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FINANCIAL INFORMATION AS AT 31 MARCH 2018

HSH NORDBANK

# KEY FIGURES

## INCOME STATEMENT

| (€ m) | **January – March 2018** | January – March 2017 |
|---|---|---|
| Net income before restructuring and privatisation | 82 | 185 |
| Net income before taxes | –60 | 128 |
| Group net result | –103 | 104 |

## BALANCE SHEET

| (€ bn) | **31.03.2018** | 31.12.2017 |
|---|---|---|
| Equity | 4.3 | 4.4 |
| Total assets | 65.7 | 70.4 |
| Business volume | 76.5 | 78.6 |

## CAPITAL RATIOS & RWA[1]

| | **31.03.2018** | 31.12.2017 |
|---|---|---|
| CET1 capital ratio (%) | 15.5 | 15.4 |
| Overall capital ratio (%) | 25.7 | 25.8 |
| Risk-weighted assets (RWA) (€ bn) | 25.7 | 26.2 |

## EMPLOYEES

| (computed on a full-time equivalent basis) | **31.03.2018** | 31.12.2017 |
|---|---|---|
| Total | 1,789 | 1,926 |
| Domestic | 1,716 | 1,838 |
| Foreign | 73 | 88 |

## LONG-TERM RATINGS

| | Unguaranteed liabilities | Guaranteed liabilities[2] | Public-sector Pfandbriefe | Mortgage Pfandbriefe | Ship Pfandbriefe |
|---|---|---|---|---|---|
| Moody's | Baa3 RWP[3] | Aa1 stable | Aa2 RWP[3] | Aa3 RWP[3] | Baa2 RWP[3] |
| Fitch | BBB– RWN[4] | AAA stable | – | – | – |

[1] According to the same period calculation under the Capital Requirements Regulation (CRR). Figures for the previous year adjusted, explanatory information is provided in the section Net assets and financial position under "Capital and funding".
[2] Liabilities covered by guarantor's liability (*Gewährträgerhaftung*).
[3] Rating watch positive (under observation for a possible rating upgrade).
[4] Rating watch negative (under observation for a possible rating downgrade).

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

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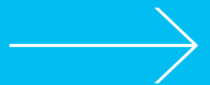
**NOTE:**
This Financial Information of the HSH Nordbank Group as at 31 March 2018 is released voluntarily and does not comply with all the accounting requirements applicable to interim reporting for capital-market-oriented companies. Recognition and management rules were applied on the basis of the IFRS. The Financial Information has not been subjected to any audit performed by an auditor of the annual financial statements.



# HSH NORDBANK AT A GLANCE
## AS AT 31 MARCH 2018

Since 1 January 2018, HSH Nordbank has been applying the provisions set out in IFRS 9 – Financial Instruments in full when preparing the Group financial statements. In some cases, this changes the structure of the consolidated statement of financial position and the statement of income compared with the Group financial statements as at 31 December 2017. Details are provided in the section entitled "Application of accounting methods IFRS 9 – Financial instruments".

The figures in the comparison columns of these financial statements have been adjusted to reflect this new structure. However, for the reference date of 31 December 2017, these figures were calculated unchanged in accordance with the provisions of IAS 39. In order to ensure the comparability of these financial statements with the financial statements as at 31 December 2017, the section entitled "Balance sheet item reconciliation from IAS 39 to IFRS 9" provides a reconciliation of the carrying amounts of financial instruments determined in accordance with IAS 39 to the carrying amounts of financial instruments determined in accordance with IFRS 9.

### STATEMENT OF INCOME

| (€ m) | **January – March 2018[1]** | January – March 2017 | Changein % |
|---|---|---|---|
| Interest income from financial assets categorised as AC and FVOCI | 240 | 501 | – 52 |
| Interest income from other financial instruments | 393 | 453 | – 13 |
| Negative interest on investments categorised as AC and FVOCI | – 7 | – 6 | 17 |
| Negative interest on other investments and derivatives | – 61 | – 67 | 9 |
| Interest expenses | – 470 | – 636 | – 26 |
| Positive interest on borrowings and derivatives | 62 | 72 | – 14 |
| Net income from hybrid financial instruments | – 22 | – 27 | 19 |
| **Net interest income** | **135** | **290** | **– 53** |
| Net commission income | 11 | 18 | – 39 |
| Result from hedging | – 5 | – 6 | 17 |
| Result from financial instruments categorised as FVPL[2] | – 19 | 87 | > – 100 |
| Net income from financial investments | 37 | 5 | > 100 |
| Result from the disposal of financial assets classified as AC | 2 | n.r. | n.r. |
| Net income from financial investments accounted for under the equity method | – | 1 | – 100 |
| **Total income** | **161** | **395** | **– 59** |
| Loan loss provisions in the lending business | 96 | – 99 | > 100 |
| Hedging effect of credit derivative second loss guarantee | – 32 | 43 | > – 100 |
| **Total income after loan loss provisions** | **225** | **339** | **– 34** |
| Administrative expenses | – 123 | – 136 | – 10 |
| Other operating income | 20 | 27 | – 26 |
| Expenses for bank levy and deposit guarantee fund | – 40 | – 45 | – 11 |
| **Net income before restructuring and privatisation** | **82** | **185** | **– 56** |
| Net income from restructuring and privatisation | – 11 | – 16 | 31 |
| Expenses for government guarantees | – 131 | – 41 | > 100 |
| **Net income before taxes** | **– 60** | **128** | **>– 100** |
| Income tax expenses | – 43 | – 24 | 79 |
| **Group net result** | **– 103** | **104** | **>– 100** |
| Comprehensive income attributable to non-controlling interests | 1 | – | 100 |
| Group net result attributable to HSH Nordbank shareholders | – 104 | 104 | >– 100 |

[1] The information as at 31 March 2018 has been prepared in accordance with IFRS 9. The disclosures and explanations for the comparative period have not been adjusted and correspond to the amounts determined under IAS 39 as at the reporting date shown. Further explanations can be found in the reconciliation statement.
[2] In the previous year, under IAS 39, the item Net trading income.

## BALANCE SHEET

### ASSETS

| (€ m) | **31.03.2018** | 31.12.2017 | Change in % |
|---|---|---|---|
| Cash reserve | 3,632 | 6,625 | – 45 |
| Loans and advances to banks | 2,799 | 3,838 | – 27 |
| Loans and advances to customers | 35,610 | 39,174 | – 9 |
| Loan loss provisions | 594 | 687 | – 14 |
| Compensation item for financial instruments categorised as FVPL under the second loss guarantee | 3,432 | n.r. | n.r. |
| Credit derivative under the second loss guarantee | 983 | 1,014 | – 3 |
| Positive fair value of hedging derivatives | 345 | 264 | 31 |
| Positive adjustment item from portfolio fair value hedges | 220 | 255 | – 14 |
| Trading assets | 3,774 | 3,641 | 4 |
| Financial investments | 13,163 | 13,647 | – 4 |
| Intangible assets | 10 | 10 | – |
| Property, plant and equipment | 231 | 232 | – |
| Investment property | 12 | 13 | – 8 |
| Non-current assets held for sale and disposal groups | 80 | 139 | – 42 |
| Current tax assets | 31 | 46 | – 33 |
| Deferred tax assets | 672 | 723 | – 7 |
| Other assets | 81 | 74 | 9 |
| **Total assets** | **65,669** | **70,382** | **– 7** |

The information as at 31 March 2018 has been prepared in accordance with IFRS 9. The disclosures and explanations for the comparative period have not been adjusted and correspond to the amounts determined under IAS 39 as at the reporting date shown. Further explanations can be found in the reconciliation statement.

**LIABILITIES**

| (€ m) | **31.03.2018** | 31.12.2017 | Change in % |
|---|---|---|---|
| Liabilities to banks | 7,376 | 8,271 | −11 |
| Liabilities to customers | 33,951 | 36,205 | −6 |
| Securitised liabilities | 11,379 | 12,444 | −9 |
| Negative fair values of hedging derivatives | 486 | 163 | >100 |
| Negative adjustment item from portfolio fair value hedges | 497 | 553 | −10 |
| Trading liabilities | 3,129 | 3,875 | −19 |
| Provisions | 1,483 | 1,438 | 3 |
| Liabilities relating to disposal groups | 29 | 47 | −38 |
| Current tax liabilities | 91 | 103 | −12 |
| Other liabilities | 695 | 658 | 6 |
| Subordinated capital | 2,256 | 2,252 | – |
| Equity | 4,297 | 4,373 | −2 |
| Share capital | 3,018 | 3,018 | – |
| Capital reserve | 75 | 75 | – |
| Retained earnings | 1,004 | 1,701 | −41 |
| Revaluation reserve | 317 | 117 | >100 |
| Currency conversion reserve | −9 | 2 | >−100 |
| Group net result | −104 | −535 | −81 |
| Total before non-controlling interests | 4,301 | 4,378 | −2 |
| Non-controlling interests | −4 | −5 | −20 |
| **Total equity and liabilities** | **65,669** | **70,382** | **−7** |

The information as at 31 March 2018 has been prepared in accordance with IFRS 9. The disclosures and explanations for the comparative period have not been adjusted and correspond to the amounts determined under IAS 39 as at the reporting date shown. Further explanations can be found in the reconciliation statement.

# BUSINESS DEVELOPMENT
## AS AT 31 MARCH 2018

## OVERVIEW OF BUSINESS PERFORMANCE

### START OF THE YEAR IN LINE WITH EXPECTATIONS

The federal state owners sold their shares in HSH Nordbank AG to renowned private investors on 28 February 2018, thus fulfilling the central commitment in the ongoing state aid proceedings on time. The sale of the shares has met the key prerequisite for the successful conclusion of the ongoing privatisation process. Following positive development in the last reporting year, the Bank got off to a dynamic start to the 2018 financial year. The focus was on the development of measures as part of the "Reset & Go" transformation project, designed to contribute to the sustainable realignment of the Bank, which will be privatised in the future. At the same time, the Bank is doing everything in its power to support all parties involved in the privatisation process in order to bring the agreed change of ownership to a successful conclusion.

The following business developments are particularly worthy of mention as at 31 March 2018:

- **Privatisation on schedule:** Following the successful signing of the purchase agreement, the focus is on the closing process (execution of the share purchase agreement). From today's perspective, the Bank is confident that all of the approvals still outstanding will be granted and change of ownership can be successfully completed in the third or fourth quarter of 2018.
- **Realignment being intensively pursued:** The "Reset & Go" transformation project focuses, on the one hand, on the development of profitable and risk-oriented growth strategies following the abolition of the EU restrictions. On the other hand, the reduction in complexity – not least with regard to the organisational structure – opens up considerable potential for reducing costs. Within this context, the Bank is developing numerous measures that are consistent with the change in the business model – from a Landesbank with a substantial legacy burden to a medium-sized private bank with a healthy risk profile – and will be implemented as quickly as possible.
- **Satisfactory business development overall:** Key earnings and cost ratios are in line with expectations; key management indicators relating to capital and liquidity exceed defined ambition levels. The positive development of the risk ratios is consistent with the strategic realignment. With a largely stable receivables portfolio, new business margins and new business profitability developed satisfactorily, while the volume of new business showed subdued development in a highly competitive environment.

### Privatisation process on the home stretch

In the future, HSH Nordbank AG will become a medium-sized private bank with exclusively private owners. The buyers are independent funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, GoldenTree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG. The new group of owners is characterised by a high level of expertise and many years of experience with commitments in the international financial sector. The federal state owners and Sparkassen- und Giroverband für Schleswig-Holstein have concluded a corresponding share purchase agreement for all of their indirectly held HSH shares (a total of 94.9%), achieving the first successful privatisation of a Landesbank in Germany. At the same time, an agreement was reached within the context of the privatisation to relieve HSH Nordbank of large parts of the non-performing legacy loans, as well as to cancel the second loss guarantee prematurely.

The closing of the share purchase agreement, the portfolio transaction and the cancellation agreement for the second loss guarantee are subject to certain conditions. With regard to the closing of the share purchase agreement, the main aspects – following the approvals already granted by the responsible antitrust and competition authorities and the federal state parliament (*Landtag*) of Schleswig-Holstein – relate to the following in particular:

- parliamentary approval in Hamburg,
- the European Commission's viability review of the future bank,
- the approval of the banking supervisory authorities (ECB, BaFin and CSSF in Luxembourg),
- confirmation of the extension of HSH Nordbank AG's membership of the guarantee scheme of the German Savings Banks Finance Group (SFG) for three further years after the conclusion of the share purchase agreement, until the end of 2021 at the very least.

The Bank currently expects the privatisation process to be finalised in the third or fourth quarter of 2018, once all of the necessary conditions have been met. However, with respect to the transition from the public to the private guarantee scheme delays currently occur, as the rules by the respective associations (DSGV and BdB) need to be drafted and implemented in a complex process involving all relevant stakeholders. The Bank supports this process as much as possible and is confident to forge ahead intensively with the realignment of the Bank, a process that it has already embarked on, by continuing with its current restructuring course, allowing it to do everything in its power to contribute to a successful change of ownership.

Further details on the privatisation process, the portfolio transaction, the cancellation agreement for the second loss guarantee and the related opportunities and risks can be found in the Group Management Report for the 2017 financial year, in particular in the "Forecast, opportunities and risks report" in the section entitled "Forecast report including opportunities and risks".

## Realignment being systematically pursued

Numerous specific measures have already been developed relating to clients and products as part of the "Reset & Go" transformation project in the first few months of the year. These are now being implemented in the relevant areas. In the corporate business, measures are being taken to boost the Bank's sales strength, in particular. In the area of project financing in the energy and infrastructure sector, new target markets are to be selectively developed. The Bank is making the necessary preparations to be able to support existing clients in selected foreign real estate markets as well. In the Shipping segment, the Bank will focus on the companies themselves even more than it has done in the past. The cooperation between the customer departments and the Bank's Corporate Finance product units will be improved by taking targeted measures. With a holistic approach, the necessary preparatory work is being carried out to bring together the Bank's sales strength in the lending business on the one hand and the demand among institutional investors, such as insurance companies and pension funds, for attractive portfolios on the other.

The key issues for optimising the business model and cost structures have been identified. These include the strategic design of the product portfolio and the associated production processes, consistent process simplification and digitalisation and ensuring that the type and content of support functions are geared towards future needs. This also includes realigning IT and revising management methods and business processes to meet future requirements. The questions arising in these areas are currently being addressed consistently and thoroughly in line with the Bank's plans.

## Overall group development in line with expectations

The Group net result before taxes, which comprises the results of the Core Bank, Non-Core Bank, as well as segments not subject to reporting requirements and reconciliation and consolidation effects, amounted to € –60 million as at 31 March 2018 (same period of the previous year: € 128 million). Taking into account the one-off burdens incurred in the first quarter, it was therefore in line with expectations and down significantly on the same quarter of the previous year.

This development is due to provisions for the premature termination of the second loss guarantee in the amount of € – 100 million, which put considerable pressure on the result. The prior-year quarter also benefited from significant effects from the realisation of unrealised gains (€ 189 million).

The Group's operating performance was shaped by in total satisfactory results in the strategic divisions of the Core Bank, as well as by further savings successes on the cost side. In addition, the reversal of general loan loss provisions (levels 1 and 2) and specific loan loss provisions (level 3) had a positive impact on the Group net result. These resulted in particular from successfully implemented restructuring measures in the Shipping area of the Core Bank. By contrast, the transformation-related liquidity building and liquidity structure had a negative impact. After taxes, the Group net result came to € – 103 million on the reporting date (same period of the previous year: € 104 million).

The return on equity for the Group calculated on the basis of net income before taxes is negative, at a level that is consistent with expectations, at – 5.5 % (31 December 2017: – 9.7 %). Due to the negative impact on earnings expected in 2018 from the compensation payment to the guarantors and the planned restructuring expenses, the Bank's forecast assumes a loss in the current financial year and, as a result, a negative return on equity.

The cost-income ratio was up as at the reporting date to 68.0 % as against 32.3 % as at 31 December 2017. This development is in line with expectations insofar as the ratio in the previous year was positively overstated by significant special effects resulting from the realisation of unrealised gains (around € 356 million) and the reassessment of interest and principal cash flows from hybrid instruments (around € 413 million). In operational terms, the Bank expects to see the cost-income ratio develop as planned on the basis of administrative expenses that are already down considerably in the first quarter. In this context, the Bank will continue to implement the current cost program rigorously. In addition, the measures developed as part of the "Reset & Go" transformation project will make it possible to leverage additional cost potential after the completion of the privatisation process.

The NPE ratio came to 5.1 % as at the reporting date (31 December 2017: 10.4 %). The significant decrease in the NPE ratio was mainly due to the fair value measurement of the portfolio transaction as a result of the introduction of IFRS 9. Applying IFRS 9 to 31 December 2017, the NPE ratio would have decreased by 0.5 percentage points. The completion of the portfolio transaction which was agreed as part

of the privatisation process is dependent on the closing of the share purchase agreement and will therefore only be possible when the privatisation process is completed. Consequently, the further significant reduction in the NPE ratio to around 2% is not expected to be achieved until the time of closing.

The NPE coverage ratio $_{AC}$ (which was redefined due to the introduction of IFRS9, for details see the following paragraph on "Key management indicators") for the NPE volume measured at amortised cost was 57.0% (31 December 2017: 63.8%). The decline compared to the previous quarter's reporting date is due to reversals of loan loss provisions. This means that, as at the reporting date, the Bank continues to have very solid coverage of the NPE portfolio remaining with the Bank following the completion of the portfolio transaction.

The CET1 ratio came to 15.5% as at the reporting date, reaching a satisfactory level due to the drop in RWA, even after the loss incurred is taken into account.

The liquidity ratios (LCR: 170% and NSFR: 113%) are consistent with the Bank's plans and are much higher than the ECB's minimum requirements at this very good level.

**KEY GROUP MANAGEMENT INDICATORS**

| | **31.03.2018** | 31.12.2017 (31.03.2017) |
|---|---|---|
| Net income before taxes (€ m) | –60 | –453 (128) |
| CIR | 68.0% | 32.3% (32.2%) |
| RoE | –5.5% | –9.7% (10.2%) |
| NPE ratio | 5.1% | 10.4% |
| NPE Coverage Ratio$_{AC}$ [1] | 57.0% | 63.8% |
| CET1 capital ratio[2), 3)] | 15.5% | 15.4% |
| LCR | 170% | 169% |
| NSFR | 113% | 114% |

[1] For comparative purposes pro forma adjusted value as at 31 December 2017.
[2] From March 2018, the capital ratios will no longer be shown taking into account the regulatory relief effect of the federal state guarantee. To enable a comparison with the key capital figures, pro forma ratios are shown as at March 2018. "Pro forma" means that, for the items included in the reference portfolio for the second loss guarantee, the RWA are recognised in line with the credit risk rules and not in line with the rules regarding securitisation. Within this context, valuation allowances that have been set up are still recognised in a manner that reduces the capital requirements in line with the regulatory requirements.
[3] Same period: ceteris paribus calculation taking full account of the balance sheet amounts as at the reporting date.

Further details on the reasons underlying the business performance are set out in the following "Earnings", "Net assets and financial position" and "Segment results" sections. The earnings performance of the Core Bank, the Non-Core Bank and Other and Consolidation is presented in the "Segments" section.

## Management system and defined management indicators of the IFRS Group

The Bank's integrated management system is aimed at the targeted management of key value drivers – income, efficiency/costs and profitability, risk, capital and liquidity. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Overall Bank, Core Bank and Non-Core Bank 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) and the relevant prudential rules, respectively.

Within the framework of management reporting, the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators compared to the same period of the previous year and, on the other, on their expected change over the remainder of 2018.

From the first quarter of 2018, the calculation of the coverage ratio as a key management indicator has changed. This is due to the level system associated with the introduction of IFRS 9, according to which significant deteriorations in the creditworthiness of non-defaulted loans (known as level 2 loans) require impairment losses to be recognised through profit or loss, and lending business is increasingly also measured at fair value. In line with the previous approach, the coverage ratio will therefore now be calculated as the ratio of specific loan loss provisions on defaulted loans measured at amortised cost (AC) to the exposure at default (EaD) for these defaulted loans (NPE). In future, this ratio will be referred to as the NPE Coverage Ratio$_{AC}$ in order to clarify matters. In the Group Management Report as at 31 December 2017 the Bank reported a coverage ratio of 63.6%.

Further information on the management system and defined management indicators of the HSH Nordbank Group, the Core Bank and the Non-Core Bank, as well as information on the development expected for 2018 as a whole, is set out in HSH Nordbank Group Management Report for the 2017 financial year in the "Management System" subsection in the "Basis of the Group" section, and in the "Forecast, opportunities and risks report" section.

# EARNINGS

## Total income down as expected

As expected, total income in the first quarter of 2018 fell significantly to € 161 million (same period last year: € 395 million), due to significantly lower effects from the realisation of unrealised gains compared to the prior-year quarter. In addition, the following developments in the individual key income line items were relevant:

Net interest income contributed € 135 million to total income (same period of the previous year: € 290 million). Net operating interest income, which has developed according to plan, has a noticeably positive effect within this context. In this context, rising new business margins and the largely stable interest-bearing receivables volume counteract the subdued new business transactions. Net interest income was hit by increased costs relating to transformation-related liquidity building and liquidity structure arising during the privatisation phase and realignment of the Bank. Moreover, refinancing costs which are attributable to the portfolio transaction have a negative impact. .

The result from financial instruments categorised as FVPL had a marked negative impact on total income at € – 19 million (same period of the previous year: € 87 million). This development is mainly attributable to subsequent valuation effects, most of which relate to the portfolio transaction. These are offset by interest income in the same amount resulting from interest on defaulted and at fair-value measured portfolios according to IFRS9, which is booked in the line item "interest income". Net operating trading income developed according to plan, mainly due to income from interest rate and currency hedging transactions.

Net income from financial investments including other income items amounted to € 39 million (same period of the previous year: € 6 million) and includes gains from the sale of promissory note loans in the amount of € 37 million.

## Loan loss provisions clearly positive

Loan loss provisions came to € 96 million as at the reporting date (same period of the previous year: € – 99 million). This development is attributable to reversals within loan loss provisions. These were incurred due to volume reduction and successful restructuring measures – especially in Shipping within the Core Bank. In the previous year, considerable amounts allocated for legacy loan exposures, especially in the ship portfolio of the Non-Core Bank, had a considerable negative impact on the Group net result. After currency effects and taking into account the hedging effect from the credit derivative, total loan loss provisions come to € 64 million (same period of the previous year: € – 56 million).

The second loss guarantee of € 10 billion has been utilised in full in the balance sheet since the first quarter of 2017. In light of the cancellation agreement reached, in the context of the privatisation process, between HSH Finanzfonds AöR, HSH Nordbank AG and HSH Beteiligungs Management GmbH, the guarantee is to be terminated prematurely and settled in full immediately after the closing of the share purchase agreement.

## Reduction in administrative expenses as planned

Administrative expenses came to € – 123 million as at 31 March 2018 (same period of the previous year: € – 136 million). In the first quarter of 2018, the Bank continued to implement its ongoing cost-cutting programme, which counteracts the increasing pressure on earnings and margins in the highly competitive banking market and the increasing expenses for regulatory requirements, stringently and in line with its plans.

Personnel expenses, which decreased from € – 58 million to € – 50 million, were mainly affected by a further reduction in the number of employees according to plan as part of the headcount reduction. Compared to the end of 2017, the number of employees within the Group continued to drop considerably, namely by 137 to 1,789 (computed on a full-time equivalent (FTE) basis). Operating expenses came to € – 63 million (same period of the previous year: € – 65 million). Depreciation of property, plant and equipment and amortisation of intangible assets came to € – 10 million (same period of the previous year: € – 13 million).

## Other income line items

Other operating income amounted to € 20 million (same period of the previous year: € 27 million) and largely includes income from cost reimbursements and reversals of provisions. It also includes income from deconsolidation measures of € 9 million, which is offset by expenses in the same amount in the item Result from instruments categorised as FVPL.

The expenses for the annual contributions to the bank levy and the deposit guarantee fund amounted to € – 40 million in the reporting year (same period of the previous year: € – 45 million).

## Restructuring and privatisation expenses

Earnings were adversely impacted further by restructuring and privatisation expenses in the amount of € – 11 million incurred in connection with the burdens associated with the privatisation process (e.g. costs associated with advisory services and data rooms). € – 16 million was incurred in the same period of the previous year.

## Guarantee premium: substantial one-off charge for early termination of the second loss guarantee

The expenses for the guarantee premium came to € – 131 million as at 31 March 2018 (same period of the previous year: € – 41 million) and put considerable pressure on the Bank's net result. In addition to the base premium, provisions of € – 100 million for the compensation payment due to the premature termination of the second loss guarantee were incurred on the reporting date. The compensation payment is an integral part of the cancellation agreement that has been signed between HSH Finanzfonds AöR, HSH Beteiligungs Management GmbH and the Bank during the privatisation.

## Group net result shaped by special effects

Overall, HSH Nordbank achieved net income before taxes of € – 60 million as at the reporting date (same period of the previous year: € 128 million). The expected loss is due, on the one hand, to charges for the premature termination of the second loss guarantee and, on the other hand, to significantly lower effects from sales of securities.

After taxes, the Group net result comes to € – 103 million (same period of the previous year: € 104 million). The income taxes line item comprised current tax expense of € – 1 million and deferred tax expense of € – 42 million. The deferred tax expense results from the elimination of deferred tax assets in accordance with tax planning for 2018.

# NET ASSETS AND FINANCIAL POSITION

## FURTHER DECREASE IN TOTAL ASSETS

After the end of the first quarter of 2018, HSH Nordbank's total assets were again lower than at the end of the previous year and amounted to € 65,669 million (31 December 2017: € 70,382 million). Although the Bank sold portfolios consisting mainly of ship financing and consisting largely of non-performing in the amount of € 6.3 billion (EaD) to a special purpose vehicle (SPV) from the sphere of investors in the first quarter of 2018 in the course of the privatisation process, the transfer of the portfolios and, as a result, the balance sheet relief will only be realised immediately after the closing of the share purchase agreement. For the decline in total assets on the balance sheet the following developments played a decisive role:

The cash reserve was down considerably on the end of the previous year and amounted to € 3,632 million on the reporting date (31 December 2017: € 6,625 million). This is due to the Bank's active liquidity management, which has led to lower balances at central banks. Loans and advances to banks came to € 2,799 million, also down significantly on the previous year-end (31 December 2017: € 3,838 million) as due to a drop in repo transactions and lower demand deposits and term deposits held at other banks.

Loans and advances to customers decreased to € 35,610 million (31 December 2017: € 39,174 million). The main reason for the decline is the switch to IFRS 9 accounting, which results in fair value measurement for some of the loans and advances. This negative cumulative fair value measurement is now included in the balance sheet item. The corresponding newly reported "Compensation item for financial instruments categorised as FVPL under the second loss guarantee" (€ 3,432 million) has to be added to enable comparability with the previous year's figure. On balance, this shows that there is no significant change in loans and advances to customers.

The loan loss provisions before the compensation effect fell considerably to € -864 million (31 December 2017: € - 4,494 million). This decrease is also almost exclusively attributable to the fair value measurement described above; the new "Compensation item for financial instruments categorised as FVPL under the second loss guarantee" has to be deducted to enable comparability with the previous year's figure. The compensation effect for the financial instruments not measured at fair value is correspondingly lower as at the reporting date and amounts to € 1,458 million (31 December 2017: € 5,181 million). After compensation, the loan loss provisions reported in the balance sheet amount to € 594 million (31 December 2017: € 687 million).

Further information on the transition to IFRS 9 accounting can be found in the notes to this report.

The hedging effect of partial guarantee Two is shown in the "Credit derivative under the second loss guarantee" balance sheet item. The fair value of the credit derivative came to € 983 million on the reporting date (31 December 2017: € 1,014 million).

Trading assets increased slightly to € 3,774 million (31 December 2017: € 3,641 million). The securities position in particular showed an increase, whereas the positive fair values of derivatives in trading assets decreased. Financial investments fell slightly to € 13,163 million (31 December 2017: € 13,647 million). While the investment portfolio remained constant, securities held as financial investments declined slightly.

On the liabilities side, liabilities to banks decreased to € 7,376 million (31 December 2017: € 8,271 million). In particular, repurchase agreements, but also deposits payable on demand and term deposits, declined. Liabilities to customers also dropped to € 33,951 million (31 December 2017: € 36,205 million). Both savings and demand deposits of institutional clients declined. Securitised liabilities were down slightly on the previous year-end to € 11,379 million (31 December 2017: € 12,444 million). Trading liabilities comprising negative market values of derivatives (€ 3,129 million, 31 December 2017: € 3,875 million) were down in line with the positive fair values of trading assets. Subordinated capital remained at the level seen at the end of the previous year at € 2,256 million (31 December 2017: € 2,252 million). Reported equity increased slightly to € 4,297 million (31 December 2017: € 4,373 million) in reason for this is the consolidated net loss for the first quarter of 2018 of € -104 million and – following adjustments to reflect the first-time adoption effects of IFRS 9 – a slight decrease in the revaluation reserve.

Business volume decreased slightly to € 76,489 million (31 December 2017: € 78,611 million). While total assets decreased, off-balance-sheet business increased slightly: sureties and guarantees amounted to € 1,884 million (31 December 2017: € 1,862 million) and irrevocable loan commitments increased significantly to € 8,936 million (31 December 2017: € 6,367 million). This significant increase is due exclusively to the first-time application of IFRS 9. Further explanations can be found in the section entitled "Accounting and measurement principles" in the chapter entitled "Application of accounting methods IFRS 9 – Financial instruments", sub-section "IV. Loan loss provision and impairment of financial instruments" in the notes to this report.

## CAPITAL AND FUNDING

### RWA, REGULATORY CAPITAL AND CAPITAL RATIOS

(IN-PERIOD)[1]

| | 31.03.2018 | 31.12.2017[2] |
|---|---|---|
| Risk-weighted assets (RWA) (€ bn) | 25.7 | 26.2 |
| Regulatory capital (€ bn) | 6.6 | 6.7 |
| of which: CET1 capital (€ bn) | 4.0 | 4.0 |
| Overall capital ratio | 25.7% | 25.8% |
| Tier 1 capital ratio | 18.9% | 19.7% |
| CET1 ratio | 15.5% | 15.4% |

[1] in-period: ceteris paribus calculation taking full account of the balance sheet amounts as at the reporting date.

[2] From March 2018, the capital ratios will no longer be shown taking into account the regulatory relief effect of the federal state guarantee. To enable a comparison with the key capital figures, pro forma ratios are shown as at March 2018. "Pro forma" means that, for the items included in the reference portfolio for the second loss guarantee, the RWA are recognised in line with the credit risk rules and not in line with the rules regarding securitisation. Within this context, valuation allowances that have been set up are still recognised in a manner that reduces the capital requirements in line with the regulatory requirements.

### CET1 ratio stabilises at a good level

As part of the privatisation of HSH Nordbank, the second loss guarantee provided by the federal state owners is to be settled in full and terminated in 2018. A corresponding cancellation agreement for the second loss guarantee was signed on 28 February 2018. It is subject, among other things, to the condition precedent of the successful closing of the share purchase agreement. Within this context, the regulatory capital ratios will no longer be shown as a securitisation structure as of March 2018, taking into account the regulatory relief effect of the second loss guarantee. In March 2018, presentation is comparable with the pro forma CET1 capital ratio reported as an additional ratio in the past.

Taking into account the changed regulatory presentation and based on underlying RWA of € 25.7 billion (31 December 2017: € 26.2 billion pro forma), the CET1 ratio comes to 15.5%. (31 December 2017: pro forma 15.4%). This exceeds the ambition level of around 15% planned at the end of 2018.

The development in the capital ratios in the first quarter of 2018 is due to a reduction in RWA, which compensates for the drop in capital due to the quarterly loss. The RWA decreased by around € 0.5 billion compared with 31 December 2017 (pro forma), mainly due to declining market risks.

### SREP requirements met

As part of the supervisory process in the Banking Union, HSH Nordbank was assigned an individual minimum capital ratio by the ECB that is reviewed annually as part of the SREP process. This capital ratio was adhered to at all times during the reporting period. The regulatory disclosure pursuant to the CRR is on a "not in-period" basis, i.e. balance sheet amounts as at the reporting date are only included in part. Since 1 January 2018, an SREP minimum requirement of around 10.2% (Pillar 2 Requirement "P2R" incl. the combined capital buffer requirements) has applied to HSH Nordbank.

As at 31 March 2018, the CET1 capital ratio of HSH Nordbank pursuant to the CRR comes to 15.1% (31 December 2017: 18.7%). The overall capital ratio pursuant to the CRR comes to 26.1% (31 December 2017: 31.4%). The decline in the capital ratios compared with 31 December 2017 is mainly due to the fact that the relief effect resulting from the impact of the federal state guarantee as a securitisation structure will no longer apply as of March 2018. This is due to the planned full settlement of the guarantee in 2018.

The financial holding group, which arose in 2016 as a result of the establishment of HSH Beteiligungs Management GmbH as a holding company in connection with the measures set out in the EU catalogue of conditions and commitments, has also been assigned a minimum capital ratio by the ECB as part of the supervisory process in the Banking Union which is in line with the statutory regulations and is reviewed annually as part of the SREP process. In this regard, a core Tier 1 capital ratio of 4.5%, plus capital buffer requirements that then amount to around 6.4% in total, has been applied to the financial holding group since 1 January 2018. As at 31 March 2018, the CET1 capital ratio pursuant to the CRR comes to 7.2% (31 December 2017: 10.2%). The decline in the CET1 capital ratio is mainly due to the fact that the relief effect resulting from the presentation of the federal state guarantee as a securitisation structure will no longer apply as of March 2018. This is due to the planned settlement of the guarantee in 2018.

HSH Nordbank's CRR leverage ratio was a very solid 7.6% as at 31 March 2018 (31 December 2017: 7.7%). This development is supported by the decline in leverage exposure to € 62.2 billion in the reporting period. Assuming the full implementation of Basel III, the leverage ratio comes to 6.2% (31 December 2017: 5.9%). A statutory binding minimum leverage ratio value has not yet been defined. With the amendment of the CRR, the leverage ratio, based on the tier 1 capital, is likely to be set at a binding level of 3% as a minimum requirement.

Detailed information regarding HSH Nordbank's capital and RWA forecast is set out in the "Forecast, opportunities and risk report" of the Group Management Report for the 2017 financial year, in particular in the section entitled "Forecast report including opportunities and risks".

### Funding activities further expanded

Funding is significantly higher than the pro rata planned value. In the first quarter, just over € 1 billion in long-term funds were raised. The SILO Funding ABF transaction generated approximately GBP 245 million. Real estate loans serve as collateral for the 3-year refinancing.

Since the fourth quarter of 2017, the Bank has been offering fixed-term deposit investments to retail customers via the "Deposit Solutions" platform, allowing it to open up a further funding channel. The portfolio is gradually increasing and amounted to € 934 million as at the reporting date.

Besides the issuing activities, the level of deposits also contributed to the implementation of the funding strategy. The volume of deposits was reduced as planned.

**KEY LIQUIDITY RATIOS**

| | **31.03.2018** | 31.12.2017 |
|---|---|---|
| Total deposits (€ bn) | 22.7 | 25.0 |
| LiqV | – | 1.79 |
| LCR | 170 % | 169 % |
| NSFR | 113 % | 114 % |

In addition to the successful refinancing, there were further inflows from the settlement of losses under the second loss guarantee at the beginning of 2018. The regulatory requirements for the liquidity ratios were exceeded by far during the reporting period. In the future, the LiqV will no longer have to be reported and was measured for the last time as at 31 December 2017.

## SEGMENT RESULTS

### SEGMENT OVERVIEW JANUARY TO MARCH 2018 [1]

| (€ m) | | Corporate Clients | Real Estate | Shipping | Treasury & Markets | **Core Bank[3]** | Non-Core Bank | Other and Consolidation[4,5] | **Group** |
|---|---|---|---|---|---|---|---|---|---|
| **Total income** | **2018** | **50** | **47** | **25** | **116** | **238** | **–** | **-77** | **161** |
| | 2017 | 67 | 61 | 23 | 244 | 395 | 30 | –30 | 395 |
| Loan loss provisions (including credit derivative)[2] | **2018** | **-8** | **3** | **66** | **–** | **61** | **6** | **-3** | **64** |
| | 2017 | 3 | –1 | –8 | 1 | –5 | –38 | –13 | –56 |
| Administrative expenses | **2018** | **-31** | **-14** | **-10** | **-18** | **-73** | **-44** | **-6** | **-123** |
| | 2017 | –33 | –14 | –11 | –22 | –80 | –57 | 1 | –136 |
| **Net income before taxes** | **2018** | **3** | **28** | **62** | **89** | **182** | **-141** | **-101** | **-60** |
| | 2017 | 31 | 39 | –5 | 214 | 279 | –93 | –58 | 128 |
| Segment assets (€ bn) | **31.03. 2018** | **12** | **11** | **5** | **18** | **46** | **11** | **9** | **66** |
| | 31.12. 2017 | 12 | 10 | 5 | 21 | 48 | 12 | 10 | 70 |

[1] Following the change in the allocation of transformation costs of surplus liquidity; previous year's figures adjusted accordingly
[2] Summary of the loan loss provisions and hedging effect of credit derivative second loss guarantee line items
[3] Core Bank is the total of the four segments: Real Estate, Shipping, Corporate Clients and Treasury & Markets
[4] Net income before taxes including result from restructuring and privatisation
[5] Consolidation also includes the effects from differences in accounting

### SATISFACTORY CORE BANK DEVELOPMENT IN LINE WITH EXPECTATIONS

Overall, the Core Bank showed satisfactory development in the first quarter of 2018. This was based on the operational development in the respective segments, which was largely according to plan. With a largely stable receivables portfolio, new business in the reporting period amounted to € 1.7 billion (same period of previous year: € 2.2 billion). Although this means that new business development failed to meet expectations in a persistently challenging environment, the Bank systematically selects its business transactions according to stringent internal risk and return requirements, meaning that it focuses primarily on profitability requirements. New business margins developed satisfactorily and increased considerably compared to the previous quarter. The cross-selling result was in line with expectations, mainly due to investment products.

The increased cost amounts arising from transformation related liquidity building and liquidity structure during the privatisation and realignment period of the Bank, which were previously reported in the Core Bank's customer segments, were reclassified to "Other" as at the reporting date. All prior-year and budgeted comparative figures have been adjusted accordingly, improving transparency with regard to the expenses associated with the transformation process and at the same time highlights the operating performance of the customer segments more clearly.

As at 31 March 2018, the Core Bank reported net income before taxes of € 182 million, which is higher than plan and, at the same time, down considerably on the same period of the previous year (previous year: € 279 million). The main reason for the decline, which is reflected in the Core Bank's total income, is the significant decline in income from sales of securities, which amounted to € 174 million in the prior-year quarter.

Furthermore loan loss provisions, which amounted to € 61 million (same period of the previous year: € –5 million), contributed to net income before taxes. The positive figure is due to the reversal of loan loss provisions, in particular due to successfully implemented restructuring measures, especially in the Shipping segment. Furthermore, general loan loss provisions were reversed. In addition, the implementation of the ongoing cost reduction programme in line with the plan contributed to the overall satisfactory Core Bank net result. Administrative expenses, for example, decreased significantly from € –80 million to € –73 million in the first quarter.

Provisions for the annual contributions to the bank levy and the deposit guarantee fund of € –27 million put pressure on the net result (same period of the previous year: € –28 million), as did substantial guarantee expenses, which amount to € –19 million due to the one-off payment for the premature termination of the second loss guarantee (same period of the previous year: € –5 million).

The Core Bank achieved a return on equity of 23.9%, which is higher than planned, on the basis of its positive quarterly result (31 December 2017: 20.8%) and a cost-income ratio that was in line with expectations at 30.4% (31 December 2017: 28.2%). In its strategic target vision for 2022, the Bank expects to be able achieve a return on equity of around 8% before tax, and a cost/income ratio of around 40%, in the long term. The measures associated with the transformation project will be geared towards achieving this objective and will be implemented as quickly as possible.

Total assets of the Core Bank amounted to around € 46 billion as at the reporting date (31 December 2017: € 48 billion). The decline is due to a drop in the cash reserve compared with the end of the previous year. The increase in liquidity reserves during the privatisation period, which is reflected in Treasury & Markets, will be reduced in line with the planning in the transformation period, while maintaining conservative ambition levels.

**KEY MANAGEMENT INDICATORS FOR THE CORE BANK**

| | 31.03.2018 | 31.12.2017 (31.03.2017) |
|---|---|---|
| Net income before taxes (€ m) | 182 | 732 (279) |
| CIR | 30.4 % | 28.2 % (20.2 %) |
| RoE | 23.9 % | 20.8 % (34.3 %) |
| New business (€ bn) | 1.7 | 8.5 (2.2) |

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

## Segment results of the Core Bank

The **Corporate Clients** segment is well diversified and is organised on a sector-specific basis. It combines the Energy & Infrastructure, Trade & Food, Healthcare, Industry & Services and Wealth Management business areas. In addition, the business unit offers the consultancy areas of structured financing, leveraged buy-out and mergers & acquisitions from a single source for all clients of the Bank.

In the Corporate Clients segment, net income before taxes in the first quarter of 2018 amounted to € 3 million (same period of the previous year: € 31 million). This development is due to lower total income, which reflects business development in an environment that has been highly competitive for years and shows net commission income that falls short of expectations within this context. Furthermore, positive valuation effects for customer derivatives provided a significant boost to total income in the previous year. Furthermore, loan loss provisions in the amount of € –8 million (same period of the previous year: € 3 million) put significant pressure on the segment result. Unlike in the previous year, no considerable loan loss provisions have been reversed to date that would have had a positive impact on the net result of loan loss provisions.

New business showed subdued development in line with the general market trend, particularly in the corporates business. It amounted to € 0.6 billion (same period of the previous year: € 0.8 billion). Nevertheless, thanks to stable client relationships, product distribution was stepped up in the individual business units, increasing the cross-selling result compared with the first quarter of the previous year. In the Energy & Infrastructure division, the volume of receivables stabilised at a good level. The focus was on financing for wind power plants and data networks. Following the successful market entry in Portugal in the last quarter of 2017, the renewable energy segment managed to consolidate its market position in Ireland and strengthening its position again in France in the quarter under review.

At € 28 million in the first quarter of 2018, the **Real Estate** segment is making a significant contribution to the Bank's earnings, with declining interest margins having a manageable impact on total income. In addition, total income in the same period of the previous year included positive valuation effects from customer derivatives that boosted the result. New business totalled € 1.0 billion in a competitive environment that remained intense (same period of the previous year: € 1.1 billion), in line with expectations. The positive development in business with international institutional investors continued and the high market penetration in the northern German core region was expanded. The division is also exploiting its good market position in the metropolitan regions of western Germany.

In the **Shipping** segment, net income before taxes amounted to € 62 million (same period of the previous year: € –5 million). The significant increase in earnings is due to loan loss provisions, which include the reversal of specific loan loss provisions. This is mainly attributable to positive restructuring successes in a small number of individual cases. General loan loss provisions were also reversed.

In the first quarter of 2018, the shipping market was characterised by a further stabilisation in the container vessel and bulker sub-segments. In a market environment that remains challenging, new business with national and international shipping companies with good credit ratings was on target and on a par with the previous year at € 0.2 billion.

The **Treasury & Markets** segments generated net income before taxes of € 89 million (same period of the previous year: € 214 million). The sharp decline is attributable to significantly lower earnings from the sale of securities. In the operating business, earnings contributions are developing in line with expectations despite the difficult market environment. The development in the sale of capital market products is slightly below the same period of the previous year and is supported by income from the management of liquidity and market price risks.

## SEGMENT RESULTS OF THE NON-CORE BANK

As at 31 March 2018, the Non-Core Bank reported a net loss of € – 141 million (same period of the previous year: € – 93 million). The reclassification of expenses for increased liquidity buffers only has a minor impact on the prior-year and budgeted comparative figures in the Non-Core Bank.

The significant loss is mainly due to guarantee charges (€ – 112 million) incurred mainly for the premature termination of the second loss guarantee. Taking these one-off expenses into account, the loss in the first quarter of 2018 is in line with expectations. Total income in the Non-Core Bank came to € 0 million (same period of the previous year: € 30 million) and is negatively impacted by the refinancing costs resulting from the portfolio transactions. Administrative expenses had a negative impact of € – 44 million on net income (same period of the previous year: € – 57 million).

As at 31 March 2018, total assets of the Non-Core Bank amount to € 10.7 billion. The drop of € 1 billion compared with the end of 2017 is due to the reduction in non-performing legacy loans – which have not been sold as part of the portfolio transaction – and to a lesser extent to currency effects. The transfer of the credit portfolios sold as part of the portfolio transaction depends, in particular, on the closing of the share purchase agreement. This means that it cannot be transferred to the sphere of the buyers until immediately after the closing of the privatisation process, which is why the Bank's balance sheet cannot be relieved until this time. The Bank will report the costs and income from this portfolio incurred up until this point in time in the Non-Core Bank in accordance with the accounting requirements.

**KEY MANAGEMENT INDICATORS FOR THE NON-CORE BANK**

| | **31.03.2018** | 31.12.2017 (31.03.2017) |
|---|---|---|
| Net income before taxes (€ m) | – 141 | – 1,583 (– 93) |
| Total assets (€ bn) | 10.7 | 11.7 |

## RESULTS "OTHER AND CONSOLIDATION"

Administrative functions and overall bank positions are disclosed in "Other" under "Other and Consolidation" as segments not subject to reporting requirements. "Consolidation" also comprises items that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences the result from restructuring and privatisation is allocated in full to this division. Furthermore, as of 31 March 2018, the expenses arising from transformation-related liquidity buffers and liquidity structure during the privatisation and realignment period of the Bank will no longer be allocated to the segments, but rather reported under Other and Consolidation. The prior-year and budgeted comparative figures have been adjusted accordingly.

Due to the uncertainties that are naturally inherent in the privatisation process, the Bank has switched its liquidity management approach over to an above-average liquidity-level. In doing so, it is prepared to accept a considerable temporary burden on its Group net result. However, in order to present the actual operating performance of the customer segments as transparently as possible on the one hand, and to present the temporary privatisation and transformation costs as a whole on the other hand, the costs of excess liquidity are now shown in Other and Consolidation.

Net income before income taxes amounted to € – 101 million as at the reporting date (same period of the previous year: € – 58 million). The above-mentioned costs associated with excess liquidity, which are reflected in total income, had a significant impact on earnings. Furthermore, restructuring expenses in the amount of € – 11 million (same period of the previous year: € – 16 million) put pressure on the net result.

The segment assets of "Other and Consolidation" mainly include the liquidity reserve. The segment assets amounted to € 9 billion as at 31 March 2018 (31 December 2017: € 10 billion).

# OUTLOOK

The following section should be read in conjunction with the other sections in this financial information and the Group Management Report in HSH Nordbank's Annual Report as at 31 December 2017. The forward-looking statements contained in this financial information are based on assumptions and conclusions based on information currently available to the Bank at the time the report was prepared. The statements are based on a series of assumptions that relate to future events. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond HSH Nordbank's direct control. Therefore, actual events may differ from the following forward-looking statements below.

## SATISFACTORY FIRST QUARTER OF 2018 – CLOSING EXPECTED IN THE THIRD OR FOURTH QUARTER

2018 will be a crucial year of transformation for the Bank, even if it will not signal the end of the realignment process. The coming months will be marked in particular by the implementation of the closing conditions leading up to what is currently expected to be the successful completion of the privatisation process. This is expected to happen in the third or fourth quarter of 2018. Moreover, the already initiated realignment of the Bank and the related transformation of the business model are being consistently pursued. The meanwhile defined measures are being implemented as quickly as possible, bearing in mind that the optimisation of the cost structures depends on a successful closing of the privatisation. This means that the Bank continues to work on laying additional foundations for a successful privatisation and besides for achieving the strategic target vision for 2022.

Following developments in the first quarter, which was overall satisfactory and in line with expectations, the Bank is confident that from today's view it will be able to achieve its targets for 2018 as a whole. The 2018 financial year will still be shaped to a considerable degree by the implementation of the privatisation process, as well as by the planned additional restructuring costs. As a result, taking into account the provisions that have already been set up in the first quarter for compensation payment of € -100 million for the premature termination of the second loss guarantee, a loss before tax of around € 100 million is still forecast for the 2018 financial year. The net income forecast is subject to any unforeseen effects resulting from the implementation of the closing conditions and the following change of ownership. At the same time, the CET1 ratio as the key controlling figure is expected to come in at around 15% at the end of 2018. Furthermore, the NPE ratio will come to around 2% following the implementation of the portfolio transaction.

In principle, the Bank remains cautious in its forecast for the whole of 2018 given the continuing challenging environment for European banks in general (e.g. due to current uncertainty surrounding the formation of a government in Italy) and HSH Nordbank in particular. The earnings forecast and future development of HSH Nordbank are associated with major challenges which are described in detail in the Group Management Report as at 31 December 2017. In summary, these relate primarily to resulting from adverse developments during the closing process associated with privatisation, as well as general challenges, such as possible macroeconomic setbacks in the sector developments that are relevant to the Bank. Changing assessments of the rating agencies and the steadily increasing requirements imposed by the European banking regulators also pose significant risks for the fulfilment of the earnings forecasts.

In order to meet the net income forecast for the 2018 financial year, HSH Nordbank's plan needs to be implemented as intended and the risks described in the Group Management Report as at 31 December 2017 do not materialise.

The going concern assumption for accounting and measurement purposes, as well as the continued survival of HSH Nordbank AG and major group companies is based, in particular, on the share purchase agreement concluded on 28 February 2018, in which HSH Beteiligungs Management GmbH sold 94.9% of the shares in HSH Nordbank AG to various funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, Golden Tree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG (hereinafter referred to as the "bidders") being closed and implemented. This is subject, in particular, to the proviso that

- the necessary approvals are granted by the competent competition authorities, in particular in Germany and Austria (this approval has since been granted),
- the federal state parliament in Hamburg approves the share purchase agreement (the necessary approval has already been granted in Schleswig-Holstein),
- the competent banking supervisory authority (European Central Bank (ECB), German Federal Financial Supervisory Authority (BaFin) and Commission de Surveillance du Secteur Financier (CSSF)) grants the necessary approvals,
- the European Commission approves the proposed new corporate structure after performing a viability review,
- the German Savings Banks Finance Group (DSGV) confirms that HSH Nordbank can keep its membership of the institutional protection scheme of the German Savings Banks Finance Group (SFG) for another three years after the conclusion of the share purchase agreement (closing),

- HSH Finanzfonds AöR submits a final settlement report on the second loss guarantee granted by HSH Finanzfonds AöR and
- the bidders pay the portion of the purchase price attributable to them on the closing date.

If any of the conditions set out above for the closing of the share purchase agreement are not met, and if no agreement can be reached between the parties involved in each case, in particular if the EU Commission reaches the conclusion, in the course of its viability review, that the planned new corporate structure will not lead to a business model that is profitable in the long term, then the Bank 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 that the Bank is wound down as a result of the above or for other reasons, or if its rating is downgraded or other adverse developments emerge, then this could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank's funding options. In the case of major unexpected fund outflows, additional measures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's future business model is maintained or gained.

Further details on expectations for the current year and significant opportunities and risks are set out in the detailed Group Management Report of HSH Nordbank as at 31 December 2017.

BALANCE SHEET ITEM
RECONCILIATION FROM IAS 39
TO

# IFRS 9

# BALANCE SHEET ITEM RECONCILIATION FROM IAS 39 TO IFRS 9

## 1. INTRODUCTION

The initial application of IFRS 9 results in changes in the carrying amounts between the closing balance sheet in accordance with IAS 39 as at 31 December 2017 and the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. The differences in carrying amounts will be recognised in equity. The changes relate to financial instruments and are based on the new classification, measurement and impairment provisions set out in IFRS 9 (see the section entitled "Accounting and measurement principles" in the chapter entitled "Application of accounting methods IFRS 9 - Financial instruments"). These provisions are to be applied retrospectively in principle. In accordance with the option provided for in IFRS 9.7.2.15, HSH Nordbank has opted not to adjust the comparative figures in the consolidated statement of financial position and has prepared a reconciliation from the closing balance sheet in accordance with IAS 39 as at 31 December 2017 to the opening balance sheet in accordance with IFRS 9 as at 1 January 2018.

The reconciliation has been prepared in accordance with the requirements set out in IFRS 7.42L to IFRS 7.42O. The balance sheet carrying amounts in the closing balance sheet in accordance with IAS 39 are reconciled to the balance sheet carrying amounts of the opening balance sheet in accordance with IFRS 9. The information is provided using two tables for each balance sheet item containing financial instruments. For the reconciliation of total loan loss provisions in accordance with IAS 39 to total loan loss provisions in accordance with IFRS 9, a further table was also prepared in line with the requirements of IFRS 7.42P.

In the following tables, it is important to note that the reconciliation tables for the balance sheet items "Loans and advances to banks" and "Loans and advances to customers" are shown before deductions for loan loss provisions, as these are shown in a separate reconciliation table in line with the presentation in the consolidated statement of financial position. By contrast, the reconciliation table for financial investments is shown after deductions for impairment (loan loss provisions) in line with the presentation in the consolidated statement of financial position.

In the table "Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39", the balance sheet carrying amounts in accordance with IFRS 9 are reconciled, per financial instrument category and per measurement category in accordance with IFRS 9, to the balance sheet carrying amounts per measurement category under IAS 39. The categories of financial instruments required under IFRS 7.6 were adjusted as at 1 January 2018 to reflect the new classification and measurement provisions in accordance with IFRS 9 (see the section entitled "Accounting and measurement principles" in the chapter entitled "Application of accounting methods IFRS 9 - Financial instruments"). The total amount in the "IAS 39 carrying amount" column corresponds to the value shown in the consolidated statement of financial position for the balance sheet item in question as at 31 December 2017.

The table entitled "Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7" shows the balance sheet carrying amounts under IAS 39 for each IAS 39 measurement category ("IAS 39 carrying amount" column). The total amount in the "IAS 39 carrying amount" column corresponds to the value shown in the consolidated statement of financial position for the balance sheet item in question as at 31 December 2017. The rows "from" show the values for each measurement and holding category under IAS 39. The rows "to" show the values for each measurement category and category of financial instruments under IFRS 9. The IAS 39 balance sheet carrying amounts for each measurement category under IFRS 9 are visible in the "Reclassifications" column. The balance sheet carrying amounts in accordance with IFRS 9 as at 1 January 2018 are shown in the "IFRS 9 carrying amount" column. The difference between the columns "Reclassifications" and "IFRS 9 carrying amount" column is displayed in the "Remeasurement" column and represents the measurement difference between IAS 39 and IFRS 9. This value corresponds to change in equity which is directly related to the initial application of IFRS 9 ("Equity effect" column).

The equity effects resulting from the initial application of IFRS 9 as at 1 January 2018 are explained in the section "Explanatory information" below the reconciliation tables. This section shows, for example, how the equity effect is distributed proportionately among retained earnings and the revaluation reserve, and what the main drivers of the equity effects are.

# RECONCILIATION OF BALANCE SHEET ITEMS IN ACCORDANCE WITH IFRS 7.42L

## Financial assets

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**CASH RESERVE**

| (€ m) | | 01.01.2018 | | 31.12.2017 |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | 6,625 | measured at amortised cost (LaR) | 6,519 |
| | | | measured at fair value (AfS) | 106 |
| | | **6,625** | | **6,625** |
| FVPL Other | Fair value through Profit or Loss (FVPL) | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (AfS) | – |
| Designated FVPL | | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (AfS) | – |
| | | **–** | | **–** |
| Mandatory FVOCI | Fair Value through Other Comprehensive Income (FVOCI) | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (AfS) | – |
| | | **–** | | **–** |
| **Total** | | **6,625** | | **6,625** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**CASH RESERVE**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | 6,519 | | | | |
| To | Amortised Cost (AC) | AC assets | | 6,519 | – | 6,519 | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **6,519** | **6,519** | **–** | **6,519** | **–** |
| From | measured at fair value | Available for Sale (AfS) | 106 | | | | |
| To | Amortised Cost (AC) | AC assets | | 106 | – | 106 | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | FairvValue through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **106** | **106** | **–** | **106** | **–** |
| **Total** | | | **6,625** | **6,625** | **–** | **6,625** | **–** |

## Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

### LOANS AND ADVANCES TO BANKS

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | 3,561 | measured at amortised cost (LaR) | 3,561 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **3,561** | | **3,561** |
| FVPL Other | Fair value through Profit or Loss (FVPL) | 79 | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | 79 |
| Designated FVPL | | | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **79** | | **79** |
| Mandatory FVOCI | Fair Value through Other Comprehensive Income (FVOCI) | 204 | measured at amortised cost (LaR) | 197 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **204** | | **197** |
| **Total** | | **3,845** | | **3,838** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**LOANS AND ADVANCES TO BANKS**

| (€ m) | | | 31.12.2017 | | | 01.01.2018 | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | 3,759 | | | | |
| To | Amortised Cost (AC) | AC assets | | 3,562 | – | 3,562 | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | 197 | 7 | 204 | 7 |
| | | | **3,759** | **3,759** | **7** | **3,766** | **7** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | measured at fair value | Available for Sale (AfS) | 79 | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | 79 | – | 79 | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **79** | **79** | **–** | **79** | **–** |
| **Total** | | | **3,838** | **3,838** | **7** | **3,845** | **7** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**LOANS AND ADVANCES TO CUSTOMERS**

| (€ m) | | 01.01.2018 | | 31.12.2017 |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | 30,519 | measured at amortised cost (LaR) | 30,403 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **30,519** | | **30,403** |
| FVPL Other | Fair value through Profit or Loss (FVPL) | 2,681 | measured at amortised cost (LaR) | 6,230 |
| | | | measured at fair value (DFV) | 85 |
| | | | measured at fair value (AfS) | 45 |
| Designated FVPL | Fair value through Profit or Loss (FVPL) | 124 | measured at amortised cost (LaR) | 8 |
| | | | measured at fair value (DFV) | 118 |
| | | | measured at fair value (AfS) | – |
| | | **2,805** | | **6,486** |
| Mandatory FVOCI | Fair Value through Other Comprehensive Income (FVOCI) | 2,289 | measured at amortised cost (LaR) | 1,157 |
| | | | measured at fair value (DFV) | 1,052 |
| | | | measured at fair value (AfS) | – |
| | | **2,289** | | **2,209** |
| No category | Receivables under finance leases | 76 | Receivables under finance leases | 76 |
| **Total** | | **35,689** | | **39,174** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**LOANS AND ADVANCES TO CUSTOMERS**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | 37,798 | | | | |
| To | Amortised Cost (AC) | AC assets | | 30,403 | 116 | 30,519 | 116 |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | 6,230 | – 3,679 | 2,551 | – 3,679 |
| | | Designated FVPL | | 8 | – 2 | 6 | – 2 |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | 1,157 | 80 | 1,237 | 80 |
| | | | **37,798** | **37,798** | **– 3,485** | **34,313** | **– 3,485** |
| From | measured at fair value | Designated at Fair Value (DFV) | 1,255 | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | 85 | – | 85 | – |
| | | Designated FVPL | | 118 | – | 118 | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | 1,052 | – | 1,052 | – |
| | | | **1,255** | **1,255** | **–** | **1,255** | **–** |
| From | measured at fair value | Available for Sale (AfS) | 45 | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair value through Profit or Loss (FVPL) | FVPL Other | | 45 | – | 45 | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **45** | **45** | **–** | **45** | **–** |
| From | Receivables under finance leases | No IAS 39 category | 76 | | | | |
| To | Receivables under finance leases | No category | | 76 | – | 76 | – |
| | | | **76** | **76** | **–** | **76** | **–** |
| **Total** | | | **39,174** | **39,174** | **– 3,485** | **35,689** | **– 3,485** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**LOAN LOSS PROVISIONS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | – 978 | measured at amortised cost (LaR) | – 751 |
| | [2] | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **– 978** | | **– 751** |
| FVPL Other | Fair value through Profit or Loss (FVPL) | – | measured at amortised cost (LaR) | – 199 |
| | | | measured at fair value (AfS) | – |
| Designated FVPL | Fair value through Profit or Loss (FVPL) | – | measured at amortised cost (LaR) | – 3,544 |
| | | | measured at fair value (AfS) | – |
| | [1] | **–** | | **– 3,743** |
| Mandatory FVOCI | Fair Value through Other Comprehensive Income (FVOCI) | – | measured at amortised cost (LaR) | – |
| | [2] | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **–** | | **–** |
| No category | Receivables under finance leases | – | Receivables under finance leases | – |
| | | **– 978** | | **– 4,494** |
| Compensation under the second loss guarantee for financial instruments not assigned to the FVPL category.[3] | | 1,697 | | 5,181 |
| **Total** | | **719** | | **687** |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[2] The reclassification of financial assets to fair value measurement leads to transfers from the balance sheet item “Loan loss provisions” to the balance sheet item “Compensation item for financial instruments categorised as FVPL under the second loss guarantee” in an amount of € 3,484 million.

## Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

### LOAN LOSS PROVISIONS

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassifi-cation | Remeasure-ment | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | – 4,494 | | | | |
| To | Amortised Cost (AC) | AC assets | | – 751 | – 227 | – 978 | – 227 |
| | Fair value through Profit or Loss (FVPL)[1] | FVPL Other | | – 199 | 199 | – | 199 |
| | | Designated FVPL | | – 3,544 | 3,544 | – | 3,544 |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **– 4,494** | **– 4,494** | **3,516** | **– 978** | **3,516** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC)[2] | AC assets | | – | – | – | – |
| | Fairvalue through Other Comprehensive Income (FVOCI)[2] | Mandatory FVOCI | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | measured at fair value | Available for Sale (AfS) | – | | | | |
| To | Amortised Ccost (AC) | AC assets | | – | – | – | – |
| | Fair value through Profit or Loss (FVPL)[1] | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | Receivables under finance leases | No IAS 39 category | – | – | – | – | – |
| To | Receivables under finance leases | No category | | – | – | – | – |
| | | | | | | | |
| | Compensation under the second loss guarantee (excl. financial instruments categorised as FVPL)[3] | | 5,181 | 5,181 | – 3,484 | 1,697 | – 3,484 |
| **Total** | | | **687** | **687** | **32** | **719** | **32** |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.

[2] The reclassification of financial assets to fair value measurement leads to transfers from the balance sheet item "Loan loss provisions" to the balance sheet item "Compensation item for financial instruments categorised as FVPL under the second loss guarantee" in an amount of € 3,484 million.

## Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 9

### COMPENSATION ITEM FOR FINANCIAL INSTRUMENTS CATEGORISED AS FVPL UNDER THE SECOND LOSS GUARANTEE

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| FVPL Other | Fair value through Profit or Loss (FVPL) [1] | 3,484 | measured at amortised cost (LaR) | – |

[1]) These amounts relate to the transfer of compensation amounts from the balance sheet item "Loan loss provisions" to the balance sheet item "Compensation item for financial instruments categorised as FVPL under the second loss guarantee". This is due to the reclassification of individual financial assets from the LaR/ AfS categories to the FVPL measurement category.

## Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

### COMPENSATION ITEM FOR FINANCIAL INSTRUMENTS CATEGORISED AS FVPL UNDER THE SECOND LOSS GUARANTEE

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | – | | | | |
| To | Fair value through Profit or Loss (FVPL) | FVPL Other[1] | – | – | 3,484 | 3,484 | 3,484 |
| **Total** | | | **–** | **–** | **3,484** | **3,484** | **3,484** |

[1]) These amounts relate to the transfer of compensation amounts from the balance sheet item "Loan loss provisions" to the balance sheet item "Compensation item for financial instruments categorised as FVPL under the second loss guarantee". This is due to the reclassification of individual financial assets from the LaR/ AfS categories to the FVPL measurement category.

## Reconciliation of impairments in accordance with IFRS 7.42P. - financial assets

### LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS

| | | 31.12.2017 | | 01.01.2018 | | |
|---|---|---|---|---|---|---|
| | | IAS 39 amount | Reclassification | | Remeasurement[3] | **IFRS 9 amount** |
| From | measured at amortised cost (LaR) | – 1 | | | | |
| To | Amortised Cost (AC) | | – 1 | | – | – 1 |
| | Fair value through Profit or Loss (FVPL)[1] | | – | Derecognition of IAS 39 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | **- 1** | **- 1** | | **-** | **- 1** |
| From | measured at fair value (DFV) | – | | | | |
| To | Amortised Ccost (AC)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | Fair value through Other Comprehensive Income (FVOCI)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | | **-** | **-** | | **-** | **-** |
| From | measured at fair value (AfS) | – | | | | |
| To | Amortised Cost (AC) | | – | | – | – |
| | Fair value through Profit or Loss (FVPL)[1] | | – | Derecognition of IAS 39 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | **-** | **-** | | **-** | **-** |
| **Total** | | **- 1** | **- 1** | | **-** | **- 1** |
| **Total** | | | **-** | **Derecognition of IAS 39 amount due to reclassification** | | |
| **Total** | | | **-** | **Addition to IFRS 9 amount due to reclassification** | | |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[2] In the case of these amounts, the reclassification of the financial assets from fair value measurement means that the loan loss provisions have to be calculated for the first time. This means that the reclassification amount includes the application of the IFRS 9 rules for the calculation of impairments. Under IAS 39, default risks were implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[3] The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

## LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

| | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|
| | | IAS 39 amount | Reclassification | | Remeasurement[3] | **IFRS 9 amount** |
| From | measured at amortised cost (LaR) | –4,493 | | | | |
| To | Amortised Cost (AC) | | –750 | | –227 | –977 |
| | Fair Value through Profit or Loss (FVPL)[1] | | –3,743 | Derecognition of IAS 39 amount due to reclassification | 3,743 | – |
| | Fair Value through Other Ccomprehensive Income (FVOCI) | | – | | – | – |
| | | **–4,493** | **–4,493** | | **3,516** | **–977** |
| From | measured at fair value (DFV) | – | | | | |
| To | Amortised Cost (AC)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | Fair value through Other Comprehensive Income (FVOCI)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | | **–** | **–** | | **–** | **–** |
| From | measured at fair value (AfS) | – | | | | |
| To | Amortised Cost (AC) | | – | | – | – |
| | Fair Value through Profit or Loss (FVPL) | | – | Derecognition of IAS 39 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | **–** | **–** | | **–** | **–** |
| | Receivables under finance leases | – | – | | – | – |
| **Total** | | **–4,493** | **–4,493** | | **3,516** | **–977** |
| **Total** | | | **–3,743** | **Derecognition of IAS 39 amount due to reclassification** | | |
| **Total** | | | **–** | **Addition to IFRS 9 amount due to reclassification** | | |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[2] In the case of these amounts, the reclassification of the financial assets from fair value measurement means that the loan loss provisions have to be calculated for the first time. This means that the reclassification amount includes the application of the IFRS 9 rules for the calculation of impairments. Under IAS 39, default risks were implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[3] The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

**LOAN LOSS PROVISIONS FOR FINANCIAL INVESTMENTS**

| | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|
| | | IAS 39 amount | Reclassification | | Remeasurement[3] | **IFRS 9 amount** |
| From | measured at amortised cost (LaR) | –4 | | | | |
| To | Amortised Cost (AC) | | –2 | | 2 | – |
| | Fair Value through Profit or Loss (FVPL)[1] | | –2 | Derecognition of IAS 39 amount due to reclassification | 2 | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | –7 | –7 |
| | | | **–4** | | **–3** | **–7** |
| From | measured at fair value (DFV) | – | | | | |
| To | Amortised Cost (AC)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | | **–** | **–** | | **–** | **–** |
| From | measured at fair value (AfS) | –79 | | | | |
| To | Amortised Cost (AC) | | – | | – | – |
| | Fair Value through Profit or Loss (FVPL)[1] | | –79 | Derecognition of IAS 39 amount due to reclassification | 79 | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | | **–79** | | **79** | **–** |
| **Total** | | **–83** | **–83** | | **76** | **–7** |
| **Total** | | | **–81** | **Derecognition of IAS 39 amount due to reclassification** | | |
| **Total** | | | **–** | **Addition to IFRS 9 amount due to reclassification** | | |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[2] In the case of these amounts, the reclassification of the financial assets from fair value measurement means that the loan loss provisions have to be calculated for the first time. This means that the reclassification amount includes the application of the IFRS 9 rules for the calculation of impairments. Under IAS 39, default risks were implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[3] The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

**LOAN LOSS PROVISIONS FOR NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS**

| | | 31.12.2017 | | 01.01.2018 | | |
|---|---|---|---|---|---|---|
| | | IAS 39 amount | Reclassification | | Remeasurement[3] | **IFRS 9 amount** |
| From | measured at amortised cost (LaR) | – | | | | |
| To | Amortised Cost (AC) | | – | | – | – |
| | Fair Value through Profit or Loss (FVPL)[1] | | – | Derecognition of IAS 39 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | **–** | **–** | | **–** | **–** |
| From | measured at fair value (DFV) | – | | | | |
| To | Amortised Cost (AC)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI)[2] | | – | Addition to IFRS 9 amount due to reclassification | – | – |
| | | **–** | **–** | | **–** | **–** |
| From | measured at fair value (AfS) | – | | | | |
| To | Amortised Cost (AC) | | – | | – | – |
| | Fair Value through Profit or Loss (FVPL)[1] | | – | Derecognition of IAS 39 amount due to reclassification | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | **–** | **–** | | **–** | **–** |
| **Total** | | **–** | **–** | | **–** | **–** |
| **Total** | | | **–** | **Derecognition of IAS 39 amount due to reclassification** | | |
| **Total** | | | **–** | **Addition to IFRS 9 amount due to reclassification** | | |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[2] In the case of these amounts, the reclassification of the financial assets from fair value measurement means that the loan loss provisions have to be calculated for the first time. This means that the reclassification amount includes the application of the IFRS 9 rules for the calculation of impairments. Under IAS 39, default risks were implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[3] The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

**LOAN LOSS PROVISIONS FOR COMPENSATION UNDER THE SECOND LOSS GUARANTEE (EXCL. FINANCIAL INSTRUMENTS CATEGORISED AS FVPL)**

| | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|
| | | IAS 39 amount | Reclassification | | Remeasurement[3] | **IFRS 9 amount** |
| From | measured at amortised cost (LaR) | 5,181 | | | | |
| To | Amortised Cost (AC) | | 1,697 | | – | 1,697 |
| | Fair Value through Profit or Loss (FVPL) | | 3,484 | Transfer to compensation item for financial instruments categorised as FVPL under the second loss guarantee | –3,484 | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | | **5,181** | | **–3,484** | **1,697** |
| From | measured at fair value (DFV) | – | | | | |
| To | Amortised Cost (AC) | | – | Transfer from compensation item for financial instruments categorised as FVPL under the second loss guarantee | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | Transfer from compensation item for financial instruments categorised as FVPL under the second loss guarantee | – | – |
| | | **–** | **–** | | **–** | **–** |
| From | measured at fair value (AfS) | – | | | | |
| To | Amortised Cost (AC) | | – | | – | – |
| | Fair Value through Profit or Loss (FVPL) | | – | Transfer to compensation item for financial instruments categorised as FVPL under the second loss guarantee | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | | – | | – | – |
| | | **–** | **–** | | **–** | **–** |
| **Total** | | **5,181** | **5,181** | | **–3,484** | **1,697** |
| **Total** | | | **–3,484** | **Transfer to compensation item for financial instruments categorised as FVPL under the second loss guarantee** | | |
| **Total** | | | **–** | **Transfer from compensation item for financial instruments categorised as FVPL under the second loss guarantee** | | |

[1] In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[2] In the case of these amounts, the reclassification of the financial assets from fair value measurement means that the loan loss provisions have to be calculated for the first time. This means that the reclassification amount includes the application of the IFRS 9 rules for the calculation of impairments. Under IAS 39, default risks were implicitly included as a component of the fair value measurement in the balance sheet carrying amount.
[3] The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

### Reconciliation of impairments in accordance with IFRS 7.42P –Off-balance-sheet transactions

**PROVISIONS IN THE LENDING BUSINESS**

| | | 31.12.2017 | 01.01.2018 | | |
|---|---|---|---|---|---|
| | | IAS 39 amount | Remeasurement | | **IFRS 9 amount** |
| | Contingent liabilities | 11 | –1 | | 10 |
| | Irrevocable loan commitments | 35 | –9 | | 26 |
| | Other credit risks | 21 | –1 | | 20 |
| **Total** | | **67** | **–11** | | **56** |

With regard to the calculation of the equity effect resulting from IFRS 9, it is important to note that the IAS 39 amount includes provisions for non-financial instruments in the amount of € 14 million that were set up in accordance with IAS 37. This means that, in connection with the IFRS 9 amount shown above, which does not include any provisions for non-financial instruments in the reconciliation statement pursuant to IFRS 7.42P, whereas these are, however, included in the "Provisions" balance sheet item, this results in an equity effect from the provisions in the amount of € –3 million.

## RECONCILIATION OF BALANCE SHEET ITEMS IN ACCORDANCE WITH IFRS 7.42L (CONTINUATION)

### Financial Assets

#### Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

**CREDIT DERIVATIVE UNDER THE SECOND LOSS GUARANTEE**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| FVPL Trading | Fair Value through Profit or Loss (FVPL) | 1,014 | measured at fair value (HfT) | 1,014 |

#### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

**CREDIT DERIVATIVE UNDER THE SECOND LOSS GUARANTEE**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at fair value | Held for Trading (HfT) | 1,014 | | | | |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Trading | | 1,014 | – | 1,014 | – |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**POSITIVE FAIR VALUE OF HEDGING DERIVATIVES**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| n.a. | Fair Value through Profit or Loss (FVPL) | 264 | measured at fair value | 264 |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**POSITIVE FAIR VALUE OF HEDGING DERIVATIVES**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at fair value | n.a. | 264 | | | | |
| To | Fair Value through Profit or Loss (FVPL) | n.a. | | 264 | – | 264 | – |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**POSITIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| No category | n.a. | 255 | n.a. | 255 |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**POSITIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | n.a. | No IAS 39 category | 255 | | | | |
| To | n.a. | No category | – | 255 | – | 255 | – |

## Reconciliation of measurement categories and carrying amounts of financial instruments from IAS 39 to IFRS 9

### TRADING ASSETS

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| FVPL Trading | Fair Value through Profit or Loss (FVPL) | 3,550 | measured at fair value (HfT) | 3,550 |
| | [1] | – | | 91 |
| **Total** | | **3,550** | | **3,641** |

[1] In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item "Trading assets" to the balance sheet item "Financial investments".

## Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

### TRADING ASSETS

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasure-ment | **IFRS 9 carrying amount** | Equity effect |
| From | measured at fair value | Held for Trading (HfT) | 3,641 | | | | |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Trading | | 3,550 | – | 3,550 | – |
| | | FVPL Other (financial investments)[1] | | 91 | – | – | – |
| | | | | **3,641** | **–** | **3,550** | **0** |

[1] In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item "Trading assets" to the balance sheet item "Financial investments".

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**FINANCIAL INVESTMENTS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | 103 | measured at amortised cost (LaR) | 101 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **103** | | **101** |
| FVPL Other | Fair Value through Profit or Loss (FVPL) | 645 | measured at amortised cost (LaR) | 99 |
| | | | measured at cost (AfS) | – |
| | | | measured at fair value (DFV) | 444 |
| | | | measured at fair value (AfS) | 102 |
| | [1] | 91 | | – |
| Designated FVPL | | 168 | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | 168 |
| | | – | measured at fair value (AfS) | – |
| | | **904** | | **813** |
| Mandatory FVOCI | Fair Value through Other Comprehensive Income (FVOCI) | 12,804 | measured at amortised cost (LaR) | 360 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | 12,373 |
| | | **12,804** | | **12,733** |
| **Total** | | **13,811** | | **13,647** |

[1] In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item "Trading assets" to the balance sheet item "Financial investments".

## Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

### FINANCIAL INVESTMENTS

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | 560 | | | | |
| To | Amortised Cost (AC) | AC assets | | 101 | 2 | 103 | 2 |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | 99 | – | 99 | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | 360 | 77 | 437 | 77 |
| | | | **560** | **560** | **79** | **639** | **79** |
| From | measured at cost | Available for Sale (AfS) | – | | | | |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | 612 | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | 444 | – | 444 | – |
| | | Designated FVPL | | 168 | – | 168 | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **612** | **612** | **–** | **612** | **–** |
| From | measured at fair value | Available for Sale (AfS) | 12,475 | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | 102 | – | 102 | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | 12,373 | – 6 | 12,367 | – 6 |
| | | | **12,475** | **12,475** | **– 6** | **12,469** | **– 6** |
| From | measured at fair value | Held for Trading (HfT)/(trading assets) | – | | | | |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Other[1] | | 91 | – | 91 | – |
| | | | **–** | | **–** | | **–** |
| **Total** | | | **13,647** | **13,738** | **73** | **13,811** | **73** |

[1] In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item "Trading assets" to the balance sheet item "Financial investments".

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | 14 | measured at amortised cost (LaR) | 14 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **14** | | **14** |
| FVPL Trading | Fair Value through Profit or Loss (FVPL) | – | measured at fair value (HfT) | – |
| FVPL Other | | 12 | measured at amortised cost (LaR) | 12 |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| Designated FVPL | | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **12** | | **12** |
| Mandatory FVOCI | Fair Value through Other Comprehensive Income (FVOCI) | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | – |
| | | | measured at fair value (AfS) | – |
| | | **–** | | **–** |
| **Total** | | **26** | | **26** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | 26 | | | | |
| To | Amortised Cost (AC) | AC assets | | 14 | – | 14 | – |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | 12 | – | 12 | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **26** | **26** | **–** | **26** | **–** |
| From | measured at fair value | Held for Trading (HfT) | – | – | – | – | – |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Trading | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | measured at fair value | Available for Sale (AfS) | – | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | Fair Value through Other Comprehensive Income (FVOCI) | Mandatory FVOCI | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| **Total** | | | **26** | **26** | **–** | **26** | **–** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**OTHER ASSETS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC assets | Amortised Cost (AC) | 36 | measured at amortised cost (LaR) | 35 |
| | | | measured at fair value (DFV) | – |
| | | **36** | | **35** |
| FVPL Other | Fair Value through Profit or Loss (FVPL) | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | – |
| Designated FVPL | | – | measured at amortised cost (LaR) | – |
| | | | measured at fair value (DFV) | – |
| | | **–** | | **–** |
| **Total** | | **36** | | **35** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**OTHER ASSETS**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Loans and Receivables (LaR) | 35 | | | | |
| To | Amortised Cost (AC) | AC assets | | 35 | 1 | 36 | 1 |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | | | | **35** | **1** | **36** | **1** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC) | AC assets | | – | – | – | – |
| | Fair Value through Profit or Loss (FVPL) | FVPL Other | | – | – | – | – |
| | | Designated FVPL | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| **Total** | | **Total** | **35** | **35** | **1** | **36** | **1** |

# RECONCILIATION OF BALANCE SHEET ITEMS IN ACCORDANCE WITH IFRS 7.42L

## Financial liabilities

### Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 9

**LIABILITIES TO BANKS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC liabilities | Amortised Cost (AC) | 8,153 | measured at amortised cost (LIA) | 8,153 |
| | | | measured at fair value (DFV) | – |
| | | **8,153** | | **8,153** |
| Designated FVPL | FVPL/FVOCI | 118 | measured at amortised cost (LIA) | – |
| | | | measured at fair value (DFV) | 118 |
| | | **118** | | **118** |
| **Total** | | **8,271** | | **8,271** |

### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

**LIABILITIES TO BANKS**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Other liabilities (LIA) | 8,153 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | 8,153 | – | 8,153 | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | | **8,153** | **–** | **8,153** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | 118 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | – | – | – | – |
| | FVPL/FVOCI | Designated FVPL | | 118 | – | 118 | – |
| | | | | **118** | **–** | **118** | **–** |
| **Total** | | | **8,271** | **8,271** | **–** | **8,271** | **–** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**LIABILITIES TO CUSTOMERS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC liabilities | Amortised Cost (AC) | 35,386 | measured at amortised cost (LIA) | 35,386 |
| | | | measured at fair value (DFV) | – |
| | | **35,386** | | **35,386** |
| Designated FVPL | FVPL/FVOCI | 819 | measured at amortised cost (LIA) | 819 |
| | | | measured at fair value (DFV) | – |
| | | **819** | | **819** |
| **Total** | | **36,205** | | **36,205** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**LIABILITIES TO CUSTOMERS**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Other liabilities (LIA) | 35,386 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | 35,386 | – | 35,386 | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **35,386** | **35,386** | **–** | **35,386** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | 819 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | – | – | – | – |
| | FVPL/FVOCI | Designated FVPL | | 819 | – | 819 | – |
| | | | **819** | **819** | **–** | **819** | **–** |
| **Total** | | | **36,205** | **36,205** | **–** | **36,205** | **–** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**SECURITISED LIABILITIES**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC liabilities | Amortised Cost (AC) | 10,823 | measured at amortised cost (LIA) | 10,823 |
| | | | measured at fair value (DFV) | – |
| | | **10,823** | | **10,823** |
| Designated FVPL | FVPL/FVOCI | 1,621 | measured at amortised cost (LIA) | – 6 |
| | | | measured at fair value (DFV) | 1,627 |
| | | **1,621** | | **1,621** |
| **Total** | | **12,444** | | **12,444** |

### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

**SECURITISED LIABILITIES**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Other liabilities (LIA) | 10,817 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | 10,823 | – | 10,823 | – |
| | FVPL/FVOCI | Designated FVPL | | – 6 | – | – 6 | – |
| | | | **10,817** | **10,817** | **–** | **10,817** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | 1,627 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | – | – | – | – |
| | FVPL/FVOCI | Designated FVPL | | 1,627 | – | 1,627 | – |
| | | | **1,627** | **1,627** | **–** | **1,627** | **–** |
| **Total** | | | **12,444** | **12,444** | **–** | **12,444** | **–** |

### Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

**NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| n.a. | Fair Value through Profit or Loss (FVPL) | 163 | measured at fair value | 163 |

### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

**NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at fair value | n.a. | 163 | | | | |
| To | Fair Value through Profit or Loss (FVPL) | n.a. | | 163 | – | 163 | – |

### Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

#### NEGATIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| No category | n.a. | 553 | n.a. | 553 |

### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

#### NEGATIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | n.a. | No IAS 39 category | 553 | | | | |
| To | n.a. | No category | | 553 | – | 553 | – |

### Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

#### TRADING LIABILITIES

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| FVPL Trading | Fair Value through Profit or Loss (FVPL) | 3,875 | measured at fair value (HfT) | 3,875 |
| **Total** | | **3,875** | | **3,875** |

### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

#### TRADING LIABILITIES

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at fair value | Held for Trading (HfT) | 3,875 | | | | |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Trading | | 3,875 | – | 3,875 | – |
| **Total** | | | **3,875** | **3,875** | **–** | **3,875** | **–** |

### Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

**LIABILITIES RELATING TO DISPOSAL GROUPS**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC liabilities | Amortised Cost (AC) | 2 | measured at amortised cost (LIA) | 2 |
| | | | measured at fair value (DFV) | – |
| | | **2** | | **2** |
| FVPL Trading | Fair Value through Profit or Loss (FVPL) | – | measured at fair value (HfT) | – |
| Designated FVPL | FVPL/FVOCI | – | measured at amortised cost (LIA) | – |
| | | | measured at fair value (DFV) | – |
| | | **–** | | **–** |
| **Total** | | **2** | | **2** |

### Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

**LIABILITIES RELATING TO DISPOSAL GROUPS**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassification | Remeasurement | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Other liabilities (LIA) | 2 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | 2 | – | 2 | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **2** | **2** | **–** | **2** | **–** |
| From | measured at fair value | Held for Trading (HfT) | – | | | | |
| To | Fair Value through Profit or Loss (FVPL) | FVPL Trading | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC) | AC liabilities | | – | – | – | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| **Total** | | | **2** | **2** | **–** | **2** | **–** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**OTHER LIABILITIES**

| (€ m) | 01.01.2017 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC liabilities | Amortised Cost (AC) | 638 | measured at amortised cost (LIA) | 638 |
| | | | measured at fair value (DFV) | – |
| | | **638** | | **638** |
| Designated FVPL | FVPL/FVOCI | – | measured at amortised cost (LIA) | – |
| | | | measured at fair value (DFV) | – |
| | | **–** | | **–** |
| **Total** | | **638** | | **638** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**OTHER LIABILITIES**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassifi-cation | Remeasure-ment | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Other liabilities (LIA) | 638 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | 638 | – | 638 | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **638** | **638** | **–** | **638** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC) | AC liabilities | | – | – | – | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| **Total** | | | **638** | **638** | **–** | **638** | **–** |

**Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**

**SUBORDINATED CAPITAL**

| (€ m) | 01.01.2018 | | 31.12.2017 | |
|---|---|---|---|---|
| Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9 | IFRS 9 measurement category | **IFRS 9 carrying amount** | IAS 39 measurement category | IAS 39 carrying amount |
| AC liabilities | Amortised Cost (AC) | 2,252 | measured at amortised cost (LIA) | 2,252 |
| | | | measured at fair value (DFV) | – |
| | | **2,252** | | **2,252** |
| Designated FVPL | FVPL/FVOCI | – | measured at amortised cost (LIA) | – |
| | | | measured at fair value (DFV) | – |
| | | **–** | | **–** |
| **Total** | | **2,252** | | **2,252** |

**Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**

**SUBORDINATED CAPITAL**

| (€ m) | | | 31.12.2017 | 01.01.2018 | | | |
|---|---|---|---|---|---|---|---|
| | | | IAS 39 carrying amount | Reclassifi-cation | Remeasure-ment | **IFRS 9 carrying amount** | Equity effect |
| From | measured at amortised cost (AC) | Other liabilities (LIA) | 2,252 | | | | |
| To | Amortised Cost (AC) | AC liabilities | | 2,252 | – | 2,252 | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **2,252** | **2,252** | **–** | **2,252** | **–** |
| From | measured at fair value | Designated at Fair Value (DFV) | – | | | | |
| To | Amortised Cost (AC) | AC liabilities | | – | – | – | – |
| | FVPL/FVOCI | Designated FVPL | | – | – | – | – |
| | | | **–** | **–** | **–** | **–** | **–** |
| **Total** | | | **2,252** | **2,252** | **–** | **2,252** | **–** |

## EXPLANATORY INFORMATION

The reconciliation statement shows all changes in the carrying amount of financial instruments in the consolidated statement of financial position that are attributable to the initial application of IFRS 9 as at 1 January 2018. This includes explanatory information on significant changes in equity, as shown below.

The reconciliation set out above of the carrying amounts of financial instruments under IAS 39 to the carrying amounts of financial instruments under IFRS 9 for assets results in an "equity effect" in an amount of € + 112 million. In addition, IFRS 9 results in a negative equity effect on the "provisions" liabilities item in an amount of € – 3 million due to the increased loan loss provisions set up with regard to off-balance sheet transactions. All in all, this results in a total equity effect resulting from the initial application of IFRS 9 in an amount of € + 109 million (before taxes).

The total equity effect before taxes from the reconciliation of the carrying amounts of financial instruments under IAS 39 to the carrying amounts of financial instruments under IFRS 9 in the amount of € + 109 million comprises € + 417 million from the revaluation reserve and € – 308 million from retained earnings. This gives rise to the main equity effects of

- € – 3,485 million from the balance sheet item "Loans and advances to customers"
- € + 3,484 million from the balance sheet item "Compensation item for financial instruments categorised as FVPL under the second loss guarantee"
- € + 73 million from the balance sheet item "Financial investments"
- € + 32 million from the balance sheet item "Loan loss provisions in the lending business"
- € + 7 million from the balance sheet item "Loans and advances to banks"
- € – 3 million from the balance sheet item "Provisions" and
- € + 1 million from the balance sheet item "Other assets"

Under the balance sheet item "Loans and advances to customers", the changes in carrying amount were recognised as follows: € + 351 million in the revaluation reserve and € – 3,836 million in retained earnings. Under the balance sheet item "Financial investments", the changes in carrying amount were recognised as follows:€ + 60 million in the revaluation reserve and € + 13 million in retained earnings. The changes in carrying amount in the balance sheet item "Loans and advances to banks" of € + 7 million were recognised in full in the revaluation reserve. The other significant equity effects of € + 3,514 million were recognised in retained earnings.

The main drivers of the overall effect on equity in an amount of € + 109 million (before taxes) are the increase in general loan loss provisions as a result of the new loan loss provisions model (level 1 and 2 in the new loan loss provisions model) and effects from the fair value measurement of certain loans and securities resulting from the new classification provisions.

The increase in general loan loss provisions is attributable to the increase in loan loss provisions on the lifetime expected loss (level 2) or the full 12-month expected loss (level 1) respectively. The general loan loss provisions have increased by approximately € 146 million, resulting in a negative equity effect in an amount of € – 146 million (before taxes) which is deducted from retained earnings.

With regard to the above-mentioned effects from the fair value measurement of certain loans and securities, reclassifications of financial assets from the measurement category amortised cost (AC or LaR) to the category "Fair Value through Other Comprehensive Income" (FVOCI) are one of the main drivers. These relate to promissory note loans and securities based on the "Hold and sell" business model under IFRS 9. This reclassification results in a positive fair value effect and a corresponding increase in equity in the amount of approximately € 165 million before taxes, which is added to the revaluation reserve. Another main driver of the above-mentioned effects from fair value measurement relates to reclassifications of financial assets from the amortised cost (AC/LaR) measurement category to the Fair Value through Profit & Loss (FVPL) category. These recategorisations also result in a positive fair value effect at the time of initial application and a corresponding increase in equity in the amount of € 63 million before taxes (net after the reversal of loan loss provisions), which is added to retained earnings. The effect here relates primarily to a portfolio in the lending business of the Non-Core Bank that is allocated to the "Other" business model within the meaning of IFRS 9 and whose sale was agreed on 28 February 2018.

Other effects on transactions that are assigned to the amortised cost (LaR/AC) category under both IAS 39 and IFRS 9 (for example, carrying amount effects due to the modification provisions), lead to a positive equity effect in an amount of approximately € + 27 million (before taxes) being recorded under retained earnings.

There are also transfers within equity between retained earnings and revaluation reserves that have no equity effect in net terms. First, there is a reclassification that is deducted from retained earnings and added to the revaluation reserve in the amount of € 291 million (before taxes). This is due to reclassifications from the FVPL measurement category (DFV) to FVOCI due to the revocation of the fair value option for certain financial assets. Second, there is a reclassification that is added to retained earnings and is deducted from the revaluation reserve in the amount of € 39 million (before taxes). This is due, first of all, to reclassifications between the measurement categories FVOCI (AfS) and FVPL in an amount of € 50 million, which was added to retained earnings and deducted from the revaluation reserve. Second, the reclassification amount also includes the gains and losses accrued under IAS 39 in the revaluation reserve in the amount of € 11 million, which result from a historical reallocation of financial instruments in the balance sheet item "Financial investments" from the IAS 39 category AfS to the IAS 39 category LaR. These were reclassified within the context of the initial application of IFRS 9, being added to the revaluation reserve and deducted from retained earnings.

Changes in valuation differences result in an overall reduction in deferred tax assets by € 30 million. € 164 million of this amount is deducted from the revaluation reserve and € 134 million is added to the revaluation reserve.

In summary, this results in a total equity effect resulting from the initial application of IFRS 9 in an amount of € +79 million after taxes.

# APPLICATION OF ACCOUNTING METHODS IFRS 9 - FINANCIAL INSTRUMENTS

## 1. GENERAL INFORMATION

IFRS 9 Financial instruments, which was published in July 2014, replaces the existing accounting policies set out in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines on the classification and measurement of financial instruments, a new model for expected loan defaults for calculating the impairment of financial assets, as well as the new general accounting rules for hedge accounting. IFRS 9 also adopts the guidelines on the recognition and derecognition of financial instruments set out in IAS 39.

For those financial liabilities that HSH Nordbank has designated for measurement at fair value through profit or loss, the option of early application of the measurement of the credit rating-induced part of the valuation result via Other comprehensive income (OCI) in equity has been applied. As this option was exercised as at 1 January 2017, this is the first time of initial application of IFRS 9. The time of the full initial application of IFRS 9 as at 1 January 2018 therefore represents the second time of initial application.

The introduction of IFRS 9 involved amendments to IFRS 7 Financial Instruments: Disclosures. Pursuant to IFRS 7.44Z, the resulting changes in the disclosure requirements are not to be applied to comparative periods prior to the adoption of IFRS 9. In accordance with this provision, the financial statements of HSH Nordbank do not include any disclosures for the comparative period in such cases, as disclosure is required for the first time with application of IFRS 9.

## 2. TRANSITIONAL PROVISIONS

IFRS 9.7.2.2 et seq. include a number of exceptions to retrospective application upon transition to the new accounting regulations. In such cases, the assessment is based on the facts and circumstances prevailing at the time of initial application. This means that, as far as the definition/classification of HSH Nordbank's business models is concerned, the business activity and corresponding assessment of the portfolios of financial instruments as at 1 January 2018 are decisive (see also the section entitled "Accounting and measurement principles"). In addition, the decision on the use of the fair value option for financial assets and liabilities can be exercised again upon transition to the new standard. Within this context, HSH Nordbank has reviewed the requirements relating to the designation of financial instruments using the fair value option based on the circumstances prevailing at the time of initial application and has made corresponding designations.

### I. Classification and measurement

With regard to portfolios of financial assets with a carrying amount of € 1,052 million, for which the fair value option through profit or loss was applied under IAS 39 to avoid an accounting mismatch, there was no longer any wish, with regard to IFRS 9.7.2.9 (b), to apply a new designation under IFRS 9, despite the requirements being met (voluntary revocation of the fair value option). These assets were assigned to the "Hold & sell" business model, meaning that they are measured at fair value directly in equity ("FVOCI" category). At the time of initial application as at 1 January 2018, this results in transfers within equity from retained earnings to the revaluation reserve in the amount of € 291 million.

### II. Impairment

The retroactive reliable determination of the default risk at the time of the initial recognition of certain transactions in accordance with IFRS 9.7.2.17 was not possible for all transactions at the time of the first full application of IFRS 9. The affected portfolios are various sub-portfolios with a carrying amount of € 1,355 million for on-balance sheet transactions and a nominal amount of € 1,699 million for off-balance sheet transactions as at 1 January 2018. The lifetime expected credit loss (LECL) set up in this regard in accordance with IFRS 9.7.2.20 amounts to a total of € 45 million as at 1 January 2018. € 15 million of this amount is attributable to level 2 and € 30 million to level 3.

## 3. ADJUSTMENTS TO THE PRIOR-YEAR FIGURES

The structure of this consolidated statement of financial position and Group statement of income contains changes as against the structure of the consolidated statement of financial position and Group statement of income as at 31 December 2017. Some of the figures in the consolidated statement of financial position and Group statement of income as at 31 December 2017 have also been adjusted accordingly in the comparison columns of this consolidated statement of financial position and Group statement of income. The adjustments to the consolidated statement of financial position have already been anticipated in the reconciliation statements (see section entitled "Balance sheet item reconciliation from IAS 39 to IFRS 9").

The changes relate to the structure of the statement of financial position and statement of income. The adjustments have to be made under IAS 8.14 because they are either required as a result of the amendments under IFRS 9 or because they allow the financial statements to provide reliable and relevant information about the impact of transactions, other events or conditions on the earnings, net assets and financial position or cash flows of the company. The provisions stipulate that the adjustments also have to be applied to the comparative period.

1.

## 4. MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS

Major discretionary decisions in connection with the application of the classification and measurement provisions of IFRS 9 relate to the definition/classification of the Bank's business models and the corresponding allocation of portfolios of financial assets based on the objectives and control activities within the context of the business activity. In particular, the definition of what constitutes harmless sales and materiality thresholds for harmful sales within the "Hold to collect" business model are discretionary decisions. The business models defined at HSH Nordbank and the resulting impact on the classification and measurement of financial instruments are shown in brief in the section entitled "Accounting and measurement principles".

The analysis of the contractual cash flows with regard to the contractual cash flow characteristics criterion, as well as the classification of modifications in terms of their materiality, constitute a further discretionary decision (see also the section entitled "Accounting and measurement principles").

HSH Nordbank applies the fair value option through profit or loss for financial assets at its own discretion with regard to the avoidance of an accounting mismatch. The designation of financial liabilities using the fair value option to avoid an accounting mismatch, or on the basis of management on a fair value basis, is also at the discretion of the Bank.

HSH Nordbank has not made use of the option allowing the FVOCI categorisation of certain equity instruments pursuant to IFRS 9.7.2.8 or IFRS 9.5.7.5, respectively.

The estimation of future cash flows from hybrid financial instruments required in applying IFRS 9.B5.4.6 requires material assumptions which are associated with uncertainties. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary.

Within the context of the new impairment provisions, there are significant estimates and judgements with regard to the level allocation and the calculation of the amount of the loan loss provisions.

The transfer of a financial instrument between levels 1 and 2 and the associated definition of the extent giving rise to a significant deterioration in credit quality (significance threshold) is a central discretionary decision within the context of the new impairment provisions.

When calculating the loan loss provisions levels 1 and 2, HSH Nordbank estimates the associated credit risk parameters over a one-year period and extrapolates them on the basis of appropriate assumptions over a period of several years. Within this context, there are considerable uncertainties relating to estimates, particularly when including forward-looking macroeconomic scenarios.

The calculation of loan loss provision level 3, taking into account the effect of the guarantee, represents a further estimation process. In particular, the estimates for various scenarios, including associated probabilities of occurrence and the recoverable amount in the respective scenario, involve discretionary decisions in this respect.

HSH Nordbank also makes use of the option provided for in IFRS 9.6.1.3 to apply the hedge accounting provisions set out in IAS 39 to portfolio fair value hedges on interest rate change risks.

## 5. ACCOUNTING POLICIES

### I Classification and measurement of financial assets and liabilities

Under IFRS 9, all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Initial recognition is measured at fair value, which generally corresponds to the acquisition cost of the financial instrument.

Subsequent measurement of financial assets and liabilities depends on which category they were assigned to at the time of acquisition/origination. Under IFRS 9, they are measured at amortised cost (category "AC") or at fair value, whereby the valuation results are recognised at fair value through other comprehensive income ("FVOCI" category) or at fair value through profit and loss ("FVPL" category).

Financial assets are classified depending on the business model (portfolio level) and contractual cash flow characteristics (instrument level) under IFRS 9.

IFRS 9 makes a distinction between three business models:

- "Hold to collect": In this business model, the aim is to hold the financial assets in the portfolio in order to collect contractual cash flows from them. The financial assets are classified as AC as long as the contractual cash flow characteristics criterion (for information on the contractual cash flow characteristics criterion, please refer to the section below) is met.
- "Hold and sell": The aim of this business model is achieved both by collecting the contractual cash flows and by selling the financial assets. The financial assets are classified as FVOCI as long as the contractual cash flow characteristics criterion is met.
- "Other" Other business models that cannot be allocated to the two other business models. This category also includes portfolios that are held for trading or portfolios in which the cash flows are to be generated by selling the financial assets. The financial assets are then classified as FVPL.

In the "Other" business model, HSH Nordbank makes a distinction between the business model strategies "Held for trading" and "Other not hold to collect (residual)".

HSH Nordbank has allocated the portfolios of financial instruments to the above-mentioned business models based on the corresponding IFRS 9 criteria and the corresponding internal guidelines. Regarding the definition of the "Hold to collect" business model, it is important to note that sales not planned ex ante can, in exceptional cases, be consistent with the "Hold to collect" business model. IFRS 9 cites sales resulting from an increase in the loan default risk associated with an asset as an example. In order to operationalise the definition of an increased loan default risk, HSH Nordbank has defined both an absolute threshold value (rating threshold based on credit standards) and a relative threshold value (level allocation 2 pursuant to loan loss provision model). As an exception, sales are still consistent with the "Hold to collect" business model under IFRS 9 if they are implemented shortly prior to the final maturity of the financial asset and if the proceeds from the sale correspond roughly to the outstanding contractual cash flows. HSH Nordbank defines "shortly prior to final maturity" as follows:

- residual maturity of less than 90 days or
- residual maturity of greater than or equal to 90 days and less than or equal to 10% of the overall term of the financial asset and proceeds from the sale correspond roughly to the contractual cash flows that are still outstanding.

Sales for other reasons can also be consistent with the "Hold to collect" business model if they are executed infrequently or erratically or are of an insignificant value either individually or in the aggregate, even if they occur frequently/regularly. In order to monitor the abovementioned restrictions in the "Hold to collect" business model, HSH Nordbank has defined a process which assesses and monitors the reasons for the sales in connection with the application for the receivables sale, meaning that receivables sales (that are unplanned ex ante) that are not covered by the exceptions do not exceed certain materiality thresholds or are to be classed as infrequent or erratic. The materiality thresholds relate both to a balance sheet assessment based on the carrying amount, and to an income statement-based assessment based on the loss/gain on disposal (individually and in the aggregate). For the purposes of the balance sheet assessment, the gross carrying amounts of the sold financial assets are expressed in relation to the gross carrying amount of the portfolio at the start of the period, both individually and in the aggregate. For the purposes of the income statement-based assessment, the absolute loss/gain on the disposal of the sold financial assets are expressed in relation to the gross interest income of the portfolio during the period, both individually and in the aggregate. If the average term of a portfolio lies outside of a range, then this is reflected accordingly in special materiality thresholds that take the special average term into account accordingly.

In addition to the appraisal of the business model at portfolio level, the categorisation of financial assets depends on the nature of the payment flows at instrument level. Within this context, HSH Nordbank analyses what is known as the contractual cash flow characteristics criterion by assessing the contractual cash flows to determine whether they merely relate to payments of principal and interest on the principal amount outstanding on specified dates. The analysis is carried out once at the time of initial recognition at the level of the individual transaction. Financial assets that do not meet the contractual cash flow characteristics criterion are always recognised at fair value

through profit or loss (FVPL categorisation). This also applies if they are assigned to the “Hold to collect” or “Hold and sell” business model at portfolio level.

Financial assets in the “Hold to collect” business model that meet the contractual cash flow characteristics criterion are recognised at amortised cost (AC categorisation). This is generally the case for loans in the lending areas of the Core Bank. In exceptional cases, however, individual loans do not meet the contractual cash flow characteristics criterion, meaning that they are categorised as FVPL. The breach of the contractual cash flow characteristics criterion is due to certain detrimental side agreements (e.g. profit participation agreed in the loan agreement) or certain non-recourse financing arrangements. This non-recourse financing involves a substantial property/project risk on the commitment date, i.e. a primary investment risk (asset risk) that constitutes a business risk, meaning that the payments depend, in economic terms, to a considerable degree on the property/project being financed. By way of example, the non-recourse financing of a single-property company is deemed to carry a substantial property risk if, at the time of initial recognition, the loan amount is very high in relation to the value of the property (high loan-to-value ratio), the property company only has limited capital resources available for potential loss absorption and, in addition, there are no mitigating factors such as recoverable third-party collateral in favour of the lender.

“Hold and sell” assets that meet the contractual cash flow characteristics criterion are measured at fair value, with the result from fair value changes being recognised in Other comprehensive income (OCI) within equity (FVOCI categorisation). Upon the derecognition of the debt instruments, the cumulative valuation result is derecognised from Other comprehensive income via the statement of income (known as “recycling”). This categorisation applies to the overwhelming majority of the holdings in the securities and promissory note loan portfolio in the capital market unit that are not held for trading.

Financial assets in the “Other not hold to collect (remaining)” business model are subject to measurement at fair value through profit or loss (FVPL categorisation). This relates, in particular, to a loan portfolio of the Non-Core Bank, as well as portfolios of equity instruments. HSH Nordbank’s “held for trading” business model includes instruments held with an intention to resell/realise profits in the short term, in particular trading portfolios of securities in the capital market area and syndication shares from new business syndication in the lending business. These are also recognised at fair value through profit or loss (FVPL categorisation).

In the case of structured financial assets, there is no longer any requirement to separate embedded derivatives under IFRS 9. The instruments are to be assessed, depending on the business model, in their entirety based on their contractual structure in the analysis of the contractual cash flow characteristics criterion.

Derivative financial instruments are always recognised at fair value through profit or loss.

No analysis of the contractual cash flow characteristics criterion is required for financial obligations. Under IFRS 9, measurement is either at amortised cost (AC) for 'not held for trading’ or, in the case of ‘held for trading’, at Fair Value through Profit or Loss (FVPL). Irrespective of this, there is also the option, in accordance with IFRS 9.4.2.2, of voluntary and irrevocable designation for measurement at fair value through profit or loss for financial obligations. If this option is exercised, however, then the amount of the fair value change that is attributable to the change in the institution’s own credit risk is to be recognised in Other comprehensive income (OCI). The representation of this credit risk-induced valuation result associated with FVPL-designated financial liabilities in Other comprehensive income (OCI) has already been applied at HSH Nordbank since 1 January 2017 on the basis of the option for the early application of this reporting provision under IFRS 9.

In the case of structured financial liabilities measured at amortised cost, derivatives subject to a separation requirement are to be separated and also measured at fair value through profit or loss.

Hybrid financial liabilities are measured at amortised cost (in particular silent participations, profit participation capital and debentures issued by consolidated subsidiaries). A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank. IFRS 9.B5.4.6 states that, for these financial instruments, the carrying amount is to be adjusted through profit or loss if the estimates of the future cash flows associated with the transactions change. The new gross carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting. Net income from hybrid financial instruments is shown as a separate item under Net interest income, and in addition to current interest expenses it includes the full effects of applying IFRS 9.B5.4.6. Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the Group financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as Securitised liabilities or as Subordinated capital.

## II. Classification of financial instruments

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IFRS 9 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The following table shows the categories of financial instruments at HSH Nordbank in accordance with IFRS 9. The table for the categories of financial instruments under IAS 39 which are relevant for the information on comparative periods is presented further below.

| Measurement method | Categories | |
| --- | --- | --- |
| | IFRS 9 reporting category | Statement of financial position item/sub-item |
| Financial instruments measured at amortised cost | AC assets | Cash reserve |
| | | Loans and advances to banks |
| | | Loans and advances to customers |
| | | Financial investments |
| | | Non-current assets held for sale and disposal groups |
| | | Other assets |
| | AC liabilities | Liabilities to banks |
| | | Liabilities to customers |
| | | Securitised liabilities |
| | | Liabilities relating to disposal groups |
| | | Subordinated capital |
| | | Other liabilities |
| Financial instruments measured at Fair Value through Other Comprehensive Income (OCI) | Mandatory FVOCI | Cash reserve |
| | | Loans and advances to banks |
| | | Loans and advances to customers |
| | | Financial investments |
| | | Non-current assets held for sale and disposal groups |
| Financial instruments measured at fair value through profit or loss | FVPL Trading | Trading assets |
| | | Credit derivative under the second loss guarantee |
| | | Non-current assets held for sale and disposal groups |
| | | Trading liabilities |
| | | Liabilities relating to disposal groups |
| | Designated FVPL | Loans and advances to banks |
| | | Loans and advances to customers |
| | | Financial investments |
| | | Non-current assets held for sale and disposal groups |
| | | Other assets |
| | | Liabilities to banks |
| | | Liabilities to customers |
| | | Securitised liabilities |
| | | Liabilities relating to disposal groups |
| | | Subordinated capital |
| | FVPL Other | Cash reserve |
| | | Loans and advances to banks |
| | | Loans and advances to customers |
| | | Compensation item for financial instruments categorised as FVPL under the second loss guarantee |
| | | Financial investments |
| | | Non-current assets held for sale and disposal groups |
| | | Other assets |
| | n/a | Positive fair value of hedging derivatives |
| | | Negative fair values of hedging derivatives |
| Financial instruments measured on the basis of other standards (exception: impairment provisions) | n/a | Receivables under finance leases |
| Off-balance-sheet transactions | n/a | Contingent liabilities |
| | | Irrevocable loan commitments |
| | | Other obligations |

## III. Modifications

If a financial instrument, in particular a loan, is altered in its contractual components, then HSH Nordbank assesses whether this change results in the disposal of the financial instrument, leading to the derecognition of the previous, and the recognition of a new, financial instrument at fair value (substantial modification) or whether, based on the modified contractual cash flows, the gross carrying amount is to be recalculated and a modification result recognised (non-substantial modification).

In the case of a substantial modification, the difference between the gross carrying amount, less updated loan loss provisions and the fair value of the newly added financial instrument is reported in the statement of income under the item "Result from the disposal of financial assets classified as AC".

The modification result corresponds to the difference between the gross carrying amount immediately prior to modification, but taking into account any debt waivers, and the recalculated gross carrying amount. The modification gain or loss is recognised within loan loss provisions in the statement of income.

HSH Nordbank has included guidelines in its written regulations regarding how to distinguish between substantial and non-substantial modifications. Based on these guidelines, both qualitative criteria, such as a change in currency, a significant change in HSH Nordbank's risk position or the existence of certain contractual changes leading to a breach of the contractual cash flow characteristics criterion set out in IFRS 9.4.1.1(b), and a quantitative criterion of 10% net present value test (in an analogous application of IFRS 9 B3.3.6) are taken into account. The net present value test involves comparing the net present values of the contractual cash flows before and after every modification of contractual components. If they differ by 10% or more, then this is deemed to constitute a substantial modification. If this is not the case, the modification is a non-substantial modification.

## IV. Loan loss provision and impairment of financial instruments

The introduction of IFRS 9 will replace the current model used to calculate loan loss provisions/impairments under IAS 39, which is based primarily on incurred losses, with a model based on the expected credit losses. The scope of the new model consistently includes all financial assets that are recognised at amortised cost or at fair value through other comprehensive income, irrevocable loan commitments and financial guarantees that constitute financial instruments in accordance with IFRS 9 and are not recognised at fair value through profit or loss, leasing receivables and contract assets.

Under IFRS 9.5.5.6, irrevocable loan commitments fall under the scope of application of the impairment provisions as of the time at which the company becomes party to the commitment. Impairments on irrevocable loan commitments are included in provisions at HSH Nordbank. The nominal volume of these transactions is reported under irrevocable loan commitments. The scope of these impairment provisions includes all loan commitments with the exception of those contracts under which the entity making the commitment can break with its commitment unilaterally and unconditionally, and with legal effect, at any time. As a result, this exception already does not apply if the termination only becomes effective after the expiry of a period of time in accordance with the contract or by law, since the entity making the commitment is exposed to a loan default risk until then. At HSH Nordbank, loan commitments that have been defined as revocable under IAS 39 are also subject to a notice period. As HSH Nordbank is subject to a credit risk during this period, all loan commitments, without exception, are considered irrevocable with the introduction of IFRS 9. This means that, as at 31 March 2018, the "Provisions" item contains a carrying amount of € 3 million that is attributable to loan commitments which have been defined as revocable under IAS 39. The irrevocable loan commitments as at 31 March 2018 contain, for the first time, a nominal volume of € 3,400 million that is attributable to loan commitments which have been defined as revocable under IAS 39.

For all financial instruments that fall under the scope of the loan loss provisions model under IFRS 9.5.5.1, the basic principle involves setting up loan loss provisions depending on the change in the credit quality of the financial instrument concerned. This model only applies to financial instruments which are not impaired at the time of initial recognition. At the time of initial recognition, these financial instruments are assigned to level 1, which is explained below. Depending on the extent of the change in credit quality, the financial instrument is assigned to one of the following three levels as part of the subsequent measurement process:

Level 1: No significant increase in the loan default risk, 12-month expected loss

For financial instruments whose loan default risk is not significantly increased, the impairment is recognised in the amount of the anticipated 12-month credit losses.

Level 2: Significant increase in the loan default risk, lifetime expected loss

For financial instruments whose loan default risk has increased significantly since the time of initial recognition, expected credit losses are recognised over the entire remaining term of the financial instrument.

Level 3: Financial assets that are credit-impaired, lifetime expected loss

Financial instruments for which one or more events have occurred after the time of initial recognition that have an adverse impact on the expected future cash flows are assigned to level 3. The expected credit losses over the entire remaining term to maturity of the financial instrument are recognised for these financial instruments as well.

HSH Nordbank calculates expected credit losses at levels 1 and 2 based on the following credit risk parameters:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The internal credit risk models which – where necessary – are adjusted for the purposes of IFRS 9 are taken as a basis in this regard. The rating models used by HSH Nordbank have been developed based on the definition of "default" set out in Art. 178 CRR and are validated in this respect on a regular basis. The definition of default is used as standard for internal Credit Risk Management and for supervisory law and IFRS 9 purposes.

Any necessary adjustments/expansions of the existing models relate primarily to the use of methods for multiannual estimates. Within this context, HSH Nordbank uses PD profiles based on migration matrices for its multiannual estimates. These reflect the observed rating migrations from debtors within a year and are calculated based on an extensive cross-economic historical observation period. The forward projection of the LGD over the multiannual period is based primarily on the expected collateralisation ratio of the financial instrument, which comprises the expected collateral value and the expected amount of the receivable. EAD modelling for the on-balance sheet business is used to project the gross carrying amount forward over the multiannual period, taking amortisation and repayment effects into account. Within this context, fixed cash flows that have been contractually agreed and expectations regarding the exercise of options and their impact on the cash flows are taken into account in the modelling. For off-balance sheet business, the estimate of the expected future drawdown is based on the borrower's expected drawing behaviour over a multiannual period.

In addition, the credit risk parameters are expanded to include additional macroeconomic information relating to the future – if necessary. HSH Nordbank uses the same economic forecasts for planning, internal control and calculating loan loss provisions. As at each quarter end date, forecasts for selected parameters are prepared in three scenarios: base, downside and upside. The forecast horizon comprises the current reporting year-end and the next two years. The base scenario reflects the development that is deemed most likely to occur. This can be both an economic upswing and an economic downturn. The other scenarios reflect more optimistic (upside) or more pessimistic (downside) developments in relation to the base scenario. In addition, expectations regarding extreme events are taken into account using an additional scenario if necessary, i.e. if these have not already been included in the existing scenarios.

The scenario estimates are based on internal Bank economic forecasts which are prepared within the affected areas, taking into account the forecasts of the Bundesbank and the ECB, as well as Bloomberg consensus estimates. Segment-specific parameters are added to these scenarios.

The estimated parameters cover forward-looking information in the following areas, among others:

- Economy (gross domestic product and inflation rate for various regions)
- Direction of interest rates
- Movement in exchange rates
- Bond markets (in particular corporate spreads)
- Oil prices
- Share prices
- Shipping (in particular charter rates and second-hand prices)
- Real estate prices (broken down by location and type of property)
- Aviation.

The impact of this forward-looking information on the credit risk parameters PD and LGD is determined using statistical procedures and is taken into account when calculating the expected credit losses. Within this context, PD and LGD are adjusted to reflect base scenario forecasts - where necessary. Regular checks are also performed to see whether other scenarios have a material non-linear impact on the amount of loan loss provisions. In such cases, the loan loss provisions are corrected by making a management adjustment, including the various scenarios weighted by probability.

The 12-month expected loss is calculated by multiplying the (one-year) credit risk parameters. The lifetime expected loss is calculated as the sum product of the period-specific credit risk parameters determined during the term. Discounting to the balance sheet date is based on the effective interest rate in each case.

The loan loss provisions are generally calculated at the level of the individual financial instrument. This means that there is generally no grouping of financial instruments with risk features in common at HSH Nordbank. One exception relates to securities for which joint level allocation and loan loss provision calculation is applied to different purchases of the same security. This involves dividing the purchases in terms of similar credit quality at the time of initial recognition (rating) – where necessary.

In order to assess a significant increase in the loan default risk of a financial instrument, HSH Nordbank uses internal ratings as the main characteristic. The extent giving rise to a significant deterioration in credit quality is determined for each portfolio or rating category segment in a manner that is specific to the initial rating and on the basis of a statistical quantile assessment. The outcome shows rating changes as of which the loan default risk is deemed to have deteriorated significantly (significance thresholds). The internal rating expected at the time the financial instrument was added for the balance sheet date in question serves as a benchmark in this regard. This expected rating is compared with the current rating to determine whether the relevant change in rating that is defined as significant is exceeded. In connection with the use of ratings as the main characteristic for assessing the significant increase in the loan default risk, HSH Nordbank furnishes proof that the relevant change in rating and corresponding change in the 12-month PD takes the main risk drivers into account that lead to the relevant change in the lifetime PD, meaning that changes in rating constitute a suitable assessment criterion for the level allocation. Key risk drivers over the term of a transaction that are not adequately addressed by ratings can relate to macroeconomic effects. In order to assess whether this is the case, the macroeconomic forecasts for the scenarios are analysed on an ongoing basis in a tolerance area test developed for this purpose. Depending on the results of the analysis, the defined significance thresholds are then adjusted in order to take the macroeconomic impact into account in the level allocation accordingly.

In addition, financial instruments are allocated to level 2 at the latest if forbearance measures (e.g. interest payment deferrals due to financial difficulties faced by the debtor) have been applied to the financial instrument or if the default has lasted more than 30 days.

A financial instrument is transferred (back) from level 2 to level 1 if the loan default risk is no longer significantly increased based on the rating. In cases involving modified financial instruments, however, a good conduct period set, during which the financial instrument remains in level 2. This corresponds to the good conduct period for forbearance.

The Bank does not make use of the option set out in IFRS 9.5.5.10, which allows financial instruments with a loss risk of loan default to be assigned to level 1. Nor does it make use of the option provided for in IFRS 9.5.5.15 on the constant recognition of loan loss provisions in the amount of the lifetime expected loss for trade receivables or contract assets that include a material financing component, or for leasing receivables.

Defining level 3 of the impairment model involves assessing, on each balance sheet date, whether there are objective indications of an impairment that could have a detrimental impact on the expected future cash flows from the financial instrument. The criteria for impairment are consistent with those that apply to supervisory law default and include 90-day default and indications that, based on current information, interest payments cannot be made and an improvement in the financial situation cannot be demonstrated.

The default risk resulting from loans and securities with objective evidence of impairment is accounted for by setting up specific loan loss provisions for the receivable in question. To calculate the amount of the specific loan loss provisions, the effective interest rate net present value of the anticipated cash flows arising from the loan or advance – that is, achievable amount – is compared to its gross carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. The realisable amount is calculated using various scenarios and compared against the gross carrying amount. If the gross carrying amount is higher than the realisable amount for the scenario in question, then this scenario results in a potential loss in the amount of the difference. The specific loan loss provision is set up in the amount of the probability-weighted average losses from among the various scenarios.

In the subsequent periods, loan loss provisions are adjusted to reflect changes in the estimates for the expected cash flows and changes in the gross carrying amount. Changes in the gross carrying amount result not only from incoming payments that reduce the gross carrying amount, but also from interest claims. These claims increase the gross carrying amount and, as a result, the loan loss provisions. This increase is to be recognised with no effect on profit and loss. The collection of the interest for credit-impaired instruments, which is

recognised through profit or loss, is based on the net carrying amount, as under IAS 39.

Financial instruments in the balance sheet that are purchased or originated credit-impaired ("POCI") are not assigned to any level. The question as to instruments are purchased or originated credit-impaired is determined in the same way as the "impairment trigger" for level 3. The general approach pursuant to IFRS 9.5.5.1 does not apply to POCI financial instruments. No loan loss provisions are set up through profit or loss at the time of initial recognition. Instead, the impaired credit rating is taken into account in the fair value at the time of initial recognition. The subsequent measurement reflects changes in the cash flows expected by the lender, taking into account the expected loan losses through profit or loss as loan loss provisions. Reversals of impairment losses are also to be reflected in loan loss provisions. The loan losses expected at the time of initial recognition are distributed over the term of the loan using the credit-adjusted effective interest rate. In the event of the debtor's recovery, the financial instrument is generally still treated in line with the special provisions that apply to POCI transactions in the balance sheet. In such cases, however, the loan loss provisions are calculated using the standard credit risk parameters.

The loan loss provisions are generally calculated without taking into account the hedging effect of the second loss guarantee, regardless of the level or the POCI classification. The hedging effect is then mapped in the statement of financial position through the recognition of a compensation item, which directly reduces loan loss provisions. Risks of uncertainties in assessment for the hedged portfolio are assumed by the guarantor under the second loss guarantee.

The loan loss provisions set up with regard to loans and advances to banks and customers that are measured at amortised cost (category "AC") are recognised in the separate balance sheet item "Loan loss provisions". Any loan loss provisions thus created are written off at the time when the amount of the actual default of the receivable is determined or the receivable defaults. Irrecoverable receivables for which no specific loan loss provisions existed are written off directly as is the case for losses in the case of impaired receivables which exceed the recorded loan loss provisions.

For those financial instruments measured at fair value through other comprehensive income ("FVOCI" category), the fair value is recognised on the assets side. First of all, the full difference between the fair value and the amortised cost is recognised in the revaluation reserve. The loan loss provision amount that this implicitly includes is then reclassified from the revaluation reserve to the statement of income. This means that the net carrying amount remains on the assets side, and the revaluation reserve only includes the market-induced share of the fair value changes. If the reasons for impairment no longer apply, a write-up to the maximum of amortised cost is made in profit or loss.

For the off-balance-sheet business, expected losses are also calculated on the basis of the three-stage model and recognised as provisions in the lending business.

### V. Hedge accounting

Changes in the value of financial instruments assigned to the AC or FVOCI IFRS 9 categories are not recognised through profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions that are not recognised at fair value through profit or loss are hedged by derivatives, this creates a mismatch relating to the measurement/presentation of the results in the statement of income, which does not reflect the economic facts.

One way to avoid this mismatch with regard to hedged risks/hedged value changes is portfolio fair value hedge accounting. HSH Nordbank makes use of the option provided for in IFRS 9.6.1.3 of continuing with portfolio fair value hedge accounting subject to the provisions set out in IAS 39. Another possibility for avoiding these distortions is to use micro fair value hedge accounting. HSH Nordbank also makes use of this opportunity, meaning that it has been applying micro fair value hedge accounting in accordance with IFRS 9.6.5.8 et seq. for certain hedging relationships since 1 January 2018.

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## NOTE

If at times only the masculine form is used for certain tems relating to groups of people, this is not meant in a gender-specific manner, but occurs exclusively for the sake of better readability.

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## FORWARD-LOOKING STATEMENTS

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