestment period is met with the signing of a sales agreement and may be extended by six months with the consent of the EU Commission if the technical implementation of the model is delayed due to circumstances over which the federal states have no direct influence. The transfer in rem of the shares to a buyer (closing) may be made at a later date. The sale is intended to be made in an open, non-

discriminatory, competitive and transparent process in which other Landesbanks may also participate. Public savings banks may also take a minority interest in an acquisition by a private third party or by one or several Landesbanks if the buyer is independent of HSH Nordbank AG and the public sector (Landesbanks are regarded as being independent of the public sector for these purposes). The participating bidders must have the necessary financial resources and proven sector expertise to manage the operating company as a profitable and active competitor.

Following the successful completion of the sales process resulting in an offer that does not require state aid and an offer price that is positive (while retaining the guarantee) the intended acquisition will be subject to a viability assessment of the new corporate structure by the EU Commission prior to implementation and has to be approved by the EU Commission. Should the divestment procedure not lead to offers not requiring state aid (while maintaining the guarantee) with a positive price being offered before the expiry of the deadline, or should the Commission in the course of its viability assessment come to the conclusion that the integration of the operating company into the new corporate structure will not lead to a viable business model that is profitable in the long term, the operating company will cease new business and manage its assets as far as legally permissible with the aim of a structured winding down of its business.

The formal decision of the EU Commission also provides for setting out the informal agreement in more detail regarding the dividend and distribution ban: During the divestment period, the operating company may not make any payments on profit-related equity instruments (such as hybrid financial instruments and profit participation certificates) unless such are contractually or legally owed. These instruments are also to participate in losses if the balance sheet of the operating company were to disclose a loss excluding the reversal of reserves. Furthermore, the operating company will not pay any dividends until the sale is completed. The exceptions to this are dividend payments to the amount legally permitted from the operating company to the holding company to be formed.

Based on the information available as at the balance sheet date, the Bank assumes that, on the successful conclusion of the privatisation process, it will again be able to pay dividends and make distributions on hybrid capital for the 2019 financial year at the earliest in 2020.

Furthermore, provisions regarding the reduction in total assets and the business model are to be complied with during the restructuring phase, which ends with the sale of the operating company, and the restriction on external growth through the acquisition of control in other companies is also to be observed (see also the “Earnings forecast including opportunities and risks” section).

Opportunities and risks resulting from the formal decision in the EU state aid proceedings

Opportunities

The successful implementation of the structural measures outstanding would further improve the basis for establishing a permanently viable business model for the Bank and facilitate a successful change in ownership.

The successful implementation of the structural measures provided for in the catalogue of conditions and commitments in the formal decision of the EU Commission, particularly privatisation and a positive viability review of a new corporate structure required in this regard, and approval by the EU Commission would significantly improve the Bank's business activities and funding situation and end the uncertainty for clients and employees as well as capital market participants.

The business opportunities included in the catalogue of conditions and commitments, particularly the opportunity to finance German clients and their foreign investments as well as foreign clients provided the latter are seeking to support transactions in Germany, could have a positive impact on new business planned for the corporate clients sector.

Acquisition of an ownership position by another strong partner as part of the planned sale of HSH Nordbank AG would increase the Bank's business and refinancing opportunities and thereby contribute to the further strengthening of the business model.

If the valuation parameters improve, the valuation of the portfolio to be sold in the market at the actual dates of sale could be higher than previously assumed in the planning and calculation of loan loss provisions and have a positive effect on the net assets, financial position and earnings.

Risks

If the final structural measures still outstanding under the formal decision cannot be implemented, not in full or within the required time frame, this would pose a significant risk to the further implementation of the business model and, as a result, to the outlook for the Bank.

The valuation of the portfolio to be sold in the market could be lower at the actual dates of sale than previously assumed in the planning and calculation of loan loss provisions. In addition, execution of the portfolio sales could be delayed. Subsequent changes in the composition of the portfolio to be sold in the market, for example, in the course of

implementing the transactions, may also have an additional adverse impact on loan loss provisions. The above-mentioned effects may have a significant adverse impact on the earnings, net assets and financial position as well as the CET1 ratio.

Furthermore, tax risks could arise in connection with the transfer of assets, particularly to foreign jurisdictions, as part of the implementation of the portfolio transactions. These may result, on the one hand, in higher loan loss provision expense or other operating expense and, on the other, in changes to the portfolio selected for the sale in the market compared to the plan. Changes in the portfolio selected may also result in increasing loan loss provision expense in connection with the planned portfolio transactions.

There is a risk that the intended change in ownership is not successful or not completed on time and, as a result, HSH Nordbank would have to cease new business activities and wind down existing portfolios. The long-term survival of HSH Nordbank would not be ensured in this case. If the resolution conditions laid down in Regulation (EU) no. 806/2014 (SRMVO) are met in this case, this could result in resolution measures being ordered by the competent resolution authorities (for example, conversion of equity instruments and debt capital into core Tier 1 capital, a so-called "bail-in").

In addition, there is the risk that the implementation of the formal decision may fail due to statutory, supervisory or contractual conditions or that it is not implemented within the specified time frame, which could have a negative effect on HSH Nordbank's access to the capital markets, HSH Nordbank's rating, planning and ultimately its long-term survival.

Under the catalogue of conditions and commitments, the Bank is required to limit annual new shipping business to € 1.2 billion. Furthermore, total assets may not exceed € 98 billion at the end of 2017 (on an average USD exchange rate of 1.10). In addition, the catalogue of conditions and commitments contains restrictions relating to the Corporates division (restricted to German clients and their investments in Germany and abroad as well as foreign clients provided that

they are seeking transactions in Germany), a waiver on the part of the Bank not to resume the already discontinued asset-based aircraft financing business, a restriction on external growth by prohibiting the acquisition of control in other companies and an extension of the ban on proprietary trading. In the event that the trend in the shipping markets is significantly better than planned or good business opportunities arise in other business sectors, these restrictions could have a negative effect on potential transactions.

As a member of the German Savings Banks Association (DSGV), HSH Nordbank AG is covered by the guarantee scheme of the German Savings Banks Finance Group (SFG). This system is intended to secure the continued existence of the member institutions as well as their liquidity and solvency. An affiliated member institution ceases to be member of the security reserve two years after its membership in the DSCV has expired. HSH Nordbank AG will remain a member of the German Savings Banks Association (DSGV) and Savings Banks Finance Group (SFG) during the divestment process. Should membership end at a date not currently foreseen, its membership of the guarantee scheme would continue to apply for a further two years in accordance with Section 94(4) of the Framework Statute.

Due to the above-described consequences of the implementation of the formal decision of the EU commission, there is a risk that, in the event of a change in the ownership structure in favour of possible private investors, HSH Nordbank may have to leave the DSGV and, at the end of a two-year transition period, the deposit guarantee scheme of the Savings Banks Finance Group as well. This could increase HSH Nordbank AG's refinancing costs and make it difficult to access funding channels.

The assumption of the Bank as a going concern for accounting and measurement purposes is based in particular on the fact that:

(i) the agreements required for the implementation of the formal decision reached by the EU Commission in the EU state aid proceedings on the replenishment of the second-loss guarantee are entered into comprehensively and on a timely basis and that the formal decision will be implemented by HSH Nordbank AG and its shareholders in full and on a timely basis;

(ii) the operating company, HSH Nordbank AG, is sold at a positive sales price in an open, non-discriminatory, competitive and transparent process not involving state aid until 28 February 2018 and the EU Commission grants its approval for the acquisition following a viability assessment of the new corporate structure. Should the divestment procedure not lead to offers not requiring state aid with a positive price being offered before the expiry of the deadline or should the EU Commission, in the course of its viability assessment, come to the conclusion that the integration of the operating company into the

new corporate structure will not lead to a viable business model that is profitable in the long term, the operating company will cease new business and manage its assets as far as legally permissible with the aim of a structured winding down of its business. In the event of significant unexpected outflows of funds (e.g. in the scenario described above), measures must be taken to strengthen the liquidity position.

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's business model and the requirements under the formal decision of the EU Commission is maintained or gained and that the expected recovery of the shipping markets materialises.

Overall appraisal and net income forecast

Against the backdrop of the formal decision of the EU Commission HSH Nordbank is confident that, together with its federal state owners, it can successfully drive forward and implement the planned structural measures over the coming months.

At the same time, HSH Nordbank will further expand its business activities based on its strong presence in the markets and operating progress made over recent years. The Bank will use the business opportunities in the corporate clients sector included in the catalogue of conditions and commitments to consistently implement the new business plan taking account of the strict internal and income requirements. HSH Nordbank is consistently setting targets for further strategic and operating improvements to secure its competitiveness in a challenging environment. Following the adjustments made in the past year and planned portfolio transactions relating to the further implementation of the formal decision of the EU Commission, the aim is a further rapid reduction in the legacy of troubled assets remaining at the Bank, which continue to be covered by the guarantee facility issued by the federal states.

Overall, the basis for a sustainable, viable alignment of the Bank has been further strengthened and a business model created for HSH Nordbank which not least should convince clients, employees and investors and facilitate a successful change in ownership.

There are still major challenges and uncertainties regarding future developments arising 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 possible sharper reduction in risk), the low level of interest rates and highly competitive environment, volatility in the financial and currency markets

(especially the US dollar), further implementation of the formal decision of the EU Commission, changing assessments made by rating agencies and the further development of requirements of the European Banking Authority.

These give rise to corresponding uncertainties regarding the achievement of the forecast developments. Nevertheless, HSH Nordbank is confident that it will further develop the Bank on a forward-looking basis in line with its restructuring plan and be able to meet the challenges facing it. The implementation of the structural measures and operating progress made on the income and cost side will make a considerable contribution to the strengthening of HSH Nordbank.

The future results of HSH Nordbank are also likely to benefit noticeably over the coming years from the implementation of the structural measures of the EU proceedings and further implementation of the strategy. For 2016 as a whole, the Bank expects a significant reduction in net income before taxes at the Group level compared to the previous year due to the material non-recurring items resulting from the reversal of guarantee premiums recognised in the 2015 Group financial statements on the basis of the informal agreement. Against the same backdrop, the return on equity for the Group will probably decline significantly in 2016 compared to the previous year.

Net income before taxes higher than that at the Group level is expected for the Core Bank for 2016. Compared to 2015 the positive effects arising from the structural measures that were recognised in the 2015 Group financial statements will also result in a reduction in net income before taxes and the return on equity for the Core Bank year on year. The expected net income of the Restructuring Unit will also decrease more sharply due to the continued winding down of portfolios, such that net income before taxes for the Restructuring Unit for 2016 is likely to be negative.

Overall, the Bank is confident that, on the basis of the results for the first six months, the earnings and net income targets set for the whole of 2016 can be achieved. An overall performance in line with the plan, also for the Core Bank, is expected despite new business being below plan as at 30 June 2016. Nevertheless, the Bank remains cautious in its forecast for the second half of 2016 due to the environment, which continues to be challenging for banks in general and HSH Nordbank in particular.

The Bank will make sustained efforts to ensure a competitive cost-income ratio. The cost-income ratio is benefiting from further reductions in administrative expenses. The positive non-recurring items recognised in connection with the informal agreement on the income side in the 2015 Group financial statements are likely to result in a moderate increase in the cost-income ratio in the Group and a slight decrease in the Core Bank.

Structurally, the Bank's results will be improved by the implementation of the measures, especially by the gradual increase in the relief provided with regard to guarantee fees and the planned optimisation of the business model. This is reflected in the increase in net income and the return on equity for the Group and Core Bank in the medium-term planning period.

In light of the formal EU decision, the Bank expects not to make any coupon payments on the hybrid capital instruments during the divestment period as part of the implementation of the structural measures. Against this backdrop, the Bank assumes that, on the successful conclusion of the change in ownership, it will again be able to pay dividends and make distributions on hybrid capital for the 2019 financial year at the earliest in 2020.

It is also essential that HSH Nordbank's plan be implemented as intended and the risks described in this Management Report do not materialise in order to meet the earnings forecast for 2016 and be able to make distributions from 2020 onwards.

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

RISK REPORT

Material risks of the Bank include default risk, market risk, liquidity risk, operational risk, transformation risk and reputation risk. The methods, instruments and processes used to manage risk are explained in detail in the Risk Report in the 2015 Group Management Report. In addition, the “Forecast, opportunities and risk report” section in this interim report provides information on the anticipated business situation together with an assessment of HSH Nordbank’s material opportunities and risks.

RISK-BEARING CAPACITY

As part of the monitoring of its risk-bearing capacity HSH Nordbank compares the total economic capital required for all material, quantifiable risk types (overall risk) to the economic risk coverage potential available and reports this to the Bank’s regulator. The comprehensive analysis of the risk-bearing capacity is conducted quarterly by HSH Nordbank and as part of the annual planning process. The primary management process used to calculate the risk-bearing capacity is the liquidation approach which focuses on the protection of creditors (so-called “gone concern” approach). In addition to equity modified for economic purposes the risk coverage potential includes unrealised gains and losses arising on securities, equity holdings, the lending business, associated hedging transactions (line items) and liabilities. The risk coverage potential is reduced by the second loss guarantee by HSH Nordbank’s first loss piece of € 3.2 billion.

The risk coverage potential was € 8.4 billion as at 30 June 2016 (31 December 2015: € 10.2 billion). The main reason for the decrease are maturities of about € 1 billion of subordinated capital in the first half of 2016.

The overall risk takes into account default risk, market risk, operational risk and liquidity maturity transformation risk as part of liquidity risk. Economic capital required as an expression of unexpected losses is determined monthly for default, liquidity and market risks in a methodological consistent manner with a confidence level of 99.9% and a risk horizon of one year. The economic capital required for the individual risk types are aggregated to an overall economic risk. Risk-mitigating correlations are not used for this.

Institution-specific asset correlations, granularity surcharges for covering existing risk correlations and surcharges for the risk of valuation adjustments of OTC derivatives caused by credit considerations (credit valuation adjustments) are taken into account in determining the economic capital required. Economic capital required for default risk amounted to € 1.9 billion as at the reporting date after taking account of the relief provided by the second loss guarantee (31 December 2015: € 1.3 billion). This is equivalent to an increase of € 0.6 billion in default risk compared to the 2015 year end, which is attributable to the adverse developments in the shipping market.

In accordance with the risk-bearing capacity concept market risk (Value at Risk, VaR) is scaled up on the basis of a confidence level chosen by the Bank and a holding period of one day to show economic capital required for market risk positions for the purposes of managing the risk-bearing capacity with a risk horizon of one year. Economic capital required for market risk was € 0.7 billion as at 30 June 2016 (31 December 2015: € 0.8 billion).

HSH Nordbank uses a VaR approach to quantify liquidity maturity transformation risk. This long-term/structural risk reflects the risk of an increase in refinancing costs on open liquidity positions. Liquidity Value at Risk (LVaR) is a measurement of the economic capital required for liquidity risk and amounted to € 0.1 billion as at 30 June 2016 (31 December 2015: € 0.2 billion). However, insolvency risk, which is a more important aspect for managing liquidity risk, is generally backed by a buffer of liquid funds. Information regarding the management of insolvency risk is included, inter alia, in the “Liquidity risk” section.

Operational risk is determined in accordance with the regulatory standard approach. The corresponding economic capital required amounted to € 0.2 billion as at 30 June 2016 (31 December 2015: € 0.2 billion).

Overall economic risk remained unchanged at € 2.9 billion as at the reporting date. Percentage utilisation of the risk coverage potential was 35% (31 December 2015: 25%). The risk-bearing capacity was assured at all times during the reporting period.

The following table shows the economic risk coverage potential of the Group, economic capital required for the individual risk types, residual risk coverage potential buffer and utilisation of the risk coverage potential.

RISK-BEARING CAPACITY OF THE GROUP

(€ bn)	30.06.2016	31.12.2015
Economic risk coverage potential¹⁾	8.4	10.2
Economic capital required	2.9	2.5
of which: for default risk ²⁾	1.9	1.3
for market risk	0.7	0.8
for liquidity risk	0.1	0.2
for operational risk	0.2	0.2
Risk coverage potential buffer	5.5	7.6
Utilisation of risk coverage potential (as a %)	35	25

¹⁾After deducting first loss piece of € 3.2 billion under the second loss guarantee of the Federal States of Hamburg and Schleswig-Holstein

²⁾Taking second loss guarantee into account.

Stress tests

In addition to stress tests specific to risk types, stress tests are performed across all risk types in order to be able to better estimate the impact 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. For example, the impact of Great Britain leaving the EU is being investigated. Both holistic macroeconomic scenarios such as a severe economic downturn and a delayed recovery of the shipping markets and historical scenarios are calculated. Furthermore, the risk of excessive indebtedness is analysed and reported in the form of a stressed leverage ratio. The results are incorporated in HSH Nordbank's internal reporting system every quarter and regularly analysed by the Management Board as part of an action-oriented management dialogue. In addition to reviewing the adequacy of, inter alia, the buffer maintained to offset stress effects as well as regulatory capital and liquidity, this analysis is used to discuss the need for options to strengthen HSH Nordbank's financial stability.

The rules and regulations linked to HSH Nordbank's recovery plan serves a comparable purpose. They are used for both 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 as part of the stress analyses.

The specific 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 that could endanger HSH Nordbank's ability to survive. The potential impact of the persistent low interest rate environment is also analysed. This information is

also used by HSH Nordbank's Management Board as a basis for considering and deciding upon any action required to ensure that the capital base and liquidity position are adequate.

DEFAULT RISK**Default risk management**

Exposure at Default (EaD) is equivalent to the volume of loans, securities, equity holdings, derivative financial instruments (positive fair values after netting) and off-balance sheet transactions that are at risk (taking credit conversion factors into account). Total EaD amounted to € 86,770 million as at 30 June 2016.

EaD broken down by internal rating categories is shown in the following table. At the Group level, the proportion of EaD with an investment grade rating (rating categories 1 to 5) was 58% of the total exposure (31 December 2015: 55%). The proportion of investment grade commitments was 65% for the Core Bank (31 December 2015: 63%) and 37% for the Restructuring Unit (31 December 2015: 34%). 37% of the overall bank portfolio is covered by the hedging effect of the second loss guarantee (31 December 2015: 42%). 23% of the Core Bank's exposure is guaranteed (31 December 2015: 26%) and 81% of the Restructuring Unit's exposure (31 December 2015: 85%). The proportion of the guaranteed portfolio in the default categories 16 to 18 of 88% (31 December 2015: 92%) is particularly high.

DEFAULT RISK STRUCTURE BY RATING CATEGORY¹⁾

(€ m)	30.06.2016				31.12.2015			
	Core Bank	Restructuring Unit	Total	of which guaranteed (as a %)	Core Bank	Restructuring Unit	Total	of which guaranteed (as a %)
1 (AAAA) to 1 (AA+)	16,923	3,813	20,736	16	18,285	4,784	23,069	19
1 (AA) to 1 (A-)	8,221	1,858	10,079	25	8,075	2,060	10,135	29
2 to 5	17,319	2,339	19,658	24	18,310	2,413	20,723	23
6 to 9	12,077	1,932	14,009	33	14,922	2,202	17,124	38
10 to 12	1,795	415	2,210	62	2,219	1,192	3,411	66
13 to 15	3,331	2,488	5,819	62	1,883	2,956	4,839	75
16 to 18 (default categories)	5,256	8,564	13,820	88	6,770	11,638	18,408	92
Other ²⁾	330	109	439	-	208	120	328	-
Total	65,252	21,518	86,770	37	70,672	27,365	98,037	42

¹⁾ Average default probabilities (as a %): 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 such as, for example, receivables of our consolidated equity holdings from third parties, are included in the "Other" line item.

EaD broken down by sectors important for the Bank is presented in the following table:

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	30.06.2016			31.12.2015		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
Industry	8,532	1,125	9,657	8,507	1,379	9,886
Shipping	12,375	4,131	16,506	15,392	7,427	22,819
Trade and transportation	3,403	858	4,261	3,352	1,159	4,511
Credit institutions	6,873	847	7,720	8,262	850	9,112
Other financial institutions	2,941	3,244	6,185	2,929	3,461	6,390
Land and buildings	10,614	4,229	14,843	10,211	4,881	15,092
Other services	6,200	1,217	7,417	6,331	1,534	7,865
Public sector	13,890	5,309	19,199	15,192	6,101	21,293
Private households	424	558	982	496	573	1,069
Other	-	-	-	-	-	-
Total	65,252	21,518	86,770	70,672	27,365	98,037

EaD is shown by residual maturity in the following table:

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITY

(€ m)	30.06.2016			31.12.2015		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
Up to 3 months	6,829	3,210	10,039	8,776	3,959	12,735
> 3 to 6 months	3,155	564	3,719	2,062	729	2,791
> 6 months to 1 year	4,393	969	5,362	3,919	823	4,742
> 1 year to 5 years	32,899	6,833	39,732	35,395	9,041	44,436
> 5 to 10 years	12,886	4,071	16,957	15,613	6,794	22,407
> 10 years	5,090	5,871	10,961	4,907	6,019	10,926
Total	65,252	21,518	86,770	70,672	27,365	98,037

The following table provides an overview of the breakdown of foreign exposure by region, which reached € 35,515 million as at 30 June 2016 (31 December 2015: € 39,650):

FOREIGN EXPOSURE BY REGION

EaD (in € m)	30.06.2016			31.12.2015		
	Core Bank	Restructuring Unit	Total	Core Bank	Restructuring Unit	Total
West Europe	14,432	9,040	23,472	14,916	9,991	24,907
of which: eurozone countries	9,788	5,549	15,337	9,810	6,035	15,845
Central and Eastern Europe	999	238	1,237	1,034	337	1,371
of which: eurozone countries	57	2	59	52	42	94
Africa	671	154	825	939	276	1,215
North America	1,563	2,278	3,841	1,939	2,656	4,595
Latin America	415	337	752	633	453	1,086
Middle East	56	669	725	48	808	856
Asia-Pacific region	2,892	1,089	3,981	3,318	1,459	4,777
International organisations	653	29	682	815	28	843
Total	21,681	13,834	35,515	23,642	16,008	39,650

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. It can differ from the customer's country of domicile if this cannot be clearly allocated on a customer-related basis, management's place of business is used.

A number of European countries are being closely monitored due to unfavourable fiscal or economic data. These include in particular Greece, Italy, Croatia, Portugal, Spain and Cyprus. Monitoring of the exposure to Russia as a result of the crisis in Ukraine and the exposure to Turkey due to internal geopolitical developments has been increased.

The following table shows the EaD of commitments in the European countries mentioned. HSH Nordbank's total exposure to these countries has decreased by 3% compared to the previous year end and totalled € 5,998 million as at 30 June 2016 (previous year: € 6,180 million).

Direct sovereign exposure is still manageable. The exposure to Greece and Cyprus shown in the Corporates/other sector relate largely to secured ship financing.

EXPOSURE AT DEFAULT IN SELECTED EUROPEAN COUNTRIES

(€ m)	Country		Banks		Corporates/other		Total	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Greece	-	-	-	-	1,449	1,163	1,449	1,163
Italy	445	445	-	-	606	639	1,051	1,084
Croatia	-	-	-	-	104	106	104	106
Portugal	229	223	5	4	29	29	263	256
Russia	-	-	4	4	113	135	117	139
Spain	151	156	58	58	1,307	1,328	1,516	1,542
Turkey	-	-	46	22	381	473	427	495
Cyprus	-	-	-	-	1,071	1,395	1,071	1,395
Total	825	824	113	88	5,060	5,268	5,998	6,180

Further information on the selected European countries is set out in Note 44 of the Group Notes.

Loan loss provisions

Net additions to loan loss provisions (before compensation and currency translation effect) amounted to € -520 million in the first half of the year compared to € -199 million in the same period in 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, which were taken to further reduce the high risk legacy loans, were reflected in the loan loss provisions. A deterioration in market conditions in the shipping industry resulted in higher loan loss provisions, especially for container ships and bulkers. The charges resulting from this and difficult market developments were offset by a marked level of net reversals for real estate and corporate loans based on improved risk assessments and loan principal repayments.

Against the backdrop of the appreciation in the EUR/USD exchange rate currency translation gains or losses to be recognised in loan loss provisions increased significantly to € +148 million (same period in the previous year: € -301 million). Foreign exchange positions held in portfolios not covered by the guarantee are managed using hedging instruments.

Loan loss provisions recognised for legacy portfolios continued to be largely compensated for by the guarantee. The loan loss provision results were also positively affected by the invoicing of losses. In connection with the invoicing of losses under the guarantee with hsh finanzfonds AöR interest payments not received could also be charged in the past in addition to loan losses. However, the relief provided in the past year benefited in particular from a debt waiver, which had a positive impact on the compensation item.

After taking the compensating effects under the guarantee into account loan loss provision expense amounted to a positive amount of € 559 million (same period in the previous year: € 120 million).

After taking account of the hedging effect of the credit derivative of € -408 million (30 June 2015: € 7 million) loan loss provision income would amount in total to € 151 million (30 June 2015: € 127 million) after the guarantee effect.

The hedging effect of the credit derivative decreased as at 30 June 2016 in light of the invoicing of losses, which primarily related to the executed federal state transaction.

An overview broken down by segment is provided in the following table.

NET CHANGE IN LOAN LOSS PROVISIONS

(€ m)	January–June 2016							
	Specific loan loss provisions/provisions	General loan loss provisions	Loan loss provisions (LLP) before currency translation gain or loss and compensation	Currency translation gain or loss Loan loss provisions	Compensation item	Total	Hedging effect of credit derivative under the second guarantee	LLP including hedging effect of credit derivative
Shipping, Project & Real Estate Financing	-230	-34	-264	-	-	-264	-	-264
Corporates & Markets	31	-	31	-	-	31	-	31
Corporate Center	1	-	1	5	-	6	-	6
Consolidation Core Bank	6	-	6	61	431	498	-215	283
Total Core Bank	-192	-34	-226	66	431	271	-215	56
Restructuring Unit	-298	4	-294	-	-	-294	-	-294
Consolidation Restructuring Unit	-	-	-	82	500	582	-193	389
Total Restructuring Unit	-298	4	-294	82	500	288	-193	95
Group	-490	-30	-520	148	931	559	-408	151

CHANGE IN LOAN LOSS PROVISIONS¹⁾

(€ m)	January–June 2015							
	Specific loan loss provisions/provisions	General loan loss provisions	Loan loss provisions (LLP) before currency translation gain or loss and compensation	Currency translation gain or loss Loan loss provisions	Compensation item	Total	Hedging effect of credit derivative under the second loss guarantee	LLP including hedging effect of credit derivative
Shipping, Project & Real Estate Financing	-158	-1	-159	-	-	-159	-	-159
Corporates & Markets	61	-	61	-	-	61	-	61
Corporate Center	-	-26	-26	30	-	4	-	4
Consolidation Core Bank	1	-1	-	-136	263	127	1	128
Total Core Bank	-96	-28	-124	-106	263	33	1	34
Restructuring Unit	-93	18	-75	-	-	-75	-	-75
Consolidation Restructuring Unit	-	-	-	-195	357	162	6	168
Total Restructuring Unit	-93	18	-75	-195	357	87	6	93
Group	-189	-10	-199	-301	620	120	7	127

¹⁾ The presentation of loan loss provisions has changed compared to the previous year. The previous year's figures were adjusted for purposes of comparability.

The “Segment” section contains detailed information on the change in loan loss provisions for the individual divisions.

Details on total loan loss provisions are set out in Notes 11 and 21 of the Notes.

MARKET RISK

HSH Nordbank uses a VaR approach (99% confidence level, holding period of one day, historical observation period of 250 days) to measure and manage market risk. The market risk of the trading book positions amounted to € 1.1 million as at 30 June 2016, that of the banking book positions € 43.3 million. The aggregated market risk – which is not equivalent to the sum of the VaRs of the trading book and banking book due to risk-mitigating correlation effects – amounted to € 43.9 million, of which € 27.0 million was attributable to

the Core Bank and € 26.8 million to the Restructuring Unit. The VaR for the Core Bank and Restructuring Unit can also not be added together to arrive at the aggregated risk due to risk-mitigating correlation effects.

The change in the individual risk types for the first six months of 2016 is shown in the following table:

DAILY VALUE AT RISK OF THE GROUP¹⁾

(€ m)	Interest rate risk ¹⁾		Credit sprEaD risk ¹⁾		Foreign exchange risk		Equity risk		Commodity risk		Total ²⁾	
	Jan.– Jun. 2016	Jan.– Dec. 2015	Jan.– Jun. 2016	Jan.– Dec. 2015	Jan.– Jun. 2016	Jan.– Dec. 2015	Jan.– Jun. 2016	Jan.– Dec. 2015	Jan.– Jun. 2016	Jan.– Dec. 2015	Jan.– Jun. 2016	Jan.– Dec. 2015
Average	9.0	18.3	25.5	23.0	22.3	19.5	2.7	2.9	–	–	43.2	41.6
Maximum	19.9	24.9	26.7	28.0	25.8	25.4	4.1	6.2	–	0.2	49.9	57.3
Minimum	4.6	11.4	24.1	17.7	17.8	10.3	1.5	1.1	–	–	39.6	24.7
Period end amount	10.5	19.4	26.7	24.0	20.3	21.3	1.5	4.1	–	–	43.9	40.9

¹⁾ Credit sprEaD risk is a sub-type of interest rate risk. It is not disclosed as part of interest rate risk but as a separate item due to its significance for HSH Nordbank.

²⁾ The VaR cannot be determined by adding up individual values due to correlations.

Total VaR increased from € 40.9 million to € 43.9 million compared to the 2015 year end. This was attributable to a temporary increase in market volatility that required the development of new volatile scenario days in the historical simulation.

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into insolvency risk and liquidity maturity transformation risk. Liquidity maturity transformation risk is also a component of the Bank's risk-bearing capacity concept and is explained in the “Risk-bearing capacity” concept. Insolvency risk refers to the risk that present and future payment obligations cannot be met or not in full.

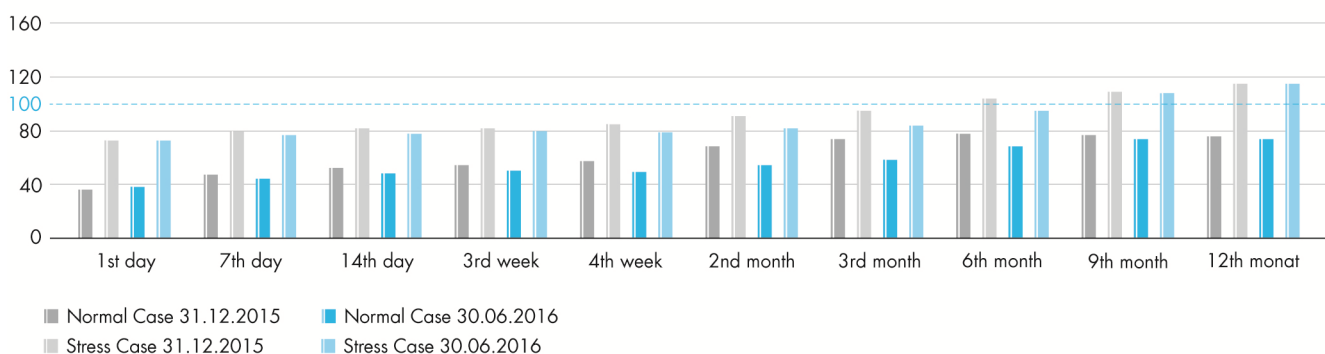
Transactions impacting liquidity are mapped as cash flows and resultant inflows and outflows allocated to maturity bands (liquidity development report) to measure insolvency risk and refinancing requirements. The difference between inflows and outflows is used as a

measure for insolvency risk. These gaps are compared to the liquidity potential, which is applied to close the cumulative gaps in the individual maturity bands, and thereby represents the respective limit for insolvency risk. Utilisation of these limits is monitored daily.

The following chart shows the relative utilisation levels of the liquidity potential in the normal case and stress case liquidity development report for individual cumulative liquidity gaps as at 30 June 2016 and 31 December 2015. Utilisation represents the share of the cumulative gaps in the total liquidity potential, which also includes the liquidity buffer required under supervisory law.

LIMIT ON CUMULATIVE LIQUIDITY GAPS

Utilisation of liquidity potential (in %)



The Bank's risk tolerance is reflected, amongst other things, in the definition of a minimum survival period risk tolerance, which describes how long utilisation of the liquidity potential under 100% is to be maintained in the normal cases and stress case.

In the normal case assessment, which assumes business performance in a normal market environment, the liquidity potential has a peak utilisation of 78% in the eleventh month as at the reporting date. All limits within the defined survival period of twelve months were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was also not exceeded within the minimum survival period of one month that was established taking account of the Minimum Requirements for Risk Management (MaRisk). In fact, the limits were adhered to for a period of seven months as at the reporting date. Compared to the 2015 year end, utilisation levels have decreased in almost all maturity bands in the normal case and stress case. The improvement results, inter alia, from the transfer of ship financing arrangements of € 5 billion to HSH Portfoliomanagement AöR on 30 June 2016. There were no critical limit utilisation levels in the normal case and stress case liquidity reports during the reporting period.

The regulatory parameter for liquidity risk is the liquidity ratio of the Liquidity Regulation (LiqV). This ratio moved between 1.51 and 1.84 and was significantly above the regulatory minimum at all times during the reporting period. The average for the first six months of 2016 was 1.69 (2015: 1.89) and was 1.84 as at the reporting date (31 December 2015: 1.89).

Under Basel III and CRR an additional ratio was specified in the liquidity coverage ratio (LCR) for the purposes of ensuring liquidity in an acute stress period of 30 days. The LCR is calculated by comparing the amount of highly liquid assets to net outflows over the next 30 days. With the introduction of the Delegated Regulation the ratio had to be adhered to from October 2015, whereby the compliance rate is to increase from an initial 60% to 100% in 2018. As at the reporting

date the preliminary LCR was 140% (31 December 2015: 115%) in the questionnaire of the Delegated Regulation (EU) 2015/61 and therefore 70 percentage points above the minimum threshold of 70%.

The net stable funding ratio (NSFR), which is to be adhered to from 2018 onwards, calculated as the ratio of the available funding sources across all maturities to the funding required, must also be at least 100% after full implementation. In the QIS the NSFR was 94% as at 31 March 2016 (31 December 2015: 95%).

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 deemed to be encumbered, if it has been lodged as collateral 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 33% as at the reporting date (31 December 2015: 36%).

HSH Nordbank has successfully driven forward its funding strategy in the first half of 2016 and has thereby strengthened the liquidity position. Besides issuing activities a stable deposit level contributed to the refinancing of the business. The regulatory requirements for liquidity ratios were met at all times during the reporting period. However, access to the capital markets is still restricted. Despite these positive developments HSH Nordbank's future funding and rating therefore remain key challenges.

Further information on the refinancing situation is set out in the "Earnings, net assets and financial position" section. Details on the funding forecast are set out in the "Forecast, opportunities and risk report" section.

OTHER MATERIAL RISKS

Within legal risk as a component of operational risk a claim for damages asserted by a borrower against HSH Nordbank was increased to € 278 million from € 215 million in 2015. The facts underlying the claim have already been the subject of several court proceedings between the Bank and the borrower, in which the Bank has always won before various courts apart from relatively small amounts. The new claims asserted by the borrower on the known facts are unfounded in the Bank's opinion. They do not contain any legally relevant changes to the known facts and do not provide any grounds for revising previous legal assessments regarding this matter. As the probability of success for this current claim is assessed as low, neither a provision nor a contingent liability was recognised for this. Furthermore, the claim of a service provider mentioned in the 2015 Group Management Report has been settled.

Tax risk is a component of legal risk and results mainly from the fact that the binding interpretation of rules that can be interpreted may only be known in specific cases after several years due to the long period of time between tax audits still outstanding. At present, the tax audits for the years from 2003 have not yet been finalised.

Provisions of € 54 million for tax risks including interest were almost unchanged as the reporting date (31 December 2015: € 56 million).

HSH Nordbank also expects that costs will be incurred in connection with the sale of the private client business of HSH Nordbank Private Banking S.A. (legal successor: HSH Nordbank Securities S.A.). Public investigations made as part of the tax investigation of competitors on suspicion of 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 investigator. Current Management Board members are not affected by the investigations.

Further information on the topic of tax risk is set out in the 2015 Group Management 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 2015 Group Management Report.

Hamburg/Kiel, 23 August 2016



Stefan Ermisch



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Torsten Temp



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GROUP STATEMENT OF INCOME FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2016

GROUP STATEMENT OF INCOME

(€ m)	Note	January- June 2016	after adjustment (see Note 3) January- June 2015	Change in %
Interest income		1,846	2,330	-21
Negative interest on deposits and derivatives		-79	-19	>100
Interest expense		-1,399	-1,812	-23
Positive interest on borrowings and derivatives		69	9	> 100
Net income from hybrid financial instruments		-63	-60	-5
Net interest income	(5)	374	448	-17
Net commission income	(6)	50	62	-19
Result from hedging	(7)	2	8	-75
Net trading income	(8)	40	71	-44
Net income from financial investments	(9)	74	56	32
Net income from financial investments accounted for under the equity method	(10)	1	-	100
Total income		541	645	-16
Loan loss provisions	(11)	559	120	> 100
Hedging effect of the credit derivative second loss guarantee	(2)	-408	7	>-100
Administrative expenses	(12)	-277	-302	-8
Other net operating income	(13)	43	53	-19
Expenses for bank levy and deposit guarantee fund	(14)	-63	-54	17
Net income before restructuring		395	469	-16
Result from restructuring	(15)	-98	-12	>-100
Expenses for government guarantees	(16)	-126	-235	-46
Income before taxes		171	222	-23
Income taxes		-11	-75	-85
Group net income		160	147	9
Group net income attributable to non-controlling interests		-	-	-
Group net income attributable to HSH Nordbank shareholders		160	147	9

EARNINGS PER SHARE

(in €)	Note	January- June 2016	January- June 2015
Undiluted	(17)	0.53	0.49
Diluted	(17)	0.53	0.49
Number of shares (million)		302	302

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2016

RECONCILIATION TO COMPREHENSIVE INCOME

(€ m)	January- June 2016	After adjustment (see Note 3) January- June 2015
Group net income	160	147
Income and expense that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in fair value of AFS financial instruments		
Unrealised gains and losses (before taxes)	48	15
Gains and losses (before taxes) reclassified to the statement of income	-41	-14
of which from exchange rate effects	-4	9
Income taxes recognised thereon	-2	2
of which from exchange rate effects	-	1
	5	3
Differences resulting from currency translation	-8	23
	-8	23
Subtotal	-3	26
Income and expense that will not be reclassified to the income statement at a later date		
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	-156	76
Income taxes recognised thereon	49	-24
	-107	52
Subtotal	-107	52
Other comprehensive income for the period	-110	78
Total comprehensive income	50	225
Total comprehensive income attributable to non-controlling interests	-	-
Total comprehensive income attributable to HSH Nordbank shareholders	50	225

GROUP STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

ASSETS

(€ m)	Note	30.06.2016	After adjustment (see Note 3) 31.12.2015	Change in %
Cash reserve	(18)	2,494	3,394	-27
Loans and advances to banks	(19)	5,078	5,595	-9
Loans and advances to customers	(20)	54,422	56,575	-4
Loan loss provisions	(21)	2,139	-1,065	>-100
Credit derivative under the second loss guarantee	(2)	260	663	-61
Positive fair values of hedging derivatives	(22)	649	783	-17
Positive adjustment item from portfolio fair value hedge		520	408	27
Trading assets	(23)	7,530	7,356	2
Financial investments	(24)	16,150	16,636	-3
Financial investments accounted for under the equity method	(25)	9	2	>100
Intangible assets	(26)	15	16	-6
Property, plant and equipment	(27)	473	474	-
Investment property	(27)	62	64	-3
Non-current assets held for sale and disposal groups	(28)	5	5,082	-100
Current tax assets		44	79	-44
Deferred tax assets	(29)	787	748	5
Other assets	(30)	159	163	-2
Total assets		90,796	96,973	-6

LIABILITIES

(€ m)	Note	30.06.2016	After adjustment (see Note 3) 31.12.2015	Change in %
Liabilities to banks	(31)	9,424	14,398	-35
Liabilities to customers	(32)	44,580	44,567	-
Securitised liabilities	(33)	16,736	18,616	-10
Negative fair values of hedging derivatives	(34)	523	727	-28
Negative adjustment item from portfolio fair value hedge		955	872	10
Trading liabilities	(35)	7,381	6,758	9
Provisions	(36)	1,718	1,517	13
Liabilities relating to disposal groups		-	1	-100
Current tax liabilities		41	151	-73
Deferred tax liabilities		2	-	100
Other liabilities	(37)	1,008	1,029	-2
Subordinated capital	(38)	3,495	3,452	1
Equity	(39)	4,933	4,885	1
Share capital		3,018	3,018	-
Capital reserve		175	175	-
Retained earnings		1,454	1,464	-1
Revaluation reserve		108	103	5
Currency translation reserve		34	42	-19
Group net income		160	99	62
Total before non-controlling interests		4,949	4,901	1
Non-controlling interests		-16	-16	-
Total equity and liabilities		90,796	96,973	-6

GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

	Note	Share capital	Capital reserve	Retained earnings
As at 1 January 2015		3,018	487	929
Group net income		-	-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-	52
Changes in fair value of AFS financial instruments		-	-	-
Exchange rate movements		-	-	-
Other comprehensive income		-	-	52
Comprehensive income as at 30 June 2015		-	-	52
Transfer of retained earnings		-	-	-
Addition to Group retained earnings of the previous year		-	-	159
As at 30 June 2015		3,018	487	1,140
As at 1 January 2016		3,018	175	1,464
Group net income		-	-	-
Change resulting from revaluation of net defined benefit liabilities		-	-	-107
Change in fair value of AFS financial instruments		-	-	-
Exchange rate movements		-	-	-
Other comprehensive income		-	-	-107
Comprehensive income as at 30 June 2016		-	-	-107
Addition to Group retained earnings of the previous year		-	-	99
Changes in the scope of consolidation		-	-	-2
As at 30 June 2016	(39)	3,018	175	1,454

	Currency translation reserve	Revaluation reserve	Group net income (loss)	Total before non-controlling interests	Non-controlling interests	Total
	- 16	108	159	4,685	- 13	4,672
	-	-	147	147	-	147
	-	-	-	52	-	52
	-	-7	-	-7	-	-7
	23	10	-	33	-	33
	23	3	-	78	-	78
	23	3	147	225	-	225
	-	-	-	-	-	-
	-	-	-159	-	-	-
	7	111	147	4,910	- 13	4,897
	42	103	99	4,901	- 16	4,885
	-	-	160	160	-	160
	-	-	-	-107	-	-107
	-	9	-	9	-	9
	-8	-4	-	-12	-	-12
	-8	5	-	-110	-	-110
	- 8	5	160	50	-	50
	-	-	-99	-	-	-
	-	-	-	-2	-	-2
	34	108	160	4,949	- 16	4,933

GROUP CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT

(€ m)	January- June 2016	January – June 2015
Cash and cash equivalents as at 1 January	3,394	5,967
Cash flow from operating activities	– 1,521	– 114
Cash flow from investing activities	621	1,885
Cash flow from financing activities	–	– 58
Changes in cash and cash equivalents due to exchange rate fluctuations	–	– 293
Cash and cash equivalents as at 30 June	2,494	7,387

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

Cash flow from operating activities is calculated using the indirect method, under which the Group net income/loss is adjusted for non-cash expenses (increasing) and income (reducing) and for cash changes in assets and liabilities used in operating activities.

Significant new issues totalling € 2,672 million were issued in the reporting period (same period in the previous year: € 3,622 million). The volume of repayments/repurchases amounted to € 1,146 million (same period in the previous year: € 1,491 million) and the volume of issues maturing € 3,473 million (same period in the previous year: € 4,659 million).

Further information on HSH Nordbank's liquidity position is set out in the "Net assets and financial position" section in the Group Management Report and Risk Report.

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Beteiligungs Management GmbH, Hamburg, is the parent company and at the same time ultimate parent company of HSH Nordbank AG, which prepares Group financial statements.

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 referred to as IFRS or Standards, refer to the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and 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 and takes into account the requirements stipulated in IAS 34. The condensed interim Group financial statements comprise a statement of income, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a condensed cash flow statement and selected explanatory notes.

The interim Group financial statements as at 30 June 2016 were prepared in accordance with IFRS as approved and published by the International Accounting Standards Board (IASB) and adopted by the European Union. Particular attention has been paid in their preparation to the application of IAS 34 (Interim Financial Reporting).

The same accounting principles and measurement methods have been applied in the interim Group financial statements as in the Group financial statements of HSH Nordbank as at 31 December 2015.

In accordance with IAS 34.C4 HSH Nordbank does not prepare reports on pension obligations during the course of the year and based its figures on the most recent report prepared as at 31 December 2015. Pension provisions are assessed each quarter to determine whether there have been changes to material parameters that require adjustment and recognition (in particular changes in the discount rate).

The following accounting policies are to be generally applied for the first time in the current financial year:

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

IFRS 11 contains rules on the recognition of joint ventures and joint operations on the balance sheet and statement of income. Whilst joint ventures are accounted for using the equity method, the recognition method for joint operations provided for under IFRS 11 is similar to proportionate consolidation.

With the amendments to IFRS 11, the IASB governs the accounting treatment of the purchase of shares in a joint operation representing a business entity as defined in IFRS 3 Business Combinations. In such cases the purchaser is to apply the accounting principles for business combinations as set out in IFRS 3. In addition, the disclosure requirements of IFRS 3 also apply in these cases.

Amendments to IAS 1 – Disclosure Initiative

The amendments relate to various disclosure issues. It is made clear that information only needs to be included in the Notes if the content is not immaterial. This explicitly also applies if an IFRS requires a list of minimum disclosures. In addition, explanations concerning the aggregation and disaggregation of items in the statement of financial position and statement of comprehensive income are included. Furthermore, it is clarified how the share of other comprehensive income of entities measured at equity is to be recorded on the statement of comprehensive income. Finally, the model for the structure of the Notes no longer applies in order to give greater consideration to the relevance of information for the individual entity.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

With these amendments the IASB provides additional guidelines for defining an acceptable method of depreciation and amortisation. Revenue-based methods of depreciation are thus not permitted for property, plant and equipment and are only permitted for intangible assets in certain exceptional cases (refutable presumption of inadequacy).

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

The amendments clarify the rules relating to the allocation of employee contributions or contributions from third parties to service periods if the contributions are linked to the service period. Furthermore, exemptions are granted if the contributions are not dependent on the number of completed years of service.

Improvements to IFRS 2010–2012

Seven Standards were amended as part of the Annual Improvement Project. The existing rules are to be clarified by the amendment of the wording in individual IFRS. There are also amendments that affect note disclosures. The Standards affected are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

Improvements to IFRS 2012–2014

Four Standards were amended as part of the Annual Improvement Project. The existing rules are to be clarified by the amendment of the wording in individual IFRS/IAS. The Standards affected are IFRS 5, IFRS 7, IFRS 19 and IAS 34.

The above-mentioned Standards do not materially affect the Group 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.

These interim Group financial statements were reviewed by the auditors.

All facts up to 23 August 2016 were taken into account.

Going concern assumption

Please refer to the statements made in the “Opportunities and risks resulting from the formal decision in the state aid proceedings” section in the interim Group management report with regard to the going concern assumption. This states that the going concern assumption for accounting and measurement is based in particular on the following:

(i) the agreements required for the implementation of the formal decision taken by the EU Commission in the EU state aid proceedings on the replenishment of the second-loss guarantee are entered into comprehensively and on a timely basis and that the formal decision will be implemented by HSH Nordbank AG and its shareholders in full and on a timely basis;

(ii) the operating company, HSH Nordbank AG, is sold at a positive sales price in an open, non-discriminatory, competitive and transparent process not involving state aid until 28 February 2018 and the EU Commission grants its approval for the acquisition following a viability assessment of the new corporate structure. Should the divestment procedure not lead to offers not requiring state aid with a positive price being offered before the expiry of the deadline or should the EU Commission in the course of its viability assessment come to the conclusion that the integration of the operating company into the new corporate structure will not lead to a viable business model that is profitable in the long term, the operating company will cease new business and manage its assets as far as legally permissible with the aim of a structured winding down of its business. In the event of significant unexpected outflows of funds (e.g. in the scenario described above), measures must be taken to strengthen the liquidity position.

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's business model and the requirements under the formal decision of the EU Commission is maintained or gained and that the expected recovery of the shipping markets materialises.

2. PROVISION OF A GUARANTEE FACILITY

Basics of the effect of the second loss guarantee

Information on the hedging effect of the guarantee is presented in detail in the Annual Report as at 31 December 2015.

The guarantee provided by the federal states is split into partial guarantees for financial reporting purposes. Partial guarantee One is recognised in the Group financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee Two is recognised as a credit derivative.

In October 2015, the Federal Republic of Germany, the Free and Hanseatic City of Hamburg and Federal State of Schleswig-Holstein reached an informal agreement with the Directorate-General for Competition of the EU Commission in the state aid proceedings before the EU Commission regarding the replenishment of the second

loss guarantee. According to this agreement the Bank has to be split into a holding company and an operating company that is to be privatised. The operating company will hold all the assets and liabilities of HSH Nordbank AG and the second loss guarantee. It will only pay in future a premium of 2.2% on the undrawn portion of the guarantee. The holding company will be responsible for all other remuneration components of the second loss guarantee.

In its decision of 2 May 2016, the EU Commission approved the replenishment of the second loss guarantee issued by the federal states from € 7.0 billion to € 10.0 billion and concluded the EU state aid proceedings. The Commission decision confirms and sets out the agreement in principle reached in October 2015 in concrete terms and is based on a list of requirements provided by the Federal Republic of Germany to the EU Commission.

It was further specified in the Commission decision that HSH Nordbank provides the holding company with liquidity of € 50 million to ensure its operations. In addition, HSH Nordbank AG must make a one-off payment of € 210 million to the holding company.

The holding company was formed as HSH Beteiligungs Management GmbH on 20 May 2016 and entered into the Commercial Register B of the Hamburg district court on 13 June 2016. The above-mentioned one-off payment was made on 30 June 2016.

Due to a binding statement of the Free and Hanseatic City of Hamburg and Federal State of Schleswig-Holstein vis-à-vis HSH Nordbank AG already existing as at 31 December 2015 concerning the implementation of the informal agreement, in particular with regard to the assumption of guarantee obligations (additional premium and portions of the base premium), it had become unlikely that such payments excluding those payments still due following the formal decision of the EU Commission (one-off payment of € 210 million and provision of liquidity of € 50 million to the holding company) will be made in the future. The obligations recognised in the compensation item in the past as well as the debt had already been derecognised accordingly through profit or loss as at 31 December 2015.

The hedging effect of partial guarantee One gave rise to a compensation item on the balance sheet of € 8,353 million (31 December 2015: € 7,162 million), which is deducted in the loan loss provisions line item. An amount of € 931 million (same period in the previous year: € 620 million) is included in the calculation of loan loss provision income/expense as a relieving effect.

The compensation item on the balance sheet includes compensation claims of HSH Nordbank AG against the guarantor of a total amount of € 2,022 million, of which € 1,276 million is attributable to partial guarantee One and € 746 million to partial guarantee Two. The background to this is the transfer of a portfolio of loans to HSH portfolio-management AöR that was executed as at 30 June 2016 and had already been provided for in the informal agreement and the Commission decision. The first loss piece of € 3.2 billion to be borne by the Bank is thereby for the first time exceeded by approximately € 2.0 billion by payment defaults as at 30 June 2016. Consequently, HSH Nordbank AG now has a claim for the compensation of losses based on the principal loans in default and accrued interest.

Partial guarantee Two is disclosed as a credit derivative under the "Credit derivative under the second loss guarantee" line item in the statement of financial position (previous year: "Trading assets"). Changes in the measurement of the credit derivative at fair value are disclosed under the "Hedging effect of the credit derivative second loss guarantee" line item in the statement of income. The hedging effect of partial guarantee Two amounted to € 260 million as at 30 June 2016 (same period in the previous year: € 663 million). An expense of € 408 million (same period in the previous year: € 7 million income) has been recognised in the "Hedging effect of credit derivative under the second loss guarantee" line item on the statement of income.

The decrease in the market value of the credit derivative as at 30 June 2016 was due to the transfer of the loan portfolio covered by partial guarantee Two to HSH portfolio-management AöR. The recognition of an expense in the "Hedging effect of the credit derivative second loss guarantee" line item on the statement of income associated with the partial derecognition of the positive market value of the credit derivative was offset by the recognition through profit or loss of an asset of € 746 million in the compensation item on the balance sheet (31 December: € 0 million) representing compensation due from the guarantor under partial guarantee Two.

The difference between the change in market value of the credit derivative and recognition of the compensation under partial guarantee Two as a receivable was attributable to a change in the allocation of transactions from partial guarantee One to partial guarantee Two that no longer met the conditions for accounting under a financial contract guarantee.

HEDGING EFFECT OF GUARANTEE

(€ m)	30.06.2016		31.12.2015		January-June 2016		January-June 2015		
	Balance sheet		Balance sheet		Income Statement		Income Statement		
	Loan loss provisions	Credit-derivative	Loan loss provisions	Credit derivative	Loan loss provisions	Hedging effect of credit derivative	Loan loss provisions	Interest rate	Hedging effect of credit derivative
Hedging effect before guarantee expenses	8,353	-	7,422	-	931	-	564	-	-
Additional premium ex post	-	-	-	-	-	-	-235	-	-
Debt waiver	-	-	-	-	-	-	245	-	-
Base and additional premium ex ante	-	-	-	-	-	-	46	3	-
Remaining payment obligations for guarantee premiums	-	-	-260	-	-	-	-	-	-
Compensation under the second loss guarantee	8,353	-	7,162	-	931	-	620	3	-
Fair value of credit derivative	-	260	-	663	-	-408	-	-	7
Hedging effect of the guarantee	8,353	260	7,162	663	931	-408	620	3	7

Since the 2009 reporting year, HSH Nordbank has recognised premium expense totalling € 3,612 million through profit or loss for the second loss guarantee. € 3,556 million has been paid to date, of which

€ 2,521 million relates to the ongoing base premium and € 1,035 million to one-off payments.

3. ADJUSTMENTS TO PREVIOUS YEAR COMPARATIVE FIGURES

These financial statements include various changes to amounts reported at previous reporting dates.

The adjustment made was reviewed in accordance with the requirements of IAS 8 and classified as a correction of an error in accordance with IAS 8.41 et seqq.

The correction relates to information regarding the fair value hierarchy under IFRS 13 and does not affect the balance sheet or net income.

I. Correction in accordance with IAS 8.41 et seqq.

A data collection error was made in determining transfer information for the fair value hierarchy for financial instruments measured

at fair value such that transfer information for the securities portfolios (asset portfolios) for level 1 and level 2 were incorrect.

In Note 43 the information in the asset transfer table for securities (asset portfolios) in the HfT and AfS categories was accordingly corrected in the comparative figures as at 31 December 2015.

In determining comprehensive income as at 30 June 2015, a data collection error resulted in recyclable income and expense being disclosed as not recyclable. The figures disclosed for the previous year period were adjusted. The impact of the adjustment on the reconciliation to comprehensive income is shown in the following table.

ADJUSTMENT 30.06.2016**RECONCILIATION TO COMPREHENSIVE INCOME**

(€ m)	30.06.2015		
	Before adjustment	Adjustment	After adjustment
Group net income	147	-	147
Income and expense that have been reclassified to the statement of income or may be reclassified at a later date			
Change in fair value of AFS financial instruments			
Unrealised gains and losses (before taxes)	15	-	15
Gains and losses (before taxes) reclassified to the statement of income	-	-14	-14
of which from exchange rate effects	9	-	9
Income taxes recognised thereon	-2	4	2
of which from exchange rate effects	1	-	1
	13	-10	3
Differences resulting from currency translation	23	-	23
	23	-	23
Subtotal	36	-10	26
Income and expense that will not be reclassified to the income statement at a later date			-
Change in fair value of AFS financial instruments	-14	14	-
Income taxes recognised thereon	4	-4	-
	-10	10	-
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	76	-	76
Income taxes recognised thereon	-24	-	-24
	52	-	52
Subtotal	42	10	52
Other comprehensive income for the period	78	-	78
Total comprehensive income	225	-	225
Total comprehensive income attributable to non-controlling interests	-	-	-
Total comprehensive income attributable to HSH Nordbank shareholders	225	-	225

II. Changes in presentation

The presentation of the statement of income and statement of financial position had already been changed in the financial statements prepared as at 31 December 2015. Information on positive interest on borrowings and derivatives is disclosed under interest expense and information on negative interest on deposits and derivatives in interest income. The change in fair value of the credit derivative under the second loss guarantee is disclosed under a separate line item on the statement of income. Expenses for the bank levy and deposit guarantee fund are disclosed under a separate line item. These result in the presentation of a truer and fairer view of Group earnings. The adjustment affects disclosures in the statement of income and statement of financial position as well as the Notes.

Furthermore, the credit derivative under the second loss guarantee is also managed in a separate class for the information required to be disclosed under IFRS 7 and IFRS 13 (see Note 43).

4. 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 2015: 61).

One associate (31 December 2015: one) and one joint venture (31 December 2015: one) were included under the equity method in the Group financial statements.

The following subsidiaries, associates and joint ventures are included in the Group financial statements of HSH Nordbank AG:

CONSOLIDATED COMPANIES

Subsidiaries in which HSH Nordbank directly or indirectly holds 100 % of the shares	Registered office	Share of equity capital in % as at 30.06.2016	Share of equity capital in % as at 31.12.2015
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 ⁹⁾	Hamburg	100.0	100.0
7 CAPCELLENCE Zweite Fondsbeteiligung GmbH ⁴⁾	Hamburg	100.0	100.0
8 DEERS Green Power Development Company S.L. ¹¹⁾	Madrid	100.0	100.0
9 FSL Asset Management Pte. Ltd. ⁶⁾	Singapore	100.0	–
10 FSL Holdings Pte. Ltd. ⁷⁾	Singapore	100.0	20.0
11 FSL Trust Management Pte. Ltd. ⁵⁾	Singapore	100.0	–
12 GODAN GmbH	Hamburg	100.0	100.0
13 HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
14 HSH Facility Management GmbH	Hamburg	100.0	100.0
15 HSH Gastro+Event GmbH ⁸⁾	Hamburg	100.0	100.0
16 HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
17 HSH N Residual Value Ltd.	Hamilton	100.0	100.0
18 HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
19 HSH Private Equity GmbH	Hamburg	100.0	100.0
20 Ilex Integra GmbH ¹⁾	Hamburg	100.0	100.0
21 ISM Agency LLC ¹⁰⁾	New York	100.0	100.0
22 Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
23 Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0
24 Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0	100.0
25 Solar Holding S.à.r.l.	Luxembourg	100.0	100.0
26 Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
27 2200 Victory LLC	Dover	100.0	100.0

CONSOLIDATED COMPANIES

Subsidiaries with non-controlling interests	Registered office	Share of equity capital in % as at 30.06.2016	Share of equity capital in % as at 31.12.2015
28 Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG ¹²⁾	Mainz	–	–
29 Amentum Aircraft Leasing No. Five Limited ¹²⁾	Dublin	49.0	49.0
30 Amentum Aircraft Leasing No. Six Limited ¹²⁾	Dublin	49.0	49.0
31 Amentum Aircraft Leasing No. Three Limited ¹²⁾	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 CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	83.3	83.3
41 CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	83.3	–
42 Castellum ABF S.A. ¹²⁾	Luxembourg	–	–
43 GmbH Altstadt Grundstücksgesellschaft ¹²⁾	Mainz	50.0	50.0
44 HSH Care+Clean GmbH ⁸⁾	Hamburg	51.0	51.0
45 HSH Move+More GmbH ⁸⁾	Kiel	51.0	51.0
46 HSH N Funding II ¹²⁾	George Town	56.3	56.3
47 Life Insurance Fund Elite LLC ¹²⁾	New York	–	–
48 Life Insurance Fund Elite LLC Trust ¹²⁾	Minneapolis	–	–
49 Mitco Real Estate A S.à.r.l.	Canach	–	–
50 Mitco Resolution 1 S.à.r.l.	Canach	–	–
51 Mitco Resolution 2 S.à.r.l.	Canach	–	–
52 Mitco Resolution 3 S.à.r.l.	Canach	–	–
53 Mitco Resolution 4 S.à.r.l.	Canach	–	–
54 Mitco Resolution 5 S.à.r.l.	Canach	–	–
55 Next Generation Aircraft Finance 2 S.à.r.l.	Munzbach	49.0	49.0
56 Next Generation Aircraft Finance 3 S.à.r.l.	Munzbach	49.0	49.0
57 OCEAN Funding 2013 GmbH ¹²⁾	Frankfurt a.M.	–	–
58 RDM Limited ¹²⁾	George Town	–	–
59 RESPARCS Funding Limited Partnership I ¹²⁾	Hong Kong	0.0	0.0
60 RESPARCS Funding II Limited Partnership ¹²⁾	St. Helier	0.0	0.0
61 Senior Assured Investment S.A. ¹²⁾	Luxembourg	–	–
62 Senior Preferred Investments S.A. ¹²⁾	Luxembourg	–	–
63 SPE II Pissarro SAS ¹²⁾	Paris	–	–
64 Stratus ABF S.A. ¹²⁾	Luxembourg	–	–

COMPANIES CONSOLIDATED AT EQUITY

	Registered office	Share of equity capital in % as at 30.06.2016	Share of equity capital in % as at 31.12.2015
Associates consolidated under the equity method			
1 First Ship Lease Trust	Singapore	25.2	–
Joint ventures consolidated under the equity method			
2 Kontora Family Office GmbH	Hamburg	51.0	51.0

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 FSL Asset Management Pte. Ltd.

⁶⁾ Subsidiary of FSL Holdings Pte. Ltd.

⁷⁾ Subsidiary of Godan GmbH

⁸⁾ Subsidiary of HSH Facility Management GmbH.

⁹⁾ Subsidiary of HSH Private Equity GmbH.

¹⁰⁾ Subsidiary of Life Insurance Fund Elite LLC.

¹¹⁾ Subsidiary of Solar Holdings S.à.r.l.

¹²⁾ Structured entities

I. Information on subsidiaries – changes in scope of consolidation

A) Additions

The following companies were included for the first time in the scope of consolidation on a fully consolidated basis:

- CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG ²⁾
- FSL Asset Management Pte. Limited, Singapore
- FSL Holdings Pte. Limited, Singapore (hereinafter referred to as FSL Holdings)
- FSL Asset Management Pte. Limited, Singapore

CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG, formed on 17 March 2016, in which HSH Nordbank holds the majority of the voting rights, was included for the first time in the scope of consolidation on a fully consolidated basis.

HSH Nordbank acquired control over the above-mentioned companies of the FSL group on 23 January 2016. FSL Holdings is a company, whose principal asset is a 25.2% interest in the listed First Ship Lease Trust, Singapore (hereinafter referred to as FSL Trust). The acquisition of the equity interest in FSL Trust was mainly financed by a loan provided by HSH Nordbank AG. As at 31 December 2015 HSH Nordbank already held 20.0% of the shares of FSL Holdings via its subsidiary, GODAN GmbH. This company was not included as an associate as at 31 December 2015 because of its immateriality with regard to the net assets, financial position and earnings.

Following the changes made to the shareholder structure of FSL Holdings on 23 January 2016 (redemption of capital shares held by all other shareholders) as part of a loan restructuring by HSH Nordbank AG, the HSH Nordbank Group holds 100% of the voting rights and therefore has control over this company and its subsidiaries, FSL Asset Management Pte. Limited and FSL Trust Management Pte. Limited (both service companies) from this date. FSL Trust, whose business activities mainly comprise the chartering of its own ship portfolio, has been included in the Group financial statements of HSH Nordbank AG as an associate accounted for under the equity method since 23 January 2016.

Prior to obtaining control over FSL Holdings, shares in this company were recognised in the Group financial statements at a carrying amount of € 1. The revaluation of the shares on the first-time consolidation of the FSL Group in accordance with IFRS 3.42 did not have an impact on earnings.

The business relationships existing between HSH Nordbank and FSL Holdings were deemed to have ended on the business combination. The termination of the above-mentioned loan relationship at fair value as well as an interest rate swap did not give rise to any material impact on earnings in the reporting period.

The loan and interest rate swap into the total amount of € 9.6 million was derecognised as consideration for the business combination. No cash was paid on the transaction. The business combination did not give rise to any goodwill.

The principal asset of the FSL Group is the investment in FSL Trust, which was recognised at a fair value of € 7.8 million. The investment is disclosed in the “Financial investments accounted for under the equity method” line item. Other assets and liabilities of the FSL Group assumed by the Bank were immaterial.

The cumulative results of the FSL Group included in the Group financial statements as at 30 June 2016 amounted to € 2.8 million. This included pro rata net income for the period of EUR 0.7 million for First Ship Lease Trust, Singapore, accounted for under the equity method, which is disclosed in net income from financial investments accounted for under the equity method. The FSL Group revenues amounted to € 1.5 million as at 30 June 2016 and relate mainly to the provision of services. They are disclosed under other net operating income.

B) Disposals

Compared to 31 December 2015, CHIOS GmbH is no longer included in the scope of fully consolidated companies: The company was merged with the fully consolidated subsidiary, HSH Auffang- und Holdinggesellschaft mbH & Co. KG, with economic effect from 1 January 2016. This was entered in the Commercial Register on 6 July 2016.

C) Changes in holdings in subsidiaries

There were no material changes in ownership interests held by HSH Nordbank in a subsidiary, which did not result in a loss of control.

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

A) General information

In contrast to 31 December 2015 the following company was included for the first time in the Group financial statements under the equity method:

- First Ship Lease Trust, Singapore

Please refer to section 1 of this Note for the background.

In contrast to 31 December 2015 the following company was no longer included under the equity method in the Group financial statements:

- SITUS NORDIC SERVICES ApS, Copenhagen

All shares held in SITUS NORDIC SERVICES ApS were sold on 8 March 2016. The associated deconsolidation did not have a material impact on earnings.

Although HSH Nordbank AG owns the majority of the voting rights in Kontora Family Office GmbH, it cannot exercise control over this company, as a qualified majority of 75% is required for decisions regarding its relevant activities.

B) Changes in equity holdings

There were no changes in ownership interests held by HSH Nordbank in associates or joint ventures in the reporting period that caused a loss of control or significant influence.

C) Summarised financial information

HSH Nordbank does not hold any interests in associates and joint ventures accounted for under the equity method that are material for the Group's net assets, financial position and earnings.

Summarised financial information for associates and joint ventures included in the Group financial statements under the equity method that is not material for HSH Nordbank taken in isolation and as a whole is set out below.

OTHER INTERESTS IN ASSOCIATES ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	30.06.2016	31.12.2015
Share attributable to HSH Nordbank		
Net income/loss for the year	1	-
Other comprehensive income	-1	-
Total comprehensive income	-	-
Accumulated carrying amount	8	1

OTHER INTERESTS IN JOINT VENTURES ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	30.06.2016	31.12.2015
Share attributable to HSH Nordbank		
Net income/loss for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Accumulated carrying amount	1	1

III. Information on consolidated structured entities

HSH Nordbank's scope of consolidation includes 25 fully consolidated structured entities. These companies are controlled by means of contractual rights and/or principal-agent relationships. The Bank also holds the majority of the voting rights in three of these companies.

NOTES ON THE GROUP STATEMENT OF INCOME

5. NET INTEREST INCOME

NET INTEREST INCOME (€ m)	January – June 2016	January – June 2015
Interest income from		
lending and money market transactions	632	806
fixed-interest securities	135	171
trading transactions	3	5
derivative financial instruments	814	1,204
unwinding	98	108
sale of receivables	142	18
Current income from		
equities and other non-fixed-interest securities	4	4
equity holdings	15	6
other holdings	3	8
Interest income	1,846	2,330
of which attributable to financial instruments not classified as HfT or DFV	880	995
Negative interest on		
lending and money market transactions	-5	-3
derivative financial instruments	-74	-16
Negative interest	-79	-19
Interest expense on		
liabilities to banks	75	119
liabilities to customers	241	333
securitised liabilities	157	227
subordinated capital	13	42
other liabilities	11	8
sales of receivables	9	3
derivative financial instruments	893	1,080
Interest expense	1,399	1,812
of which attributable to financial instruments not classified as HfT or DFV	294	482
Positive interest on		
liabilities to banks	-1	-
liabilities to customers	-1	-
derivative financial instruments	-67	-9
Positive interest	-69	-9
Net income from discounting and compounding	-63	-60
Net income from hybrid financial instruments	-63	-60
of which attributable to financial instruments not classified as HfT or DFV	-63	-60
Total	374	448

Interest income and expense relating to trading and hedging derivatives are disclosed under interest income and expense from/on trading and hedging derivatives.

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

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

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised 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 profit or loss effects resulting from the application of IAS 39 A8 and current interest income from these instruments.

Cumulative net income from hybrid financial instruments amounted to € 398 million (same period in the previous year: € 297 million). € 1,644 million was attributable to the re-estimating interest and principal repayment flows (same period in the previous year: € 1,430 million) and € -1.246 million to income/expense from discounting and compounding (same period in the previous year: € -1,133 million).

The difference between the valuation for tax purposes and measurement under IAS 39.A8 resulted in deferred tax assets of € 9 million (previous year: € 7 million of deferred tax assets).

6. NET COMMISSION INCOME

NET COMMISSION INCOME

(€ m)	January– June 2016	January– June 2015
Commission income from		
lending business	28	43
securities	5	11
guarantees	8	10
payments and account transactions as well as documentary business	12	11
Other commission income	10	6
Commission income	63	81
Commission expense from		
lending business	2	2
securities	3	9
guarantees	3	3
payments and account transactions as well as documentary business	2	2
Other commission expense	3	3
Commission expense	13	19
Total	50	62

€ 49 million (same period in the previous year: € 62 million) of net commission income was attributable to financial instruments that are not classified as HfT or DFV.

7. RESULT FROM HEDGING

The change in value of the designated underlying and hedge transactions in effective hedge relationships to be allocated to the hedged risk is disclosed in the result from hedging. The line item includes the corresponding income contributions from micro and portfolio fair value hedge relationships. Hedge accounting is used solely for interest rate risk.

RESULT FROM HEDGING

(€ m)	January– June 2016	January– June 2015
Fair value changes of hedging transactions	11	–63
Micro fair value hedge	–16	–3
Portfolio fair value hedge	27	–60
Fair value changes from underlyings	–9	71
Micro fair value hedge	16	10
Portfolio fair value hedge	–25	61
Total	2	8

8. NET TRADING INCOME

Net trading income comprises realised gains and losses and measurement gains and losses on financial instruments classified as HfT and DFV. Interest income and expense for financial instruments in these categories are disclosed in Net interest income.

Gains and losses arising on currency translation are generally disclosed in this statement of income line item. Gains and losses arising on the translation of loan loss provisions denominated in foreign currency that are not hedged against currency risk are disclosed in Loan loss provisions.

Other products include results from foreign exchange transactions, credit derivatives and commodities.

In the period under review changes in value related to changes in credit spread rather than to market interest rate changes amounted to € 1 million (same period in the previous year: € - 3 million). In cumulative terms, an amount of € 3 million (same period in the previous year: € - 33 million) is attributable to changes in credit spread.

NET TRADING INCOME

(€ m)	January– June 2016	January– June 2015
Bonds and interest rate derivatives		
HfT	- 146	145
DFV	188	- 42
Subtotal	42	103
Equities and equity derivatives		
HfT	- 4	74
DFV	- 1	- 73
Subtotal	- 5	1
Other products		
HfT	3	- 33
DFV	-	-
Subtotal	3	- 33
Total	40	71

Net trading income includes net income from foreign currency of € 8 million (same period in the previous year: € - 37 million).

In the reporting period € 36 million (same period in the previous year: € 5 million) of the fair value changes of financial assets classified as DFV related to changes in credit spreads rather than changes in market interest rates. In cumulative terms, an amount of € 20 million (same period in the previous year: € - 12 million) is attributable to changes in the credit spread.

9. NET INCOME FROM FINANCIAL INVESTMENTS

In addition to any gains and losses realised on financial investments classified as LaR and AfS, write-downs and write-ups as well as general loan loss provisions are disclosed under this statement of income line item. For financial investments classified as AfS, write-ups are only recognised through profit or loss for debt instruments up to a maximum of the amortised cost.

NET INCOME FROM FINANCIAL INVESTMENTS

(€ m)	January– June 2016	January– June 2015
Classified as AfS		
realised gains (+)/ losses(-)	66	19
write-downs (-)	39	12
write-ups (+)	-	-
Subtotal	27	7
Classified as LaR		
realised gains (+)/ losses(-)	4	-
write-downs (-)	9	9
write-ups (+)	49	39
Subtotal	44	30
Reversal of general loan loss provisions (LaR portfolios) (+)	3	19
Subtotal	3	19
Total	74	56

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

HSH Nordbank held shares in three associates and one joint venture as at 30 June 2016 (31 December 2015: three associates and one joint venture) that are included in the Group financial statements under the equity method (see Note 4).

The pro rata net income attributable to the Group from financial investments accounted for under the equity method as at 30 June 2016 is summarised below:

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	January– June 2016	January– June 2015
Pro rata net income for the period	1	-
Impairments	-	-
Total	1	-

HSH Nordbank's share in the current losses of companies no longer recognised amounted to € 0 million (same period in the previous year: € -24 million). The accumulated pro rata share in the losses of these companies not to be recognised amounts to € 0 million (same period in the previous year: € -56 million). Current losses of companies that no longer had to be recognised in the previous year period related solely to associates. The previous year amounts for accumulated unrecognised pro rata losses in companies comprised € 54 million for associates and € 2 million for joint ventures. The decrease compared to the same period in the previous year results from the fact that the companies concerned as at 30 June 2015 were sold during the second half of 2015 or were reclassified to interests held for sale.

Net income from financial investments accounted for under the equity method is disclosed as a component of the net income from financial investments in the segment report. The major portion of net income from financial investments accounted for under the equity method is disclosed in the Restructuring Unit segment (First Ship Lease Trust).

11. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	January– June 2016	January– June 2015
– Additions to loan loss provisions	771	682
+ Income from the reversal of loan loss provisions	407	451
Change in loan loss provisions	-364	-231
– Expenses from allocations to provisions in the lending business	38	8
+ Income from reversal of provisions in the lending business	16	12
Result from changes in provisions in the lending business	-22	4
– Direct write-downs	176	76
+ Payments received on loans and advances previously written down	42	104
Result from other changes in loan loss provisions	-134	28
Result from changes in loan loss provisions before currency translation gains or losses and compensation	-520	-199
Currency translation gain/loss on loan loss provisions denominated in foreign currency	148	-301
Compensation under the second loss guarantee	931	620
Total loan loss provisions	559	120

Please refer to Note 2 regarding the compensation item relating to HSH Finanzfonds AöR.

Direct write-downs of € 176 million (same period in the previous year: € 76 million) relate entirely to loans and advances to customers.

Loan loss provisions for on-balance sheet lending business relate exclusively to loans and advances classified as LaR. Their net change is shown in the following table:

NET CHANGE IN LOAN LOSS PROVISIONS

(€ m)	January– June 2016	January– June 2015
Specific loan loss provisions	-333	-220
General loan loss provisions	-31	-11
Net change in loan loss provisions	-364	-231
Provisions for specific risks	-23	3
Provisions for portfolio risks	1	1
Net change in provisions in the lending business	-22	4

12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)	January– June 2016	January– June 2015
Personnel expenses	129	141
Operating expenses	132	140
Depreciation of property, plant and equipment, leased assets and investment properties and amortisation on intangible assets	16	21
Total	277	302

Impairment losses of € 1 million (same period in the previous year: € 0 million) were recognised in the reporting period on leasing assets, which were accounted for by the Restructuring Unit segment.

13. OTHER NET OPERATING INCOME

OTHER NET OPERATING INCOME

(€ m)	January– June 2016	January– June 2015
Other operating income	76	150
Other operating expenses	33	97
Total	43	53

Other operating income included, inter alia, leasing income of € 13 million (same period in the previous year: € 21 million), rental income from investment properties of € 6 million (same period in the previous year: € 12 million) and income from the release of provisions of € 5 million (same period in the previous year: € 33 million).

Other operating expenses included, inter alia, expenses of € 3 million for investment properties (same period in the previous year: € 5 million) and additions of € 10 million to provisions (same period in the previous year: € 39 million).

14. EXPENSES FOR BANK LEVY AND DEPOSIT GUARANTEE FUND

EXPENSES FOR BANK LEVY AND DEPOSIT GUARANTEE FUND

(€ m)	January– June 2016	January– June 2015
Expense for bank levy	47	40
Expense for deposit guarantee fund	16	14
Total	63	54

The event that, under IFRIC 21, triggers the obligation to pay the bank levy occurs at the beginning of each year. The bank levy is therefore recognised in full at the beginning of the year and no longer accrued on a pro rata basis.

The expense for the deposit guarantee of the Savings Banks Finance Group is also shown in this line item. The contribution was collected on the basis of the Deposit Guarantee Law.

The expense for the deposit guarantee fund was included in other operating expenses in the previous year. Previous year figures have been adjusted accordingly.

15. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING

(€ m)	January– June 2016	January– June 2015
Personnel expenses:	63	–
Operating expenses	38	13
Income from reversals of provisions and liabilities	3	1
Total	-98	-12

Result from restructuring relates to the implementation of the programme launched in the fourth quarter of 2014 to reduce operating and personnel costs that was continued in the reporting period. Costs were incurred in particular for legal and strategy advisory services, which were reflected in restructuring expenses. Provisions for a further reduction in employees until 2019 were recognised in the second quarter of 2016.

16. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES

(€ m)	January– June 2016	January– June 2015
HSH Finanzfonds AöR	126	235
Total	126	235

In June 2013 the guarantee provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg was replenished to € 10 billion. Since 1 January 2016 the Bank has calculated the base premium at 2.2% p.a. of the undrawn portion of the guarantee (as at 30 June 2016: nominal amount). In the previous year a base premium was calculated at 4.0% p.a. on the nominal amount and paid (see Note 2). These expenses also include a pro rata amount of € 22 million of the one-off payment for the replenishment of the second loss guarantee (same period in the previous year: € 34 million). The premium component of € 7 million attributable to partial guarantee Two (CDS) is disclosed in the “Hedging effect of the credit derivative second loss guarantee” line item.

17. EARNINGS PER SHARE

The earnings per share is calculated by dividing Group net income attributable to HSH Nordbank shareholders by the weighted average number of ordinary shares outstanding during the reporting period. As in the previous year, HSH Nordbank AG has not issued any diluted forms of capital as at 30 June 2016, i.e. the diluted and undiluted earnings are the same. Net income is determined on the basis of non-rounded amounts.

EARNINGS PER SHARE

	January– June 2016	January– June 2015
Attributable Group net income (€ million) – undiluted/diluted	160	147
Number of shares (million)		
Average number of shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.53	0.49
Diluted	0.53	0.49

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

18. CASH RESERVE

CASH RESERVE

(€ m)	30.06.2016	31.12.2015
Cash on hand	6	6
Balances at central banks	2,296	2,693
of which at the Deutsche Bundesbank	2,273	2,668
Treasury bills, discounted treasury notes and similar debt instruments issued by public sector institutions	192	695
of which eligible for refinancing at the Deutsche Bundesbank	–	410
Total	2,494	3,394

19. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)	30.06.2016	31.12.2015
Payable on demand	3,621	3,489
Other loans and advances	1,457	2,106
Total	5,078	5,595

20. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)	30.06.2016	31.12.2015
Retail customers	1,210	1,414
Corporate clients	48,324	49,734
Public authorities	4,888	5,427
Total	54,422	56,575

21. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS		
(€ m)	30.06.2016	31.12.2015
Loan loss provisions for loans and advances to banks	15	15
Loan loss provisions for loans and advances to customers and non-current assets held for sale and disposal groups	6,199	8,212
Loan loss provisions	6,214	8,227
Compensation under the second loss guarantee	-8,353	-7,162
Loan loss provisions for items on the statement of financial position	-2,139	1,065
Provisions in the lending business	123	107
Loan loss provisions for items on the statement of financial position and provisions for off-balance sheet risks in the lending business	-2,016	1,172

Specific and general loan loss provisions are initially determined without taking the hedging effect of the second loss guarantee into account. 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). As at 31 December 2015 loan loss provisions of € 2,402 million, of which € 2,400 million relate to the portfolio transferred to the resolution institution, were attributable to the “Non-current assets held for sale and disposal groups” line item on the statement of financial condition. As at 30 June 2016 loan loss provisions of € 5 million were attributable to the “Non-current assets held for sale and disposal group” line item on the statement of financial condition.

The portfolio was transferred as at 30 June 2016 to HSH Portfoliomanagement AöR (see Note 2). This resulted in a decrease in total loan loss provisions. However, the compensation item still includes compensation claims against HSH Finanzfonds AöR for payment defaults on the transactions transferred, which were compensated in July 2016. As a result, loan loss provisions were over-compensated as at 30 June 2016.

The change in loan loss provisions for banks during the period under review was as follows:

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

(€ million)	Specific loan loss provisions		General loan loss provisions		Total	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
As at 1 January	14	14	1	1	15	15
Additions	-	-	-	1	-	1
Reversals	-	-	-	1	-	1
As at 30 June 2016/31 December 2015	14	14	1	1	15	15

Changes in loan loss provisions recognised for customers during the reporting period are as follows:

CHANGE IN TOTAL LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS AND NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS BEFORE COMPENSATION

(€ m)	Specific loan loss provisions		General loan loss provisions		Total	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
As at 1 January	7,601	5,777	611	343	8,212	6,120
Additions	740	3,714	31	251	771	3,965
Reversals	407	892	-	-	407	892
Utilisation	2,117	1,269	-	-	2,117	1,269
Unwinding	-98	-207	-	-	-98	-207
Changes in the scope of consolidation	-40	60	-	-	-40	60
Exchange rate movements	-121	418	-1	17	-122	435
As at 30 June 2016/ 31 December 2015	5,558	7,601	641	611	6,199	8,212

Loan loss provisions relate exclusively to receivables classified as loans and receivables (LaR).

22. POSITIVE FAIR VALUES OF HEDGING DERIVATIVES

The positive fair values of derivatives used in hedge accounting are accounted for in this line item. Only interest rate and cross-currency swaps are currently taken into account as hedging instruments. If a derivative is only partially designated for hedge accounting, this item contains the corresponding share of the derivative's fair value. The residual amount is disclosed in Trading assets. Hedge accounting is only used for interest rate risk

Changes in this line item are directly related to changes in the negative fair value of hedging derivatives. The overall change in this line item is mainly attributable to changes in the portfolio composition and movements in interest rates in the euro and US dollar capital markets.

POSITIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)	30.06.2016	31.12.2015
Positive fair values of derivatives used in micro fair value hedging relationships	40	52
Positive fair values of derivatives used in portfolio fair value hedging relationships	609	731
Total	649	783

23. TRADING ASSETS

Only financial assets classified as HfT are disclosed under Trading assets. These mainly include primary financial instruments held for trading purposes including interest and derivatives with positive market values that are either not designated as hedging derivatives or are used as hedging instruments but do not meet the hedge accounting requirements under IAS 39.

TRADING ASSETS

(€ m)	30.06.2016	31.12.2015
Debentures and other fixed-interest securities	1,371	1,752
Positive fair values of financial derivatives	6,143	5,581
Other, including promissory notes held for trading	16	23
Total	7,530	7,356

24. FINANCIAL INVESTMENTS

Financial investments not held for trading purposes and which are classified as AfS and LaR and, to a lesser extent, as DfV are disclosed in particular in this line item. These include bonds and other fixed-interest securities, shares and other non-fixed-interest securities, unconsolidated holdings in affiliated companies and holdings in associates and joint ventures not included in the Group financial statements under the equity method due to immateriality.

FINANCIAL INVESTMENTS

(€ m)	30.06.2016	31.12.2015
Debentures and other fixed-interest securities	15,859	16,216
Shares and other non-fixed-interest securities	169	296
Equity holdings	122	124
Total	16,150	16,636

25. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Investments in associates and joint ventures included in the Group financial statements under the equity method are disclosed in this line item.

HSH Nordbank held shares in three associates and one joint venture as at 30 June 2016 (31 December 2015: one associate and one joint venture) that are included in the Group financial statements under the equity method. The carrying amount was € 9 million as at 30 June 2016 (31 December 2015: € 2 million). The increase is primarily

attributable to the first-time inclusion of the associate First Ship Lease Trust, Singapore.

An overview of and detailed information on associates and joint ventures accounted for in the Group financial statements under the equity method are set out in Note 4. Net income from financial investments accounted for under the equity method is disclosed in Note 10.

26. INTANGIBLE ASSETS

INTANGIBLE ASSETS

(€ m)	30.06.2016	31.12.2015
Software	14	16
developed in-house	7	8
acquired	7	8
Software in development	1	–
acquired	1	–
Total	15	16

27. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

(€ m)	30.06.2016	31.12.2015
Land and buildings	212	213
Plant and equipment	13	13
Leasing assets	198	163
Assets under construction	11	7
Technical equipment and machinery	39	78
Total	473	474

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. Property leased as the lessor under an operating lease is also included in this line item.

INVESTMENT PROPERTY

(€ m)	30.06.2016	31.12.2015
Investment property	62	64
Total	62	64

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

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	30.06.2016	31.12.2015
Loans and advances to customers	5	5,081
Investment property	–	1
Total	5	5,082

The line item includes loans and advances to customers in the Restructuring Unit segment that are classified as LaR, and it is highly probable that they will be sold under the recovery strategy within the next twelve months. A loan loss provision of € 5 million has been recognised for these receivables (see Note 21).

Loans and advances to customers and property held as a financial investment disclosed in this line item as at 31 December 2015 were transferred during the reporting period, of which loans and advances of € 5,011 million had been transferred to the resolution institution formed by the federal states of Hamburg und Schleswig-Holstein (HSH Portfoliomanagement AöR) as at 30 June 2016. A further portion of the loans and advances to customers was sold as part of a disposal group. This disposal group contained liabilities to customers that had a carrying amount of € 1 million.

29. DEFERRED TAX ASSETS

Of the deferred tax assets amounting to € 787 million (31 December 2015: € 748 million), € 100 million (31 December 2015: € 99 million) relate to tax loss carryforwards, primarily for the New York perma-

nent establishment. Deferred taxes on tax loss carryforwards for New York are offset by deferred tax liabilities in the same amount.

30. OTHER ASSETS

OTHER ASSETS		
(€ m)	30.06.2016	31.12.2015
Trade receivables	36	24
Receivables from insurance contracts	23	25
Other prepaid expenses	11	9
Receivables from other taxes	6	5
Receivables from fund transactions	5	4
Unamortised balance of the one-off payment to HSH Finanzfonds A&R for the replenishment of the guarantee	-	22
Other assets	78	74
Total	159	163

€ 101 million of the assets disclosed in the table relate to financial instruments (31 December 2015: € 86 million).

31. LIABILITIES TO BANKS

LIABILITIES TO BANKS		
(€ m)	30.06.2016	31.12.2015
Payable on demand	1,386	816
Other term liabilities	8,038	13,582
Total	9,424	14,398

32. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS		
(€ m)	30.06.2016	31.12.2015
Savings deposits	20	22
Other liabilities		
Payable on demand	17,560	17,024
Term liabilities	27,000	27,521
Total	44,580	44,567

33. SECURITISED LIABILITIES

SECURITISED LIABILITIES

(€ m)	30.06.2016	31.12.2015
Debentures issued	16,715	18,596
Money market securities issued	21	20
Total	16,736	18,616

Repurchased own debentures to the amount of € 3,276 million (31 December 2015: € 4,018 million) were deducted in the securitised liabilities, line item.

Debentures issued include € 624 million of hybrid financial instruments (31 December 2015: € 606 million), whose carrying amount was determined based on assumptions relating to the future earnings of HSH Nordbank (IAS 39.A8 measurement).

34. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

Negative fair values of derivatives used in hedge accounting are accounted for in this line item. Only interest rate swaps are currently designated as hedging instruments. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of the derivative's fair value. The residual amount is disclosed in Trading liabilities. Hedge accounting is used solely for interest rate risk.

Changes in this line item are directly related to changes in the positive fair values of hedging derivatives (see Note 22). The overall change in this line item is mainly attributable to changes in the portfolio composition and movements in interest rates in the euro and US dollar capital markets.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)	30.06.2016	31.12.2015
Negative fair values of derivatives used in micro fair value hedges	107	105
Negative fair values of derivatives used in portfolio fair value hedges	416	622
Total	523	727

35. TRADING LIABILITIES

Only financial liabilities classified as HfT are disclosed under Trading liabilities. These mainly include derivatives with negative market values that are either not designated as hedging derivatives or are used as hedging instruments but do not meet the hedge accounting requirements under IAS 39.

TRADING LIABILITIES

(€ m)	30.06.2016	31.12.2015
Negative fair values of derivative financial instruments		
Interest rate-related transactions	6,487	5,998
Currency-related transactions	221	164
Other transactions	673	596
Total	7,381	6,758

36. PROVISIONS

PROVISIONS

(€ m)	30.06.2016	31.12.2015
Provisions for pensions and similar obligations	1,209	1,051
Other provisions		
Provisions for personnel expenses	27	43
Provisions in the lending business	123	107
Provisions for restructuring	139	94
Provisions for litigation risks and costs	34	37
Other provisions.	186	185
Total	1,718	1,517

The net change in pension provisions of € 158 million comprises the payment of pension obligations of € 23 million and additions of € 181 million. The increase in pension obligations is mainly attributable to the decrease in market interest rates.

Provisions in the lending business comprise the following:

PROVISIONS IN THE LENDING BUSINESS

(€ m)	30.06.2016	31.12.2015
Individual risk provisions for		
contingent liabilities	31	30
irrevocable loan commitments	12	25
other credit risks	31	2
Total	74	57
General risk provisions for		
contingent liabilities	42	42
irrevocable loan commitments	7	8
Total	49	50
Total	123	107

37. OTHER LIABILITIES

OTHER LIABILITIES

(€ m)	30.06.2016	31.12.2015
Collateral provided for liabilities assumed	750	720
Payments outstanding for second loss guarantee	53	102
Liabilities for invoices outstanding	50	54
Other tax liabilities	48	46
Deferred income	20	22
Liabilities for restructuring	18	20
Personnel-related liabilities	12	9
Other	57	56
Total	1,008	1,029

The collateral is used to secure leasing transactions of our customers vis-à-vis third parties.

The decrease in the payments outstanding for the second loss guarantee is due to the reduction of the base premium for the guarantee and the assumption in obligations by HSH Beteiligungsmanagement GmbH (see Note 2).

€ 921 million of the assets disclosed in the table relate to financial instruments (31 December 2015: € 950 million).

38. SUBORDINATED CAPITAL

SUBORDINATED CAPITAL

(€ m)	30.06.2016	31.12.2015
Subordinated liabilities	2,118	2,109
Silent participations	1,364	1,330
Profit participation capital	13	13
Total	3,495	3,452

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.

39. EQUITY

EQUITY

(€ m)	30.06.2016	31.12.2015
Share capital	3,018	3,018
Capital reserve	175	175
Retained earnings	1,454	1,464
Cumulative gains and losses arising on the remeasurement of pension and similar obligations recognised in other comprehensive income (OCI)	- 310	- 154
Deferred taxes on cumulative gains and losses arising on the remeasurement of pension and similar obligations recognised in other comprehensive income (OCI)	98	48
Revaluation reserve	108	103
Currency translation reserve	34	42
Group net result	160	99
Total before non-controlling interests	4,949	4,901
Non-controlling interests	- 16	- 16
Total	4,933	4,885

CHANGES IN ORDINARY SHARES

(number of shares)	30.06.2016	31.12.2015
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

40. SEGMENT REPORT

(€ m/%)	Shipping, Project & Real Estate Financing		Corporates & Markets		Corporate Center		Consolidation Core Bank		Total Core Bank	
	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015
Net interest income	156	205	127	125	22	-43	143	90	448	377
Net commission income	18	31	29	32	-2	-4	-4	-5	41	54
Result from hedging	-	-	-	-	-	-	2	8	2	8
Net trading income	12	16	30	123	9	22	15	-187	66	-26
Net income from financial investments ¹⁾	-7	-	2	1	5	10	-2	-	-2	11
Total income	179	252	188	281	34	-15	154	-94	555	424
Loan loss provisions (including credit derivative) ²⁾	-264	-159	31	61	6	4	283	128	56	34
Administrative expenses	-66	-78	-126	-152	-18	29	7	3	-203	-198
Other net operating income	1	4	-	4	23	-8	1	21	25	21
Expenses for the European bank levy and deposit guarantee fund	-	-	-	-	-	-	-47	-44	-47	-44
Net income before restructuring	-150	19	93	194	45	10	398	14	386	237
Result from restructuring	-	-	-	-	-	-	-76	-9	-76	-9
Expenses for government guarantees	-	-	-	-	-	-	-49	-85	-49	-85
Net income before taxes	-150	19	93	194	45	10	273	-80	261	143
Cost/income ratio (CIR)	37%	30%	67%	53%					35%	44%
Return on equity before taxes	-22%	3%	22%	56%					21%	13%
Average equity	1,343	1,226	835	697	36	37	218	177	2,432	2,137

(€ bn)	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015
Segment assets	23	24	24	26	17	17	4	3	68	70

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

²⁾ Total loan loss provisions and hedging effect of the second loss guarantee.

(€ m/%)	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015
	Net interest income	-73	68	-1	3	-74	71	374
Net commission income	9	8	-	-	9	8	50	62
Result from hedging	-	-	-	-	-	-	2	8
Net trading income	-38	57	12	40	-26	97	40	71
Net income from financial investments ¹⁾	77	45	-	-	77	45	75	56
Total income	-25	178	11	43	-14	221	541	645
Loan loss provisions (including credit derivative) ²⁾	-294	-75	389	168	95	93	151	127
Administrative expenses	-77	-104	3	-	-74	-104	-277	-302
Other net operating income	18	32	-	-	18	32	43	53
Expenses for the European bank levy and deposit guarantee fund	-	-	-16	-10	-16	-10	-63	-54
Net income before restructuring	-378	31	387	201	9	232	395	469
Result from restructuring	-	-	-22	-3	-22	-3	-98	-12
Expenses for government guarantees	-	-	-77	-150	-77	-150	-126	-235
Net income before taxes	-378	31	288	48	-90	79	171	222
Cost/income ratio (CIR)							47%	43%
Return on equity before taxes							7%	9%
Average equity	2,152	2,388	325	260	2,477	2,648	4,909	4,785

(€ bn)	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015
Segment assets	18	22	5	5	23	27	91	97

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

²⁾ Total loan loss provisions and hedging effect of the second loss guarantee.

The segment report is prepared in accordance with the provisions of IFRS 8. The segments are derived from the organisational structure based on product and customer groups, which corresponds to the definition of the Group's internal management processes. The formation of the segments is intended to achieve the greatest possible homogeneity of customer groups with regard to a focused loan financing product range as well as other products and services.

The Core Bank of HSH Nordbank consists of the Shipping, Project & Real Estate Financing, Corporates & Markets and Corporate Center segments.

As at 30 June 2016, the Shipping, Project & Real Estate Financing segment is mainly geared towards to asset financing and included as at 30 June 2016 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 client divisions in the form of special financing and advisory solutions.

As at 30 June 2016, the Corporates & Markets segment included the Corporate Clients and Capital Markets divisions. The strategic focus of the division has been primarily on the Logistics & Infrastructure, Energy & Utilities, Healthcare, Commerce & Food and Industry & Services business fields. Another key area remains the advising of wealthy private clients, institutions and non-profit organisations with regard to asset management. The client divisions are supported in their business activities by a tailored range of capital market-oriented product solutions provided by the Capital Markets division. At the same time Capital Markets will continue to service the savings banks and institutional clients in the areas of issuance and deposits.

The Corporate Center includes the administration and service divisions, transaction banking division that offers tailor-made services in the areas of payment transactions, account management and foreign trade, as well as positions of the overall bank and equity holdings not allocated to segments.

The Restructuring Unit of HSH Nordbank manages the winding down of credit and capital market transactions that are not continued in the Core Bank. The Special Loans division manages recovery cases

in the loan portfolios. The Workout division is responsible for the resolution and realisation of particularly onerous loan commitments and for managing the capital markets portfolios. In these cases, the focus is placed on alternative portfolio solutions that may enable the risk potential to be reduced whilst further minimising the effect on income.

The internal management reporting forms the basis for the segment reporting. Income and expense are recorded in the segments in which they originated.

Geographical figures and information regarding income generated by external clients for each product and service for management report are not captured due to lack of management relevance and the disproportionate high costs involved and are therefore not disclosed in accordance with IFRS 8.32 and 8.33.

The cost/income ratio (CIR) and return on equity (RoE) are not shown in the segment report for the Corporate Center and Restructuring Unit segments. The ratios are not shown for the Corporate Center segment as they would be of little relevance for the divisions allocated to this segment. In the case of the Restructuring Unit, this segment includes non-strategic business areas that are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income is calculated using the market interest rate method (fund transfer pricing (FTP) for internal reporting to management. The planned investment and financing profit is allocated to the segments on the basis of the economic capital committed. The transformation contribution is allocated to the Core Bank and Restructuring Unit on the basis of average loans and advances. The determination of the transformation contribution to be allocated was adjusted as at the reporting date and the figures for the previous year adjusted accordingly.

Total income disclosed in the segments was solely generated from business conducted with external customers.

Costs arising in the Corporate Center are allocated to business segments under the cost allocation process.

Net income components not allocated to divisions are reported in the consolidation columns of the Core Bank and Restructuring Unit. The expense for the European bank levy and deposit guarantee fund has also been disclosed in this column since 2015.

Measurement and disclosure differences and differences in the mapping of economic hedging relationships are mainly shown in the net interest income consolidation amount.

The net trading income consolidation amount includes, inter alia, credit rating effects on HSH Nordbank's own issues measured at fair value, differences in the recognition of economic hedging relationships and changes in the fair value of interest rate/currency derivatives recognised in net trading income, especially EUR/USD basis swaps.

Loan loss provisions are shown in the segments in which they originated. The impact of the accounted hedging effect of the second loss guarantee including the hedging effect from the credit derivative under the second loss guarantee is disclosed in the consolidation columns. The currency translation gain or loss arising on risk provisions is also disclosed in the consolidation columns of the Core Bank and Restructuring Unit. The hedging effect on the currency translation gain or loss in the portfolio not covered by the guarantee is an exception. This is recognised in the Corporate Center segment.

As at the 2015 year end, HSH Nordbank adjusted the internal key for allocating the guarantee between the Core Bank and Restructuring Unit. The percentage of the first loss piece of the guarantee to be borne by the Core Bank and Restructuring Unit, respectively (Core Bank 23%, Restructuring Unit 77%), was determined in this manner. The first loss piece percentages were previously determined on the basis of the utilisation in the Core Bank and Restructuring Unit. This recent fixing achieves a more appropriate coverage of the troubled assets by the guarantee than in previous periods.

The allocation key for average reported equity capital is the economic capital tied up based on its direct management relevance.

The CIR is calculated as the ratio of administrative expenses to total income including other operating income. Return on equity is the ratio of net income before taxes to average equity capital. Comments on the amortisation of goodwill recognised in the segments in the previous year are set out in Note 13, comments on companies consolidated under the equity method disclosed in net income from financial investments in Note 10.

INFORMATION ON FINANCIAL INSTRUMENTS

41. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORIES

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m)	LaR	AfS	DFV	HfT	LiA	excluding IAS 39 category	Total
30.06.2016							
Assets							
Cash reserve	2,302	192	-	-	-	-	2,494
Loans and advances to banks	4,994	84	-	-	-	-	5,078
Loans and advances to customers	52,811	57	1,459	-	-	-	54,327
Receivables under finance lease	-	-	-	-	-	95	95
Credit derivative second loss guarantee	-	-	-	260	-	-	260
Positive fair values of hedging derivatives	-	-	-	-	-	649	649
Value adjustments from portfolio fair value hedge	-	-	-	-	-	520	520
Trading assets	-	-	-	7,530	-	-	7,530
Financial investments	2,066	12,409	1,675	-	-	-	16,150
Non-current assets held for sale and disposal groups	5	-	-	-	-	-	5
Other assets	101	-	-	-	-	-	101
Total assets	62,279	12,742	3,134	7,790	-	1,264	87,209
Liabilities							
Liabilities to banks	-	-	124	-	9,300	-	9,424
Liabilities to customers	-	-	1,396	-	43,184	-	44,580
Securitised liabilities	-	-	2,724	-	14,012	-	16,736
Negative fair values of hedging derivatives	-	-	-	-	-	523	523
Value adjustments from portfolio fair value hedge	-	-	-	-	-	955	955
Trading liabilities	-	-	-	7,381	-	-	7,381
Liabilities relating to disposal groups	-	-	-	-	-	-	-
Subordinated capital	-	-	100	-	3,395	-	3,495
Other liabilities	-	-	-	-	921	-	921
Total liabilities	-	-	4,344	7,381	70,812	1,478	84,015

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m)							excluding IAS 39 category	
30.06.2016	LaR	AfS	DFV	HfT	LIA			Total
Assets								
Cash reserve	2,700	694	-	-	-	-	-	3,394
Loans and advances to banks	5,509	86	-	-	-	-	-	5,595
Loans and advances to customers	55,057	104	1,308	-	-	-	-	56,469
Receivables under finance lease	-	-	-	-	-	-	106	106
Credit derivative second loss guarantee	-	-	-	663	-	-	-	663
Positive fair values of hedging derivatives	-	-	-	-	-	-	783	783
Value adjustments from portfolio fair value hedge	-	-	-	-	-	-	408	408
Trading assets	-	-	-	7,356	-	-	-	7,356
Financial investments	2,138	12,907	1,591	-	-	-	-	16,636
Non-current assets held for sale and disposal groups	5,081	-	-	-	-	-	-	5,081
Other assets	86	-	-	-	-	-	-	86
Total assets	70,571	13,791	2,899	8,019	-	-	1,297	96,577
Liabilities								
Liabilities to banks	-	-	148	-	14,250	-	-	14,398
Liabilities to customers	-	-	1,482	-	43,085	-	-	44,567
Securitised liabilities	-	-	3,029	-	15,587	-	-	18,616
Negative fair values of hedging derivatives	-	-	-	-	-	-	726	726
Value adjustments from portfolio fair value hedge	-	-	-	-	-	-	872	872
Trading liabilities	-	-	-	6,758	-	-	-	6,758
Liabilities relating to disposal groups	-	-	-	-	-	1	-	1
Subordinated capital	-	-	87	-	3,365	-	-	3,452
Other liabilities	-	-	-	-	950	-	-	950
Total liabilities	-	-	4,746	6,758	77,238	-	1,598	90,340

42. RECLASSIFICATION UNDER IAS 39 (REVISED 2008)

HSH Nordbank exercised the option of reclassifying assets under IAS 39 (rev. 2008) as LaR where they meet the relevant requirements, were not intended for short-term sale at the time of reclassification and are due to be held for the foreseeable future. The assets were reclassified in 2008 and 2009 due to the global financial market crisis and the consequences it has had 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).

The reclassification of assets in the second quarter of 2009 is shown in the following table:

(€ million)	Carrying amount at time of reclassification	30.06.2016		31.12.2015	
		Carrying amount	Fair value	Carrying amount	Fair value
Reclassification from AfS to LaR	6,336	979	1,155	945	1,059
Total financial assets reclassified as LaR	6,336	979	1,155	945	1,059

The effective interest rate applied to financial instruments in the AfS category was between 0.87% and 5.00%. The expected repayments amounted to € 6,465 million.

The decrease in the carrying amounts and fair values of all reclassified financial instruments is due to significant changes in the portfolios. Financial instruments that have been disposed of or have fallen due since reclassification had a carrying amount of € 5,342 million at the time of reclassification to the AfS category. The sales were made as part of the realignment of the HSH Nordbank and were not planned nor anticipated at the time of the reclassification.

The effect of the reclassification of amounts still held in portfolio on the income statement and revaluation reserve that would have arisen if they had not been reclassified is shown below. A measurement gain

of € 63 million (same period in the previous year: € 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.

The actual effect of reclassified financial instruments still held in portfolio on the income statement for the current reporting period is shown below. Net interest income of € 9 million (same period in the previous year: € 11 million), net trading income of € 23 million (same period in the previous year: € 8 million) and net income from financial investments of € 38 million (same period in the previous year: € 20 million) were recognised in the income statement.

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

I. Determination of fair value

Under IFRS 13, the fair value represents the price that would be received for selling 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.

Determination of fair value under the mark-to-market method is possible if there is a market price available at which a transaction in an identical financial instrument could have been or has been concluded. 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 adjustments are material and affect unobservable inputs, the fair value is assigned to level 3.

The fair value is determined based on the income approach using an appropriate model (e.g. option price model, discounted cash flow method) if the market approach using the mark-to-market or mark-to-matrix 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 services 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 use unobservable inputs, and therefore require assumptions to be made regarding relevant parameters, are often necessary for structured securities and securities, whose market is illiquid, and for complex OTC derivatives.

The fair value of receivables and liabilities measured at amortised cost on the balance sheet is mainly determined by discounting cash flows of financial instruments. Fair values for loans and advances with a default rating are determined based on the still to be expected future cash flows.

A portion of the liabilities measured at fair value falls 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. Please refer to part IV of this Note for quantitative information regarding significant unobservable inputs.

a. Trading assets/trading liabilities (HfT)

Securities held 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 a mix of prices from pricing services or the discounted cash flow method based on rating- and sector-dependent interest rate curves derived from market data of fixed-income securities.

Exchange-traded derivatives are also valued using market prices. If a current price is not available, recognised valuation models (such as the Black-Scholes model for European options) that are based on unobservable inputs to an insignificant extent at most are used.

OTC derivatives are valued using valuation techniques and models. A distinction is to be made between plain vanilla derivatives traded in liquid markets such as interest rate swaps, currency swaps, FX forwards, FX options, single-name and index credit default swaps, and complex derivatives whose 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 inputs to an insignificant extent at most, while the latter require a significant number of judgements to be made with regard to the selection of both the model and the parameter estimates.

The financial crisis has resulted in derivatives being increasingly concluded on a secured basis in the interbank market (under a collateral agreement, e.g. CSA). At the same time the collateral is also explicitly taken into account in the valuation of OTC derivatives.

b. 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 portions 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 a mix of prices from pricing services or the discounted cash flow method based on rating- and sector-dependent interest rate curves derived from market data of fixed-income securities.

The financial investments also include ABS as partial holdings in the credit investment business. These are valued using the pricing hierarchy described above.

Fair value is not calculated for unlisted equity instruments (holdings in affiliated companies and equity holdings treated under IAS 39 or IFRS 5) as there is no active market for them and the necessary estimates cannot be made within an acceptable range of variation and suitable probability of occurrence. These financial instruments are therefore recognised at acquisition cost

d. Credit derivative under the second loss guarantee (HfT)

The fair value is calculated on the basis of the discounted expected cash flows and present value of the premium of 2.2% p.a. payable from 1 January 2016 for the undrawn portion of the guarantee for the share of partial guarantee Two.

e. Assets/liabilities designated at fair value (DFV)

Designated at fair value assets disclosed under Financial investments and Loans and advances to customers or banks mainly comprise credit investment portfolios, in particular ABS. The above-mentioned pricing hierarchy is used for these products.

Designated at fair value liabilities disclosed under Securitised liabilities, liabilities to customers or banks and subordinated capital include complex structured registered and bearer securities with embedded interest rate, currency, equity and other risks, which are mainly directly 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 (such as option price models) which also use market inputs which are not directly observable.

The components of the change in fair value of the DFV positions attributable to the credit rating are determined on the basis of the spreads ascertainable in the market for instruments in the respective rating category. For liabilities categorised as DFV, a distinction is made in assigning an appropriate spread between instruments with and without guarantee obligation (Gewährträgerhaftung).

f. Assets not measured at fair value (LaR)

Cash flows are discounted using the discounted cash flow method to determine the fair value of Loans and advances to customers and 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 from pricing services are used, or the discounted cash flow method is applied, under which rating- and sector-dependent interest rate curves derived from market data of interest-bearing securities are used as parameters.

The carrying amount of current receivables (e.g. current accounts) is taken as the fair value. This also applies to most of the cash reserve, as this comprises credit balances at central banks.

g. Liabilities not measured at fair value (LIA)

The majority of financial instruments disclosed under Liabilities to banks, Liabilities to customers, Securitised liabilities, Other liabilities and Subordinated capital on the balance sheet are assigned 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, the fair value is determined using a mix of prices from pricing services or the discounted cash flow method. The spreads used for this are derived from the type of collateral and ranking of the financial instrument in relation to other liabilities of the Bank. Any existing termination options are also taken into account.

The carrying amount of current liabilities (e.g. current accounts) is taken as the fair value.

3. Value adjustments

If the value of a financial instrument determined using a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, uncertainties regarding inputs, funding costs and benefits as well as credit and/or counterparty default risks, the Bank makes appropriate value adjustments which a purchaser of similar positions would also take into account. The methods applied for this draw in part on unobservable market inputs in the form of estimates.

Funding costs and benefits arise on the hedging of the risks relating to an uncollateralised OTC derivative with a collateralised OTC derivative. A funding valuation adjustment is determined as part of the determination of fair values for derivatives and included in the fair value of the uncollateralised OTC derivative for funding costs/benefits for derivatives arising on the provision or receipt of collateral due to the hedging asymmetry.

Hedging relationships (back-to-back transactions) and corresponding risk-compensating effects are taken into account in determining value adjustments for model risks and uncertainties regarding parameters. The value adjustment for funding costs and benefits as well as credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based value adjustment). This is permitted if the conditions stipulated in IFS 13.49 for a portfolio-based measurement are met.

The portfolio-based value adjustment for funding costs and benefits as well as credit risks is allocated to assets and liabilities in proportion to value adjustments of the fair value of the asset or liability without taking portfolio effects into account. Assets or liabilities are only allocated 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 underlying relevant market used to determine the fair value differs from the market in which the transaction was concluded, and the valuation model is based to a significant extent on unobservable inputs, such differences (so-called day one profits and losses) are deferred in a day one profit and loss reserve. This reserve is released over the term of the transaction.

The day one profit and loss reserve does not form part of the fair value of the corresponding individual financial instruments. It is included in the carrying amount as well as in the fair value as a discount to the fair value.

5. Valuation 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 valuation 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 material differences arise between the fair values determined by the Bank and prices offered by counterparties, the valuation model is validated on an ad hoc basis.

Information obtained from the pricing services 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 valuation procedures and models and the estimation technique used to determine the level 3 inputs and their parameterisation are periodically reviewed and, if applicable, developed further, recalibrated or replaced by new measurement procedures or models.

II. Fair values of financial instruments

The fair values of financial assets and financial liabilities are disclosed by classes of financial instruments and compared to their carrying amounts in the table below:

FAIR VALUES OF FINANCIAL INSTRUMENTS

ASSETS

(€ m)	30.06.2016			31.12.2015		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Held for trading (HfT)						
Trading assets	7,530	7,530	–	7,356	7,356	–
Credit derivative second loss guarantee	260	260	–	663	663	–
Designated at fair value (DFV)						
Loans and advances to customers	1,459	1,459	–	1,308	1,308	–
Financial investments	1,675	1,675	–	1,591	1,591	–
Available for sale (AFS)						
Cash reserve	192	192	–	694	694	–
Loans and advances to banks	84	84	–	86	86	–
Loans and advances to customers	57	57	–	104	104	–
Financial investments	12,409	12,653	244	12,907	13,085	178
of which equity instruments measured at cost	211	–	–	211	–	–
Loans and receivables (LaR)						
Cash reserve	2,302	2,302	–	2,700	2,700	–
Loans and advances to banks	4,979	4,997	18	5,494	5,512	18
Loans and advances to customers	46,617	48,712	2,095	49,247	51,511	2,264
Financial investments	2,066	2,185	119	2,138	2,196	58
Non-current assets held for sale and disposal groups	–	–	–	2,679	2,679	–
Other assets	101	101	–	86	86	–
Excluding IAS 39-category						
Positive fair values of hedging derivatives	649	649	–	783	783	–
Receivables under finance lease	95	95	–	106	106	–
Value adjustments from portfolio fair value hedge	520	–	–520	408	–	–408
Total assets	80,995	82,951	1,956	88,350	90,460	2,110

¹⁾ The difference of € 211 million (31. December 2015: € 211 million) between the carrying amount and fair value is attributable to equity instruments measured at cost in accordance with IAS 39.46 (c). Another difference between the carrying amount and fair value of financial investments classified as AFS is attributable to the fact that the adjustment item recognised for these transactions from the portfolio fair value hedge is separately disclosed. This is equivalent 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 value adjustments from the portfolio fair value hedge item and amounted to € 455 million (31 December 2015: € 389 million) for financial investments classified as available for sale (AFS) and € 65 million (31 December 2015: € 19 million) for loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS

LIABILITIES

(€ m)	30.06.2016			31.12.2015		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Held for trading (HfT)						
Trading liabilities	7,381	7,381	–	6,758	6,758	–
Designated at fair value (DFV)						
Liabilities to banks	124	124	–	148	148	–
Liabilities to customers	1,396	1,396	–	1,482	1,482	–
Securitised liabilities	2,724	2,724	–	3,029	3,029	–
Subordinated capital	100	100	–	87	87	–
Other Liabilities (LIA)						
Liabilities to banks	9,300	9,293	–7	14,250	14,276	26
Liabilities to customers	43,184	44,503	1,319	43,085	44,390	1,305
Securitised liabilities	14,012	13,947	–65	15,587	15,604	17
Liabilities relating to disposal groups	–	–	–	1	1	–
Other liabilities	921	921	–	950	950	–
Subordinated capital	3,395	2,932	–463	3,365	2,867	–498
Excluding IAS 39 category						
Negative fair values of hedging derivatives	523	523	–	726	726	–
Value adjustments from portfolio fair value hedge	955	–	–955	872	–	–872
Total liabilities	84,015	83,844	–171	90,340	90,318	–22

The carrying amounts of loans and advances to banks and customers classified as LaR are shown net of loan loss provisions recognised, since fair value also reflects any impairment.

III. Fair value hierarchy for financial instruments measured at fair value

Assets and liabilities are broken down as follows into the individual levels of the fair value hierarchy under IFRS 13. The fair values for assets and liabilities recognised at fair value are broken down by class of financial instrument into the three levels of the fair value hierarchy.

HIERARCHY LEVELS - ASSETS

(€ m)	Assets measured at fair value			Total
	Level 1	Level 2	Level 3	
30.06.2016				
Balance sheet line item/category/instrument type				
Cash reserve				
Afs	–	192	–	192
of which debt instruments	–	192	–	192
Loans and advances to banks				
Afs	–	40	44	84
of which debt instruments	–	40	44	84
Loans and advances to customers				
Afs	–	–	57	57
of which debt instruments	–	–	57	57
DFV	–	57	1,402	1,459
of which debt instruments	–	57	1,402	1,459
Credit derivative under the second loss guarantee				
of which credit derivatives	–	–	260	260
Positive fair values of hedging derivatives				
of which interest rate derivatives	–	649	–	649
Trading assets (Hft)	347	6,660	523	7,530
of which debt instruments	347	940	–	1,287
of which securitised instruments	–	84	–	84
of which interest rate derivatives	–	4,958	128	5,086
of which cross-currency interest rate derivatives	–	251	–	251
of which currency derivatives	–	153	29	182
of which credit derivatives	–	29	–	29
of which other derivatives	–	11	83	94
of which structured derivatives	–	218	283	501
of which other trading portfolios	–	16	–	16
Financial investments (excluding equity instruments measured at cost)				
Afs ¹⁾	8,017	4,148	33	12,198
of which debt instruments	7,968	4,146	5	12,119
of which equity and near-equity instruments	49	2	28	79
DFV	–	1,073	602	1,675
of which debt instruments	–	1,072	601	1,673
of which securitised instruments	–	1	–	1
of which equity and near-equity instruments	–	–	1	1
Total	8,364	12,819	2,921	24,104

¹⁾ The difference between the total Afs financial investments in the asset hierarchy table and fair value disclosures in Section II is attributable to the effect of the value adjustments from the portfolio fair value hedge item of € 455 million; this is not disclosed in the hierarchy table.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets measured at fair value			Total
	Level 1	Level 2	Level 3	
31.12.2015				
Balance sheet line item/category/instrument type				
Cash reserve				
Afs	–	694	–	694
of which debt instruments	–	694	–	694
Loans and advances to banks				
Afs	–	42	44	86
of which debt instruments	–	42	44	86
Loans and advances to customers				
Afs	–	–	104	104
of which debt instruments	–	–	104	104
DFV	–	54	1,254	1,308
of which debt instruments	–	54	1,254	1,308
Credit derivative under the second loss guarantee	–	–	663	663
of which credit derivatives	–	–	663	663
Positive fair values of hedging derivatives	–	783	–	783
of which interest rate derivatives	–	783	–	783
Trading assets (HFT)	511	6,349	496	7,356
of which debt instruments	511	1,165	–	1,676
of which securitised instruments	–	85	–	85
of which equity and near-equity instruments	–	1	–	1
of which interest rate derivatives	–	4,362	150	4,512
of which cross-currency interest rate derivatives	–	221	–	221
of which currency derivatives	–	208	29	237
of which credit derivatives	–	30	–	30
of which other derivatives	–	46	17	63
of which structured derivatives	–	218	300	518
of which other trading portfolios	–	13	–	13
Financial investments (excluding equity instruments measured at cost)				
Afs ¹⁾	8,345	4,193	159	12,697
of which debt instruments	8,301	4,114	16	12,431
of which securitised instruments	–	59	–	59
of which equity and near-equity instruments	44	20	143	207
DFV	–	1,045	546	1,591
of which debt instruments	–	1,044	544	1,588
of which securitised instruments	–	1	–	1
of which equity and near-equity instruments	–	–	2	2
Total	8,856	13,160	3,266	25,282

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 the effect of the value adjustments from the portfolio fair value hedge item of € 389 million, this is not disclosed in the hierarchy table.

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities measured at fair value			Total
	Level 1	Level 2	Level 3	
30.06.2016				
Liabilities to banks				
DFV	-	11	113	124
of which debt instruments	-	11	113	124
Liabilities to customers				
DFV	-	325	1,071	1,396
of which debt instruments	-	325	1,071	1,396
Securitised liabilities				
DFV	-	2,052	672	2,724
of which debt instruments	-	1,981	672	2,653
of which securitised instruments	-	71	-	71
Negative fair values of hedging derivatives	-	523	-	523
of which interest rate derivatives	-	523	-	523
Trading liabilities (HFT)	-	6,276	1,105	7,381
of which interest rate derivatives	-	5,269	703	5,972
of which cross-currency interest rate derivatives	-	510	-	510
of which currency derivatives	-	182	40	222
of which other derivatives	-	13	83	96
of which structured derivatives	-	302	279	581
Subordinated capital				
DFV	-	100	-	100
of which debt instruments	-	100	-	100
Total	-	9,287	2,961	12,248

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities measured at fair value			
	Level 1	Level 2	Level 3	Total
31.12.2015				
Liabilities to banks				
DFV	–	28	120	148
of which debt instruments	–	28	120	148
Liabilities to customers				
DFV	–	316	1,166	1,482
of which debt instruments	–	316	1,166	1,482
Securitised liabilities				
DFV	–	2,385	644	3,029
of which debt instruments	–	2,329	644	2,973
of which securitised instruments	–	56	–	56
Negative fair values of hedging derivatives	–	726	–	726
of which interest rate derivatives	–	726	–	726
Trading liabilities (Hft)	–	5,873	885	6,758
of which interest rate derivatives	–	5,047	541	5,588
of which cross-currency interest rate derivatives	–	405	–	405
of which currency derivatives	–	124	40	164
of which other derivatives	–	43	16	59
of which structured derivatives	–	253	288	541
Subordinated capital				
DFV	–	87	–	87
of which debt instruments	–	87	–	87
Total	–	9,415	2,815	12,230

Of the financial instruments assigned to Level 3, € 2,478 million of assets (31 December 2015: € 2,264 million) and € 2,498 million of liabilities (31 December 2015: € 2,414 million) are in economic hedging relationships (at the micro level), so that existing uncertainties and risk positions due to unobservable inputs offset each other at the level of the respective hedging relationships (at the micro level).

During the reporting period, financial instruments recognised at fair value were transferred between hierarchy levels. These transfers are shown below together with the carrying amounts at the time of transfer for each class of financial instrument.

TRANSFER, ASSETS

(€ m) 30.06.2016	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)	141	- 86	86	- 141	-	-
of which debt instruments	141	- 86	86	- 141	-	-
Financial investments (excluding equity instruments measured at cost)						
AFS	1,162	- 1,261	1,272	- 1,162	-	- 11
of which debt instruments	1,162	- 1,261	1,272	- 1,162	-	- 11
Total	1,303	- 1,347	1,358	- 1,303	-	- 11

TRANSFER, ASSETS

(€ m) 31.12.2015	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)	-	- 139	194	-	-	- 55
of which debt instruments	-	- 139	139	-	-	-
of which interest rate derivatives	-	-	19	-	-	- 19
of which structured derivatives	-	-	36	-	-	- 36
Financial investments (excluding equity instruments measured at cost)						
AFS	2,414	- 1,463	1,463	- 2,425	11	-
of which debt instruments	2,414	- 1,463	1,463	- 2,425	11	-
Total	2,414	- 1,602	1,657	- 2,425	11	- 55

No liabilities were transferred during the reporting period.

TRANSFER, LIABILITIES

(€ m) 31.12.2015	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 liabilities (HfT)	-	-	48	-	-	- 48
of which interest rate derivatives	-	-	9	-	-	- 9
of which structured derivatives	-	-	39	-	-	- 39
Total	-	-	48	-	-	- 48

IFRS 13 and IDW RS HFA 47 specify the principles to be applied in determining fair value. These 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 and vice versa, depending on the prices used for measurement.

The following shows the reconciliation for all assets and liabilities recognised and measured at fair value and assigned 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 and reflects all movements in assets and liabilities provided that these are or were assigned to level 3 within the reporting period.

Income is shown with a negative sign and expense is shown without a sign in the reconciliations below.

RECONCILIATION, ASSETS

(€ m)

		Change in balance recognised through profit or loss	
		Realised net income (income statement)	Net income not recognised through profit or loss
30.06.2016	1 January 2016		
Balance sheet line item/category/instrument type			
Loans and advances to banks			
Afs	44	- 1	- 1
of which debt instruments	44	- 1	- 1
Loans and advances to customers			
Afs	104	- 29	22
of which debt instruments	104	- 29	22
DFV	1,254	156	-
of which debt instruments	1,254	156	-
Credit derivative under the second loss guarantee (HfT)	663	- 403	-
of which credit derivatives	663	- 403	-
Trading assets (HfT)	495	30	-
of which interest rate derivatives	150	- 22	-
of which currency derivatives	29	-	-
of which other derivatives	17	66	-
of which structured derivatives	299	- 14	-
Financial investments (excluding equity instruments measured at cost)			
Afs	159	- 1	2
of which debt instruments	16	-	-
of which equity and near-equity instruments	143	- 1	2
DFV	545	58	-
of which debt instruments	544	58	-
of which equity and near-equity instruments	1	-	-
Total	3,264	- 190	23

	Quantitative change in balance			Transfers			Exchange rate changes	30 June 2016	Net income from assets held as at 30 June 2016
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassification			
									-
	-	-	-	-	-	-	2	44	-1
	-	-	-	-	-	-	2	44	-1
	-	-	-39	-	-	-	-1	57	-29
	-	-	-39	-	-	-	-1	57	-29
	-	-9	-	-	-	-	1	1,402	156
	-	-9	-	-	-	-	1	1,402	156
	-	-	-	-	-	-	-	260	-403
	-	-	-	-	-	-	-	260	-403
	-	-	-	-	-	-	-2	523	-73
	-	-	-	-	-	-	-	128	12
	-	-	-	-	-	-	-	29	-
	-	-	-	-	-	-	-	83	-66
	-	-	-	-	-	-	-2	283	-19
	-	-113	-	-11	-	-	-3	33	-
	-	-	-	-11	-	-	-	5	-
	-	-113	-	-	-	-	-3	28	-
	-	-	-9	-	-	-	8	602	58
	-	-	-9	-	-	-	8	601	58
	-	-	-	-	-	-	-	1	-
	-	-122	-48	-11	-	-	5	2,921	-292

RECONCILIATION, ASSETS

(€ m)

	1 January 2015	Change in balance recognised through profit or loss	
		Realised net income (income statement)	Net income not recognised through profit or loss
31.12.2015			
Balance sheet line item/category/instrument type			
Loans and advances to banks			
Afs	45	-	-2
of which debt instruments	45	-	-2
DFV	49	1	-
of which debt instruments	49	1	-
Loans and advances to customers			
Afs	97	-1	2
of which debt instruments	97	-1	2
DFV	1,307	-53	-
of which debt instruments	1,307	-53	-
Credit derivative under the second loss guarantee (HfT)	3	660	-
of which credit derivatives	3	660	-
Trading assets (HfT)	733	-195	-
of which equity and near-equity instruments	-	-	-
of which interest rate derivatives	272	-108	-
of which currency derivatives	20	9	-
of which other derivatives	45	-28	-
of which structured derivatives	396	-68	-
Financial investments (excluding equity instruments measured at cost)			
Afs	152	-1	-7
of which debt instruments	14	-	1
of which equity and near-equity instruments	138	-1	-8
DFV	910	-10	-
of which debt instruments	558	-19	-
of which securitised instruments	336	6	-
of which equity and near-equity instruments	16	3	-
Total	3,296	401	-7

	Quantitative change in balance			Transfers			Exchange rate changes	31 December 2015	Net income from assets held as at 31 December 2015
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassification			
									-
	-	-	-	-	-	-	1	44	-
	-	-	-	-	-	-	1	44	-
	-	-	-50	-	-	-	-	-	-
	-	-	-50	-	-	-	-	-	-
	-	-1	-	-	-	-	7	104	-
	-	-1	-	-	-	-	7	104	-
	-	-5	-	-	-	-	5	1,254	-53
	-	-5	-	-	-	-	5	1,254	-53
	-	-	-	-	-	-	-	663	660
	-	-	-	-	-	-	-	663	660
	7	-7	-	-55	-	-	13	496	102
	7	-7	-	-	-	-	-	-	-
	-	-	-	-19	-	-	5	150	62
	-	-	-	-	-	-	-	29	-9
	-	-	-	-	-	-	-	17	26
	-	-	-	-36	-	-	8	300	23
	-	-12	-	-	11	-	16	159	-
	-	-10	-	-	11	-	-	16	-
	-	-2	-	-	-	-	16	143	-
	-	-39	-300	-	-	-	-15	546	-20
	-	-	-	-	-	-	5	544	-19
	-	-21	-300	-	-	-	-21	-	-
	-	-18	-	-	-	-	1	2	-1
	7	-64	-350	-55	11	-	27	3,266	689

RECONCILIATION, LIABILITIES

(€ m)

	Change in balance recognised through profit or loss		
		Realised net income (income statement)	Net income recognised through profit or loss
30.06.2016	1 January 2016		
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	120	-2	-
of which debt instruments	120	-2	-
Liabilities to customers			
DFV	1,166	-16	-
of which debt instruments	1,166	-16	-
Securitised liabilities			
DFV	644	15	-
of which debt instruments	644	15	-
Trading liabilities (HfT)	885	221	-
of which interest rate derivatives	541	162	-
of which currency derivatives	40	-	-
of which other derivatives	16	67	-
of which structured derivatives	288	-8	-
Total	2,815	218	-

	Quantitative change in balance				Transfers			Exchange rate movements	30 June 2016	Net income from assets held as at 30 June 2016
	Purchases	Sales	New business	Settlements	from level 3	to level 3	Reclassification			
	5	-	-	-10	-	-	-	-	113	3
	5	-	-	-10	-	-	-	-	113	3
	41	-6	-	-114	-	-	-	-	1,071	40
	41	-6	-	-114	-	-	-	-	1,071	40
	-1	-	10	-60	-	-	-	64	672	-21
	-1	-	10	-60	-	-	-	64	672	-21
	-	-	-	-	-	-	-	-1	1,105	-268
	-	-	-	-	-	-	-	-	703	-164
	-	-	-	-	-	-	-	-	40	-
	-	-	-	-	-	-	-	-	83	-67
	-	-	-	-	-	-	-	-1	279	-37
	45	-6	10	-184	-	-	-	63	2,961	-246

RECONCILIATION, LIABILITIES

(€ m)	Change in balance recognised through profit or loss		
	1. January 2015	Realised net income (income statement)	Net income not recognised through profit or loss
31.12.2015			
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	134	-3	-
of which debt instruments	134	-3	-
Liabilities to customers			
DFV	1,872	-69	-
of which debt instruments	1,872	-69	-
Securitised liabilities			
DFV	1,201	-29	-
of which debt instruments	1,201	-29	-
Trading liabilities (HfT)	1,096	-168	-
of which interest rate derivatives	656	-107	-
of which currency derivatives	27	13	-
of which other derivatives	41	-25	-
of which structured derivatives	372	-49	-
DFV	16	-1	-
of which debt instruments	16	-1	-
Total	4,319	-270	-

Quantitative change in balance				Transfers				Exchange rate changes	31 December 2015	Net income from assets held as at 31 December 2015
Purchases	Sales	New business	Settlements	from level 3	to level 3	Reclassification				
4	-15	-	-	-	-	-	-	-	120	2
4	-15	-	-	-	-	-	-	-	120	2
41	-8	-	-665	-	-	-9	4	1,166	32	32
41	-8	-	-665	-	-	-9	4	1,166	32	32
-16	12	34	-613	-	-	-	55	644	18	18
-16	12	34	-613	-	-	-	55	644	18	18
1	-1	-	1	-47	-	-	3	885	154	154
1	-	-	-	-9	-	-	-	541	98	98
-	-	-	-	-	-	-	-	40	-13	-13
-	-	-	-	-	-	-	-	16	25	25
-	-1	-	1	-38	-	-	3	288	44	44
-	-	-	-15	-	-	-	-	-	-	-
-	-	-	-15	-	-	-	-	-	-	-
30	-12	34	-1,292	-47	-	-9	62	2,815	206	206

The following tables show the items containing gains and losses recognised through profit or loss and directly in equity (statement of comprehensive income).

NET INCOME ITEMS FROM THE RECONCILIATION, ASSETS

(€ m)

	Realised/unrealised gains and losses (statement of income)				Total
	Net interest income	Net trading income	Net income from financial investments	Hedging effect of credit derivative under the second loss guarantee	
30.06.2016					
Balance sheet line item/category/instrument type					
Loans and advances to banks					
Afs	-1	-	-	-	-1
of which debt instruments	-1	-	-	-	-1
Loans and advances to customers					
Afs	-	-	-29	-	-29
of which debt instruments	-	-	-29	-	-29
DFV	6	150	-	-	156
of which debt instruments	6	150	-	-	156
Credit derivative under the second loss guarantee (Hft)					
of which credit derivatives	-	-	-	-403	-403
Trading assets (Hft)					
of which interest rate derivatives	-6	36	-	-	30
of which other derivatives	-9	-13	-	-	-22
of which structured derivatives	-	66	-	-	66
of which structured derivatives	3	-17	-	-	-14
Financial investments (excluding equity instruments measured at cost)					
Afs	-	-	-1	-	-1
of which equity and near-equity instruments	-	-	-1	-	-1
DFV	8	50	-	-	58
of which debt instruments	8	50	-	-	58
Total	7	236	-30	-403	-190

	Other comprehensive income for the period			Net income from assets still held as at 30 June 2016		Total	Other comprehensive income for the period
	Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	Hedging effect of credit derivative under the second loss-guarantee		
	-1	-1	-	-	-	-1	-1
	-1	-1	-	-	-	-1	-1
	22	-	-	-29	-	-29	21
	22	-	-	-29	-	-29	21
	-	6	150	-	-	156	-
	-	6	150	-	-	156	-
	-	-	-	-	-403	-403	-
	-	-	-	-	-403	-403	-
	-	1	-74	-	-	-73	-
	-	-4	16	-	-	12	-
	-	-	-66	-	-	-66	-
	-	5	-24	-	-	-19	-
	2	-	-	-	-	-	-1
	2	-	-	-	-	-	-1
	-	8	50	-	-	58	-
	-	8	50	-	-	58	-
	23	14	126	-29	-403	-292	19

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)

	Realised/unrealised gains and losses (statement of income)				Total
	Net interest income	Net trading income	Net income from financial investments	Hedging effect of credit derivative under the second loss guarantee	
30.06.2015					
Balance sheet line item/category/instrument type					
Loans and advances to banks					
Afs	-1	-	-	-	-1
of which debt instruments	-1	-	-	-	-1
DFV	-	1	-	-	1
of which debt instruments	-	1	-	-	1
Loans and advances to customers					
Afs	-1	-	-	-	-1
of which debt instruments	-1	-	-	-	-1
DFV	11	-47	-	-	-36
of which debt instruments	11	-47	-	-	-36
Credit derivative under the second loss guarantee (Hft)					
of which credit derivatives	-	-	-	7	7
Trading assets (Hft)	14	-107	-	-	-93
of which interest rate derivatives	8	-53	-	-	-45
of which currency derivatives	-	15	-	-	15
of which credit derivatives	-	15	-	-	15
of which other derivatives	-	-26	-	-	-26
of which structured derivatives	6	-58	-	-	-52
Financial investments (excluding equity instruments measured at cost)					
Afs	-	-	-	-	-
of which debt instruments	-	-	-	-	-
of which equity and near-equity instruments	-	-	-	-	-
DFV	8	-22	-	-	-14
of which debt instruments	8	-24	-	-	-16
of which securitised instruments	-	2	-	-	2
Total	31	-175	-	7	-137

	Other comprehensive income for the period		Net income from assets still held as at 30 June 2015				Total	Other comprehensive income for the period
	Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	Hedging effect of credit derivative under the second loss guarantee			
	-1	-1	-	-	-	-1	-1	-1
	-1	-1	-	-	-	-1	-1	-1
	-	-	1	-	-	1	-	-
	-	-	1	-	-	1	-	-
	-	-1	-	-	-	-1	-	-
	-	-1	-	-	-	-1	-	-
	-	6	-47	-	-	-41	-	-
	-	6	-47	-	-	-41	-	-
	-	-	-	-	7	7	-	-
	-	-	-	-	7	7	-	-
	-	21	35	-	-	56	-	-
	-	12	28	-	-	40	-	-
	-	-	-15	-	-	-15	-	-
	-	-	-	-	-	-	-	-
	-	-	23	-	-	23	-	-
	-	9	-1	-	-	8	-	-
	-6	-	-	-	-	-	-7	-7
	1	-	-	-	-	-	-	-
	-7	-	-	-	-	-	-7	-7
	-	8	-22	-	-	-14	-	-
	-	8	-24	-	-	-16	-	-
	-	-	2	-	-	2	-	-
	-7	33	-33	-	7	7	-8	-8

NET INCOME ITEMS FROM THE RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised gains and losses (income statement)				Other comprehensive income for the period	Net income from assets still held as at 30 June 2016				Other compre- hensive income for the period
	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	
30.06.2016										
Balance sheet line item/category/ instrument type										
Liabilities to banks										
DFV	-	2	-	2	-	-	3	-	3	-
of which debt instruments	-	2	-	2	-	-	3	-	3	-
Liabilities to customers										
DFV	2	14	-	16	-	-3	43	-	40	-
of which debt instruments	2	14	-	16	-	-3	43	-	40	-
Securitised liabilities										
DFV	-10	-5	-	-15	-	-10	-11	-	-21	-
of which debt instruments	-10	-5	-	-15	-	-10	-11	-	-21	-
Trading liabilities (HfT)	-6	-215	-	-221	-	-10	-258	-	-268	-
of which interest rate derivatives	-13	-149	-	-162	-	-14	-150	-	-164	-
of which other derivatives	-	-67	-	-67	-	-	-67	-	-67	-
of which structured derivatives	7	1	-	8	-	4	-41	-	-37	-
Total	-14	-204	-	-218	-	-23	-223	-	-246	-

NET INCOME ITEMS FROM THE RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised gains and losses (income statement)				Other comprehensive income for the period	Net income from assets still held as at 30 June 2015				Other comprehensive income for the period
	Net interest income	Net trading income	Net income from financial invest- ments	Total		Revaluation reserve	Net interest income	Net trading income	Net income from financial invest- ments	
30.06.2015										
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	-

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)			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
30.06.2016								
Loans and advances to banks	AfS	Debt instruments	44	-	DCF method	Spread (bps)	105	105
Loans and advances to customers	AfS	Debt instruments	57	-	DCF method	Spread (bps)	650-750	700
	DFV	Debt instruments	1,402	-	Option pricing model	Mean reversion	0%-10%	2%
						Interest rate volatilities	21 %-183%	39%
						Interest rate/FX correlation	-55% - 12%	-19%
					Price	Price	72-105	96
Credit derivative under the second loss guarantee	HfT	Credit derivatives	260	-	DCF method	Expected cash flow	-	-
Trading assets/trading liabilities	HfT	Interest rate derivatives	128	703	Option pricing model	Mean reversion	0% -10%	2%
						Interest rate volatility	21% - 183%	39%
						Interest rate correlation	-65% -99%	22%
						Interest rate/FX correlation	-55% - 12%	-19%
		Currency derivatives	29	40	Option pricing model	FX correlation	43% -68%	52%
		Other derivatives	83	83	Option pricing model	Equities/FX correlation	-45% -31%	-42%
		Structured derivatives	283	279	Option pricing model	Mean reversion	0% - 10%	2%
						Interest rate volatilities	21% - 183%	39%
						Interest rate correlation	-65% -99%	22%
						Interest rate/FX correlation	-55% - 12%	-19%
						FX correlation	43% -68%	52%
						Equities/FX correlation	-45% -31%	-42%

FAIR VALUE

(€ m)			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
30.06.2016								
Financial investments	AFS	Debt instruments	5	–	Price	Price	96	96
		Equity and near-equity instruments	28	–	Price	Price	1 - 14,000	218
	DFV	Debt instruments	601	–	Option pricing model	Mean reversion	0% - 10%	2%
						Interest rate volatilities	21% - 183%	39%
		Equity and near-equity instruments	1	–	Price	Price	7	7
Liabilities to banks	DFV	Debt instruments	–	113	Option pricing model	Interest rate volatilities	21% - 183%	39%
						Interest rate/FX correlation	–55% - 12%	–19%
Liabilities to customers	DFV	Debt instruments	–	1,071	Option pricing model	Mean reversion	0% - 10%	2%
						Interest rate volatilities	21% - 183%	39%
						Interest rate correlation	–65% - 99%	22%
						Interest rate/FX correlation	–55% - 12%	–19%
						Price	72 - 105	82
Securitised liabilities	DFV	Debt instruments	–	672	Option pricing model	Mean reversion	0% - 10%	2%
						Interest rate volatilities	21% - 183%	39%
						FX correlation	43% - 68%	52%
						Equities/FX correlation	–45% - 31%	–42%
			2,921	2,961				

(€ m)			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
31.12.2015								
Loans and advances to banks	AFS	Debt instruments	44	–	DCF method	Spread (bps)	84	84
Loans and advances to customers	AFS	Debt instruments	104	–	DCF method	Spread (bps)	27	27
	DFV	Debt instruments	1,254	–	Option pricing model	Price	78	78
						Mean reversion	0 % - 10 %	2 %
						Interest rate volatilities	15 % - 73 %	26 %
						Interest rate/FX correlation	– 85 % / 33 %	– 12 %
					Price	Price	80 - 100	94
Credit derivative under the second loss guarantee	HFT	Credit derivatives	663	–	DCF method	Expected cash flow	–	–
Trading assets/trading liabilities	HFT	Interest rate derivatives	150	541	Option pricing model	Mean reversion	0 % - 10 %	2 %
						Interest rate volatility	15 % - 73 %	26 %
						Interest rate correlation	– 49 % - 99 %	25 %
						Interest rate/FX correlation	– 85 % - 33 %	– 12 %
		Currency derivatives	29	40	Option pricing model	FX correlation	24 % - 56 %	42 %
		Other derivatives	17	16	Option pricing model	Equities/FX correlation	– 47 % - 16 %	– 42 %
		Structured derivatives	300	288	Option pricing model	Mean reversion	0 % - 10 %	2 %
						Interest rate volatilities	15 % - 73 %	26 %
						Interest rate correlation	– 49 % - 99 %	25 %
						Interest rate/FX correlation	– 85 % - 33 %	– 12 %
						FX correlation	24 % - 56 %	42 %
						Equities/FX correlation	– 47 % - 16 %	– 42 %

(€ m)			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin	
31.12.2015									
Financial investments	AFS	Debt instruments	16	–	Price	Price	86 - 106	101	
		Equity and near-equity instruments	143	–	Price	Price	1 - 14,811	148	
	DFV	Debt instruments	544	–	Option pricing model	Mean reversion	0% - 10%	2%	
						Interest rate volatilities	15% - 73%	26%	
						Price	Price	1	1
		Equity and near-equity instruments	2	–	Price	Price	1 - 100	94	
Liabilities to banks	DFV	Debt instruments	–	120	Option pricing model	Interest rate volatilities	15% - 73%	26%	
						Interest rate/FX correlation	–85% - 33%	–12%	
Liabilities to customers	DFV	Debt instruments	–	1,166	Option pricing model	Mean reversion	0% - 10%	2%	
						Interest rate volatilities	15% - 73%	26%	
							Interest rate correlation	–49% - 99%	25%
							Interest rate/FX correlation	–85% - 33%	–12%
						Price	Price	80 - 96	91
Securitised liabilities	DFV	Debt instruments	–	644	Option pricing model	Mean reversion	0% - 10%	2%	
						Interest rate volatilities	15% - 73%	26%	
							FX correlation	24% - 56%	42%
							Equities/FX correlation	–47% - 16%	–42%
						Price	Price	100	100
			3,266	2,815					

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlying, 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 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" derivatives) or several shares as the underlying transactions ("equity basket" derivatives). Currency correlations describe the relationship between changes in value of several currencies. Equity price correlations express the relationship between different yields on equities. A high degree of correlation means that there is a high relationship between changes in value of the respective underlying instruments.

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 benchmarks 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 instrument fluctuates over time. The amount of volatility depends on the type of the underlying instrument, its tenor and the exercise price agreed for the option.

The fair value of options typically increases if 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 instrument 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 instrument is far from the exercise price ("far-out-of-the-money" or "far-in-the-money").

Price

Prices can represent an important non-observable parameter for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, and the Bank does not generate quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. Further quantitative disclosure of these input factors is not required for this reason. The fair value increases if the price increases, and it falls if the price declines.

Effect of changes 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.

Effect of unobservable inputs

If unobservable inputs are incorporated in the measurement of a financial instrument, the fair value determined in accordance with a discretionary decision made by the Bank is the best estimate, but is subjective in that there may also 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 selection of inputs for unobservable inputs in accordance with the outer values of a possible range would have had the effect on the financial instruments concerned as set out in the following table. Advantageous and disadvantageous changes to fair value arise as a result of the recalculation of fair values based on possible alternative values to the relevant unobservable inputs. For this, interest rate volatilities were changed by $\pm 5\%$, all correlations by $\pm 20\%$ (capped at $\pm 100\%$) and the mean reversion by $\pm 0.5\%$. Furthermore, price parameters and LGD were also changed by $\pm 2\%$ and spreads by ± 50 bps, respectively.

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

FAIR VALUE CHANGES LEVEL 3

(€ m)			30.06.2016		31.12.2015	
			Advantageous	Disadvantageous	Advantageous	Disadvantageous
Loans and advances to customers	AfS	Debt instruments	3	3	–	–
Credit derivative under the second loss guarantee	HfT	Credit derivatives	20	18	25	23
Trading assets/trading liabilities	HfT	Interest rate derivatives	1	1	2	2
		Other derivatives	1	1	1	1
		Structured derivatives	1	1	1	1
Financial investments	AfS	Equity and near-equity instruments	1	1	3	3
	DFV	Securitised instruments	–	–	–	–
			27	25	32	30
of which recognised through profit or loss			23	21	29	27
of which recognised directly in equity			4	4	3	3

There are no hedging derivatives in place for 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)			30.06.2016		31.12.2015	
			Advantageous	Disadvantageous	Advantageous	Disadvantageous
Loans and advances to customers	DFV	Debt instruments	2	2	2	2
Trading assets/trading liabilities	HfT	Interest rate derivatives	1	1	1	1
		Currency derivatives	1	1	–	–
		Credit derivatives	–	–	–	–
		Structured derivatives	3	3	4	4
Financial investments	DFV	Debt instruments	–	–	–	–
		Securitised instruments	–	–	–	–
Liabilities to banks	DFV	Debt instruments	1	1	1	1
Liabilities to customers	DFV	Debt instruments	1	1	2	2
Securitised liabilities	DFV	Debt instruments	1	1	2	2
			10	10	12	12
		of which recognised through profit or loss	10	10	12	12
		of which recognised directly in equity	–	–	–	–

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 statement of income as they are offset by changes in fair value of the hedging derivatives.

V. Day one profit and loss

The changes in the day one profit and loss reserve are as follows:

(€ m)	30.06.2016	31.12.2015
Balance as at 1 January	22	24
Additions not recognised through profit or loss	–	3
Reversals recognised through profit or loss	4	5
Balance as at 30 June	18	22

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 issued by unlisted companies for which there is no active market and parameters determining market value cannot be reliably estimated because future expectations are difficult to forecast.

The portfolio of equities and other non-interest-bearing securities measured at cost amounted to € 127 million (31 December 2015: € 137 million). Equity instruments recognised at cost that relate to shares in affiliated companies and equity holdings amount to € 85 million (31 December 2015: € 75 million). There are currently no concrete plans to dispose of these equity instruments.

Financial instruments recognised at cost are disclosed as financial investments under assets measured at fair value (AfS).

Equity instruments not measured at fair value with a carrying amount of € 7 million (31 December 2015: € 42 million) were derecognised. This resulted in a profit of € 0 million (31 December 2015: € 6 million).

44. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED COUNTRIES

The following tables provide an overview of HSH Nordbank's commitments in European countries for which 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 primary positions, that is, the measurement results for the hedging derivatives are not included.

ASSETS CLASSIFIED AS LAR

(€ m)	Gross carrying amount		Specific loan loss provision		Fair value	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Portugal	197	194	6	6	199	203
Public sector	173	169	-	-	183	186
Corporates/Other	24	25	6	6	16	17
Italy	596	616	98	93	518	519
Public sector	25	26	-	-	27	28
Banks	-	8	-	-	-	8
Corporates/Other	571	582	98	93	491	483
Greece	1,420	1,094	140	88	1,301	1,007
Corporates/Other	1,420	1,094	140	88	1,301	1,007
Russia	74	94	11	17	62	78
Corporates/Other	74	94	11	17	62	78
Spain	1,264	1,297	76	87	1,200	1,214
Public sector	151	156	-	-	160	165
Corporates/Other	1,113	1,141	76	87	1,040	1,049
Cyprus	1,067	1,392	421	447	646	943
Corporates/Other	1,067	1,392	421	447	646	943
Croatia	101	104	-	-	103	103
Corporates/Other	101	104	-	-	103	103
Turkey	404	479	2	133	389	343
Banks	26	10	-	-	26	10
Corporates/Other	378	469	2	133	363	333
Total	5,123	5,270	754	871	4,418	4,410

FINANCIAL TRANSACTIONS BY HOLDING CATEGORIES

(€ m)	HfT		Hedge		DFV		AFS	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Portugal	-	-	-	-	57	54	5	4
Public sector	-	-	-	-	57	54	-	-
Banks	-	-	-	-	-	-	5	4
Italy	9	17	-	-	420	418	-	-
Public sector	-	-	-	-	420	418	-	-
Corporates/ Other	9	17	-	-	-	-	-	-
Greece	11	10	-	-	-	-	-	-
Corporates/ Other	11	10	-	-	-	-	-	-
Russia	42	3	-	-	-	-	-	-
Banks	4	3	-	-	-	-	-	-
Corporates/ Other	38	-	-	-	-	-	-	-
Spain	88	47	13	9	-	-	59	59
Banks	41	11	13	9	-	-	-	-
Corporates/ Other	47	36	-	-	-	-	59	59
Cyprus	2	1	-	-	-	-	-	-
Corporates/ Other	2	1	-	-	-	-	-	-
Croatia	2	1	-	-	-	-	-	-
Corporates/ Other	2	1	-	-	-	-	-	-
Turkey	2	4	-	-	-	-	-	-
Corporates/ Other	2	4	-	-	-	-	-	-
Total	156	83	13	9	477	472	64	63

The cumulative valuation result recognised directly in equity for financial instruments held in the AFS measurement category amounted to € -2 million for the selected countries (31 December 2015: € -3 million). No cumulative valuation result was recognised through profit or loss, as was also the case as at 31 December 2015.

45. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS

I. Credit quality of financial instruments which are neither impaired nor overdue

The following table provides information on the credit quality of financial instruments which were neither impaired nor overdue as at 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. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015	30.06. 2016	31.12. 2015
Held for trading (HfT)								
Trading assets	1,783	2,133	1,169	2,032	3,333	1,887	568	681
Credit derivative under the second loss guarantee	260	663	-	-	-	-	-	-
Designated at fair value (DFV)								
Loans and advances to banks	-	-	-	-	-	-	-	-
Loans and advances to customers	1,344	1,186	-	-	-	-	-	-
Financial investments	149	154	634	799	890	636	-	-
Available for sale (AfS)								
Cash reserve	192	694	-	-	-	-	-	-
Loans and advances to banks	42	43	-	-	42	43	-	-
Loans and advances to customers	-	-	-	-	-	-	-	38
Financial investments	9,035	9,237	2,310	2,560	824	747	37	273
Loans and receivables (LaR)								
Cash reserve	2,302	2,700	-	-	-	-	-	-
Loans and advances to banks	1,652	1,819	1,478	2,084	1,796	1,553	54	39
Loans and advances to customers	3,665	4,399	4,910	4,434	13,890	14,171	12,091	14,645
Financial investments	455	535	405	399	39	44	311	304
Assets held for sale and disposal groups	-	-	-	-	-	85	-	21
Other assets	-	-	-	-	-	-	-	-
Excluding IAS 39 category								
Positive fair values of hedging derivatives	281	248	133	335	223	181	12	13
Finance lease receivables	9	11	11	11	32	35	28	36
Value adjustments from portfolio fair value hedge	225	129	107	175	179	94	9	7
Total	21,394	23,951	11,157	12,829	21,248	19,476	13,110	16,057

CREDIT QUALITY

(€ m)	10 to 12		13 to 15		16 to 18	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Held for trading (HfT)						
Trading assets	61	45	326	310	290	268
Credit derivative under the second loss guarantee	-	-	-	-	-	-
Designated at fair value (DFV)						
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	57	-	18	75	40	47
Financial investments	-	-	1	1	1	1
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	-	-	57	66	-	-
Financial investments	4	2	129	9	-	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	1,968	2,956	4,153	2,592	-	-
Financial investments	20	18	148	173	177	148
Non-current assets held for sale and disposal groups	-	62	-	6	-	-
Other assets	101	86	-	-	-	-
Excluding IAS 39 category						
Positive fair values of hedging derivatives	-	6	-	-	-	-
Finance lease receivables	5	7	10	6	-	-
Value adjustments from portfolio fair value hedge	-	3	-	-	-	-
Total	2,216	3,185	4,842	3,238	508	473

II. Carrying amounts of overdue but unimpaired financial assets

The table below shows the financial assets that are overdue but not impaired as at the reporting date. The assets are broken down by category. There are no overdue assets in categories not explicitly listed.

CARRYING AMOUNTS OF OVERDUE BUT NOT IMPAIRED FINANCIAL ASSETS

(€ m)	Overdue < 3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Loans and receivables (LaR)								
Loans and advances to customers	525	464	157	86	44	113	417	353
of which secured by the second loss guarantee	265	233	80	73	34	74	261	293
Total	525	464	157	86	44	113	417	353

Payments of € 3 million were received on transactions with a carrying amount of € 114 million in the period of ten days after the reporting date of 30 June 2016. Payments are regarded as being in arrears when they are one day overdue.

The overdue but unimpaired credit portfolio is backed by collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of by way of security. The transfers by way of security mainly comprise physical collateral.

III. Impaired financial assets

The following table shows all impaired financial assets 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	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Loans and receivables (LaR)						
Loans and advances to banks	14	14	14	14	–	–
Loans and advances to customers	10,991	10,844	5,553	5,199	5,437	5,645
Financial investments	827	877	316	360	511	517
Assets held for sale and disposal groups	5	4,908	5	2,402	–	2,506
Available for sale (AFS)						
Financial investments	210	216	140	146	70	70
Total	12,047	16,859	6,028	8,121	6,018	8,738

¹⁾ Financial investments classified as LaR and AFS are shown net in the statement of financial position, i.e. at their carrying amounts less any impairment.

The unimpaired credit portfolio is backed by collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers by way of security. The transfers by way of security mainly comprise physical assets.

€ 9,655 million (31 December 2015: € 15,354 million) of the total carrying amount of impaired financial assets of € 12,047 million (31 December 2015: € 16,859 million) is secured by the second loss guarantee, of which € 9,044 million (31 December 2015: € 10,016 million) is accounted for by loans and advances to customers, € 611 million (31 December 2015: € 631 million) by financial investments in the LaR and AfS categories and € 0 million by assets held for sale and disposal groups (31 December 2015: € 4,707 million).

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

IV. Credit risk exposure

With the exception of loans and advances to banks and customers, credit exposure as defined in IFRS 7.36 (a) is equivalent to the carrying amount of the financial assets as at the reporting date as disclosed in Note 41 as well as the off-balance sheet liabilities disclosed in Note 46.

Credit exposure for loans and advances to banks and customers is the carrying amount after taking account of any loan loss provisions disclosed in Note 21. The maximum default risk of loans or receivables designated at fair value (DFV) is not reduced by associated credit derivatives.

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

V. Collateral received

A) Collateral values of financial assets that reduce default risk

The following information quantifies the extent to which the collateral held and other loan collateral reduce the maximum default risk of financial instruments. The value of the collateral reducing the default risk is given for each form of collateral for each class of financial instruments.

The value of collateral received is based on the objective market value, provided that such a value can be determined. The reliability of the value of an item of collateral is ensured by the fact that it is recognised as risk-mitigating 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 collateral value that mitigates default risk.

FINANCIAL ASSETS AND RELATED COLLATERAL

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral-
30.06.2016				
HfT				
Trading assets	7,530	425	27	831
Credit derivative under the second loss guarantee	260	-	-	-
DFV				
Loans and advances to customers	1,459	-	-	-
Financial investments	1,675	-	-	-
AfS				
Cash reserve	192	-	-	-
Loans and advances to banks	84	-	-	-
Loans and advances to customers	57	-	-	-
Financial investments	12,409	-	-	-
LaR				
Cash reserve	2,302	-	-	-
Loans and advances to banks	4,994	11	29	49
Loans and advances to customers	52,811	18,534	881	1,760
Financial investments	2,066	-	-	-
Non-current assets held for sale and disposal groups	5	-	-	-
Other assets	101	-	-	1
Excluding IAS 39 category				
Positive fair values of hedging derivatives	649	-	-	-
Value adjustments from portfolio fair value hedge	520	-	-	-
Finance lease receivables	95	-	-	-
Contingent liabilities	2,499	285	21	130
Irrevocable loan commitments	5,786	718	91	146
Total assets	95,494	19,973	1,049	2,917

FINANCIAL ASSETS AND RELATED COLLATERAL

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
31.12.2015				
HfT				
Trading assets	7,356	470	47	560
Credit derivative under the second loss guarantee	663	-	-	-
DFV				
Loans and advances to customers	1,308	-	-	-
Financial investments	1,591	-	-	-
AfS				
Cash reserve	694	-	-	-
Loans and advances to banks	86	-	-	-
Loans and advances to customers	104	-	36	-
Financial investments	12,907	-	-	-
LaR				
Cash reserve	2,700	-	-	-
Loans and advances to banks	5,509	11	60	73
Loans and advances to customers	55,057	22,169	875	1,969
Financial investments	2,138	-	-	-
Non-current assets held for sale and disposal groups	5,081	1,917	2	1
Other assets	86	-	-	1
Excluding IAS 39 category				
Positive fair values of hedging derivatives	783	-	-	-
Value adjustments from portfolio fair value hedge	408	-	-	-
Finance lease receivables	106	-	-	-
Contingent liabilities	2,833	311	8	126
Irrevocable loan commitments	6,370	754	64	217
Total assets	105,780	25,632	1,092	2,947

Besides the collateral values shown in this table, a sub-portfolio is secured by the guarantee facility provided by the Federal State of Schleswig-Holstein and Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain Group companies via HSH Finanzfonds AöR when the realignment of the Bank was started (see Note 2).

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

HSH Nordbank has received collateral from counterparties with a total fair value of € 796 million (31 December 2015: € 597 million). The collateral received is broken down as follows: € 699 million (31 December 2015: € 495 million) relates to OTC derivatives and structured transactions. The Group received collateral of € 97 million (31 December 2015: € 102 million) under genuine repurchase agreements where it acted as the lender. The collateral received includes cash collateral of € 654 million (31 December 2015: € 448 million). Collateral received of € 49 million (31 December 2015: € 50 million)

was sold 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 executes securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The conditions and collateralisation methods are the same as those applicable to collateral transferred.

C) Other collateral received

In the reporting period no assets were recognised from the realisation of collateral (31 December 2015: € 0 million).

Please refer to the explanations given in Note 2 for further information on the second loss guarantee.

46. 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 rescheduled in order to place the debtor in a position to continue to service or resume servicing its debt.

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Restructuring Unit		Total
	Rating class 1-15	Rating class 16-18	Rating class 1-15	Rating class 16-18	
30.06.2016					
Loans and receivables (LaR)	1,759	4,815	534	6,204	13,312
Loans and advances to banks	–	14	–	–	14
Loans and advances to customers	1,759	4,801	534	6,204	13,298
Irrevocable and revocable loan commitments	48	76	38	90	252
Total	1,807	4,891	572	6,294	13,564

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Restructuring Unit		Total
	Rating class 1-15	Rating class 16-18	Rating class 1-15	Rating class 16-18	
31.12.2015					
Loans and receivables (LaR)	1,334	5,633	664	9,470	17,102
Loans and advances to banks	–	14	–	–	14
Loans and advances to customers	1,327	4,143	664	6,790	12,924
Non-current assets held for sale and disposal groups	7	1,477	–	2,680	4,164
Irrevocable and revocable loan commitments	52	36	22	134	244
Total	1,386	5,670	686	9,604	17,346

Loan loss provisions of € 4,785 million (previous year: € 6,442 million) have already been recognised on the receivables volume shown above, to which forbearance measures have been applied. The forbearance

exposure covered by the Sunrise guarantee amounts to about 81% (previous year: about 90%).

47. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

CONTINGENT LIABILITIES

(€ m)	30.06.2016	31.12.2015
Contingent liabilities	2,499	2,833
Irrevocable loan commitments	5,786	6,370
Total	8,285	9,203

The fair value of irrevocable loan commitments of a nominal amount of € 5,786 million (31 December 2015: € 6,370 million) was € 10 million as at the reporting date (31 December 2015: € 10 million).

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

OTHER DISCLOSURES

48. RELATED PARTIES

HSH Nordbank maintains business relationships with related parties.

These include HSH Beteiligungs Management GmbH, Hamburg, as direct parent company and at the same time ultimate parent company of HSH Nordbank AG, which prepares Group financial statements; HSH Finanzfonds AöR as ultimate parent company of the Group; a hsh portfoliomanagement AöR and the Federal State of Schleswig-Holstein and Free and Hanseatic City of Hamburg, who each participate with 50% in the above-mentioned companies. Business relationships also exist with subsidiaries that are controlled but not consolidated in the Group financial statements, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions solely comprise members of the Management and Supervisory Boards of HSH Nordbank AG.

Transactions with related parties are concluded at market rates in the ordinary course of business. These include loans, call and term deposits, derivatives and securities transactions.

I. Parent company and companies with joint management or significant influence on the company

The provisions of IAS 24.25 are applied to transactions concluded with HSH Beteiligungs Management GmbH and HSH Finanzfonds AöR as well as with the Federal State of Schleswig-Holstein and Free and Hanseatic City of Hamburg, which each participate with 50% in HSH Finanzfonds AöR. 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 Group financial statement.

The guarantee amount under the guarantee facility provided by the Federal State of Schleswig-Holstein and Free and Hanseatic City 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 16 for details.

Please refer to Note 2 with regard to information on loans that are to be sold to the resolution institution (hsh portfoliomanagement AöR) formed by the Federal States of Hamburg and Schleswig-Holstein under the informal agreement reached with the EU Commission and the formal decision of 2 May 2016. There are further contractual services relating to this transaction such as the servicing of the loans transferred and provision of IT systems.

II. Subsidiaries

Transactions concluded with unconsolidated subsidiaries are shown below:

SUBSIDIARIES - ASSETS

(€ m)	30.06.2016	31.12.2015
Loans and advances to customers	56	83
Loan loss provisions	-18	-23
Total	38	60

SUBSIDIARIES - LIABILITIES

(€ m)	30.06.2016	31.12.2015
Liabilities to customers	20	25
Provisions	19	22
Other liabilities	2	2
Total	41	49

SUBSIDIARIES - INCOME STATEMENT

(€ m)	January-June 2016	January-June 2015
Net interest income	1	1
Loan loss provisions	-	6
Other net operating income	2	2
Total	3	9

III. Associates

The following table shows transactions concluded with associates:

ASSOCIATES – ASSETS

(€ m)	30.06.2016	31.12.2015
Loans and advances to customers	–	53
Loan loss provisions	–	–40
Financial investments	122	124
Total	122	137

The carrying amounts of associates consolidated in the Group financial statements under the equity method are not included under financial investments.

ASSOCIATES – LIABILITIES

(€ m)	30.06.2016	31.12.2015
Liabilities to customers	1	1
Total	1	1

ASSOCIATES – INCOME STATEMENT

(€ m)	January–June 2016	January–June 2015
Net interest income	–	1
Net income from financial investments	–	–10
Administrative expenses	–	–2
Total	–	–11

Other financial liabilities to associates were insignificant and below € 1 million during the reporting year (31 December 2015: € 11 million).

IV. Joint ventures

The following table shows the transactions concluded with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	30.06.2016	31.12.2015
Loans and advances to customers	23	33
Total	23	33

JOINT VENTURES – LIABILITIES

(€ m)	30.06.2016	31.12.2015
Liabilities to customers	14	27
Total	14	27

JOINT VENTURES – INCOME STATEMENT

(€ m)	January–June 2016	January–June 2015
Loan loss provisions	–	–5
Net trading income	–4	–
Total	–4	–5

V. Other related parties

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.

49. MANAGEMENT BOARD MEMBERS

Stefan Ermisch

Born in 1966

Chairman of Management Board (since 10 June 2016)

Chief Financial Officer (until 30 June 2016)

Oliver Gatzke

(from 1 July 2016)

Born in 1968

Chief Financial Officer

Ulrik Lackschewitz

Born in 1968

Chief Risk Officer

Torsten Temp

Born in 1960

Board Member for Markets

Constantin von Oesterreich

(until 9 June 2016)

Born in 1953

Chairman of the Board

Matthias Wittenburg

(until 9 June 2016)

Born in 1968

Corporates & Markets

Hamburg/Kiel, 23 August 2016



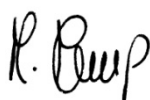
Stefan Ermisch



Oliver Gatzke



Ulrik Lackschewitz



Torsten Temp

REVIEW OPINION

To HSH Nordbank AG, Hamburg and Kiel

We have reviewed the condensed interim Group financial statements – comprising the statement of financial position, statement of income, statement of comprehensive income, statement of changes in equity, the condensed cash flow statement and selected explanatory notes – together with the interim Group management report of HSH Nordbank, Hamburg and Kiel, for the period from 1 January to 30 June 2016 that are part of the semi annual financial report according to Section 37w WpHG (“Wertpapierhandelsgesetz”: “German Securities Trading Act”). The preparation of the condensed interim Group financial statements in accordance with the International Financial Reporting Standards (IFRS) for interim reporting as adopted in the EU and the interim Group management report in accordance with the requirements of the WpHG applicable to interim Group management reports is the responsibility of the Bank’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). These standards require that we plan and perform the review so that we can preclude through critical analysis 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 terms, we have not performed a financial statement audit, we cannot issue an audit opinion.

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 discussion in the “Opportunities and risks resulting from the formal decision in the EU state aid proceedings” section in the interim Group management

report. It is stated there that the going concern assumption for accounting and measurement purposes is based in particular on the following assumptions:

(i) the agreements required for the implementation of the formal decision taken by the EU Commission in the EU state aid proceedings on the replenishment of the second loss guarantee are entered into comprehensively and on a timely basis and that the formal decision will be implemented by HSH Nordbank AG and its shareholders in full and on a timely basis,

(ii) the operating company, HSH Nordbank AG, is sold at a positive sales price in an open, non-discriminatory, competitive and transparent process not involving state aid until 28 February 2018 and the EU Commission grants its approval for the acquisition following a viability assessment of the new corporate structure. Should the divestment procedure not lead to offers not requiring state aid with a positive price being offered before the expiry of the deadline or should the EU Commission in the course of its viability assessment come to the conclusion that the integration of the operating company into the new corporate structure will not lead to a viable business model that is profitable in the long term, the operating company will cease new business and manage its assets as far as legally permissible with the aim of a structured winding down of its business. In the event of significant unexpected outflows of funds (e.g. in the scenario described above), measures must be taken to strengthen the liquidity position.

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG’s business model and the requirements under the formal decision of the EU Commission is maintained or gained and that the expected recovery of the shipping markets materialises.

Hamburg, 23 August 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

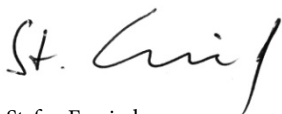
Leitz
Wirtschaftsprüfer

Thiede
Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT

We hereby affirm that, to the best of our knowledge, the interim Group financial statements have been prepared in accordance with the accounting principles applicable to interim financial reporting and give a true and fair view of the net assets, financial position and earnings of the HSH Nordbank Group and that the interim Group management report presents the business developments including the financial results and the situation of the HSH Nordbank Group in such a manner that it gives a true and fair view and the material opportunities and risks in the expected business performance of the HSH Nordbank Group over the remainder of the financial year.

Hamburg/Kiel, 23 August 2016



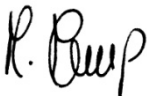
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Oliver Gatzke



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Torsten Temp

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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 26 August 2016 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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