FOCUSED

FINANCIAL REPORT 2013 OF HSH NORDBANK AG
STRONG FOR ENTREPRENEURS

HSH NORDBANK

CONTENT

MANAGEMENT REPORT of HSH NORDBANK AG

BASIS

BUSINESS MODEL

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

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

The strategic divisions are combined in the Core Bank. The segments of the Core Bank were reconfigured at the beginning of 2013 in light of the organisational changes made to the Management Board. Since then, the Shipping, Project & Real Estate Financing segment (former Corporate and Private Clients segment) includes the asset- and project-based business conducted with shipping clients, real estate clients and clients in the energy & infrastructure industry. Until the end of 2012 the Corporate and Private Clients segment was composed of our Corporate Clients, Real Estate Clients, Private Clients, Shipping Clients and Energy & Infrastructure divisions.

The Corporates & Markets segment (formerly Products, Capital Markets and Corporate Center) includes business conducted with corporate clients and wealthy private clients in the area of wealth management, which emerged from the Private Banking division following the decision taken to discontinue the classic private client business as at 1 July 2013. Since 1 June 2013 the relationship management of savings banks, banks, insurance companies and other institutional clients has been the responsibility of the newly formed Savings Banks & Institutional Clients division, which is also part of the Corporates & Markets segment. Furthermore, the Capital Markets and Products divisions remain assigned to this segment.

The administrative and service divisions as well as Overall Bank positions and equity holdings not assigned to segments are included in the Corporate Center segment.

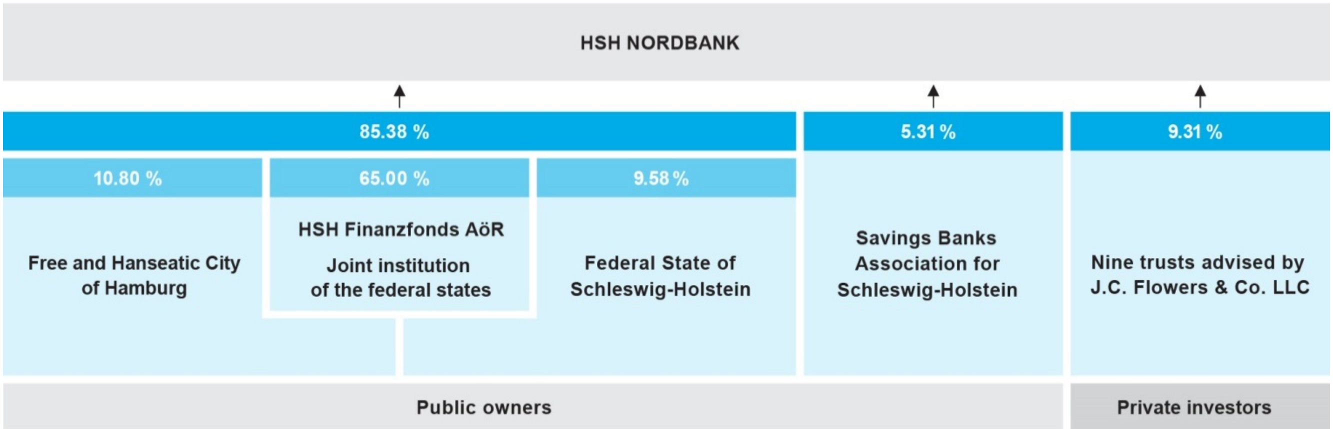
Since December 2009 the Restructuring Unit as an internal segment of the Bank has been managing the winding down of non-strategic lending and capital markets transactions that were separated in organisational terms as part of the strategic realignment of the Bank and are not continued in the Core Bank.

As part of the focussing of its business activities HSH Nordbank has significantly reduced its international network of locations over the past years and closed a number of branches and offices abroad – including most recently Copenhagen, London and Shanghai. HSH Nordbank will maintain its presence in Athens, Hong Kong, New York and Singapore in line with its international activities. The branch in Luxembourg primarily provides services for the Restructuring Unit. In Germany, HSH Nordbank continues to be represented in Berlin, Dusseldorf, Hanover, Munich and Stuttgart for its national business.

At the same time the Bank pressed ahead during the past year with the winding down of non-strategic equity holdings and subsidiaries. The sale of all shares held in the real estate company, HSH Real Estate GmbH, at the end of August 2013 was a major contributory factor.

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

OWNERSHIP STRUCTURE



The federal states of Hamburg and Schleswig-Holstein as the owners of the Bank have issued via HSH Finanzfonds AöR a guarantee in favour of HSH Nordbank that provides capital relief (second loss guarantee), under which defaults in a specified portfolio are hedged. It was already possible to reduce this portfolio consisting of the high-risk legacy portfolios (cut-off date: 31 March 2009) by more than 65% in terms of value by the 2013 year end. First piece losses incurred in this portfolio are borne by HSH Nordbank itself up to an amount of € 3.2 billion. In order to strengthen the capital ratios of the Bank, the guarantee facility provided by Hamburg and Schleswig-Holstein was replenished from € 7 billion to the original facility of € 10 billion in 2013. Further information on the second loss guarantee is set out in the section “Business developments”.

As a member of the German Savings Banks Finance Group HSH Nordbank AG is a member of the support fund of the Landesbanken and therefore is also affiliated to the joint liability scheme of the German savings banks organisation. This system secures the continued existence of the member institutions and guarantees their liquidity and solvency.

Key external factors influencing the business of HSH Nordbank include economic and financial markets developments, trends in the relevant industry sectors such as shipping (especially charter rates), movements in the US dollar exchange rate, regulatory requirements and external ratings.

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

OBJECTIVES AND STRATEGY

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

In order to implement the business model with a sustainable profitable focus as a Bank for Entrepreneurs HSH Nordbank is concentrating on strengthening the viable business areas of the Core Bank and, at the same time, on winding down the high-risk legacy portfolios, which are bundled in the Restructuring Unit and are no longer part of the core business.

In the Core Bank HSH Nordbank is seeking to continue to significantly expand its new business at risk-commensurate margins in the planning period until 2016 and thereby increase the total interest-bearing assets of the Core Bank. At the same time the sales and distribution of the entire range of services is being driven forward in order to exploit further business potential. In doing so, on the one hand, business is being intensified in the core region, where the Bank has long-standing client relationships and a high level of market penetration. On the other hand, business activities outside Northern Germany are being expanded further in order to achieve the planned growth and to ensure a balanced portfolio structure. To this end, we are exploiting synergy effects from the combination of divisions that are aligned at a regional and sectoral level.

In contrast, the aim in the Restructuring Unit in the planning period until 2016 is the steady and significant reduction in the non-strategic loan and capital markets portfolios. This is being accomplished through principal repayments and active measures with due regard for strategic guidelines such as value optimisation, realisation of any potential reversals of impairment losses and efficient portfolio management.

The strategy is aimed at aligning HSH Nordbank on a sustained profitable basis. Following the recording of a large loss in the past year we expect to be able to disclose a positive net result for the Group for the financial year 2014. This takes into account the positive effect of the capital protection clause in accordance with the EU requirements, through which an appropriate common equity Tier 1 capital ratio is to be ensured (by the waiver on the part of the guarantor of the additional premium imposed by the EU Commission in return for a debtor warrant). The net income before taxes is in particular generated by the Core Bank, which will probably be able to close 2014 on a positive basis even without the special effect of the capital protection clause.

In implementing the business model HSH Nordbank has to comply with the agreements reached with the EU Commission that had been linked to the conclusion of the EU state aid proceedings in September 2011. For example, the Bank undertook to reduce the total assets of the Group to € 120 billion by 2014 (of which € 82 billion is in the Core Bank and € 38 billion in the Restructuring Unit), to discontinue individual segments (aircraft financing and international real estate financing), to limit the total assets of the Shipping division of the Core Bank to € 15 billion, to wind down non-strategic equity holdings and to significantly reduce administrative expenses. The implementation of the individual requirements is monitored by an independent trustee on behalf of the EU Commission. In the middle of 2013 the EU Commission initiated a new review procedure to investigate whether the replenishment of the guarantee is in accordance with state aid rules. Further information on this issue is set out in the section “Business developments”.

The key objective of HSH Nordbank in this respect is to continue to successfully push ahead with the restructuring together with the winding down of the legacy portfolios and to be able to again reduce the guarantee facility by its first substantial amounts in the planning period until 2016 following the increase in the past year.

MANAGEMENT SYSTEM

The management system of the Bank is aimed at the management of the key value drivers – income, expense, capital, liquidity and risk –, the continuous review of compliance with the objectives of the Bank’s plan, and the taking of targeted measures if required on a flexible basis and at an early stage. The Bank uses a central key indicator and ratio system that is able to ensure that the Overall Bank, Core Bank, Restructuring Unit and segments are managed in a uniform and effective manner.

Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers. On the one hand, the focus is placed on the change in these key indicators over the past year (Economic report section) and, on the other, on their expected development in 2014 (Forecast, opportunities and risks report section). Other key indicators and ratios used in the internal management processes are not addressed in detail in the Management Report.

Not all key ratios and indicators mentioned below as being important or crucial for the Group are determined at the individual entity level. Income before taxes, return on equity, the cost-income ratio as well as loan loss provisions of the Restructuring Unit in particular are not presented for the individual entity.

The most important key indicators used for managing the earnings of the Bank are total income and new business volume. The Bank also uses other supporting key indicators such as the new business margin, cross-selling income and risk-adjusted contribution margins within the framework of the value-driven management. With regard to the cost side the report focuses on administrative expenses. The number of employees (calculated as full-time equivalents, FTE) is also important as a key non-financial management indicator. Employee satisfaction, which is captured by surveying the employees, is another management tool used in this connection.

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

The common equity Tier 1 capital ratio and risk-weighted assets (RWA) after taking the effect of the second loss guarantee into account are used as key ratios for managing regulatory capital. Another key ratio included in the management system is the leverage ratio, which must be disclosed from 2015. The leverage ratio is a key ratio that is not risk-weighted and compares the Tier 1 capital to a regulatory adjusted business volume. Other special key indicators and ratios are used to monitor the portfolio hedged by the second loss guarantee. These are, for example, loan loss provisions in the guaranteed portfolio, the risk weighting and the expected future drawdown of the guarantee.

The key regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). The liquidity ratio as defined in LiqV describes the relationship between expected cash inflows and expected cash outflows over the next 30 days. Furthermore, the funding and liquidity situation is measured based on the liquidity development report. In addition, the Basel III key ratios, the liquidity coverage ratio (LCR) and net stable funding ratio, which are to be reported to the supervisory authorities for the first time with effect from 2014, were integrated into the internal management processes in 2013. Details on the liquidity ratio and liquidity management are set out in the section Liquidity risk in the "Risk report".

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

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

Details regarding the management of risk as a value driver are set out in the "Risk report" section.

A special factor is that HSH Nordbank must comply with the conditions imposed by the EU Commission regarding, amongst other things, the total assets of the Overall Bank, Core Bank, Restructuring Unit and the Shipping division. Accordingly, the utilisation of these volume limits as well as compliance with the other EU requirements is also monitored continuously.

The management of the key value drivers in the Bank is supported by central committees. Additional information on this issue may be found in the "Risk report" chapter under "Portfolio management by a central committee structure".

REMUNERATION SYSTEMS AT HSH NORDBANK

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

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

The Supervisory Board decided on the basis of a communication of the European Commission dated 23 August

2012 to no longer grant any entitlement to variable remuneration for the 2012 financial year and subsequent years until the restructuring phase is completed. The provisions recognised up to and including the 2011 financial year for variable performance-related remuneration remain in force. This remuneration is subject to the precondition that the Bank is able to pay a dividend as at 31 December 2015 or at the latest as at 31 December 2016 and the European Commission has not instituted abuse proceedings. The Bank does not offer additional long-term incentives such as share option schemes. Further information on Management Board remuneration is set out in Note 75 of the annual financial statements.

In parallel to the new rules regarding Management Board remuneration the requirements of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV), which entered into force in October 2010, were implemented for the variable remuneration system below the Management Board level. This is based on a total remuneration approach, reduces any significant dependence on variable remuneration and thereby prevents employees from taking excessively high risks for the purposes of realising the variable remuneration potential. The amount of the total budget for the variable performance-related remuneration of employees is determined on the basis of the Bank's performance, which is calculated using parameters that reflect the success of the Bank. In addition to achieving key financial ratios these parameters are also based on the Bank's strategic objectives amongst other things. They take account of the concept of sustainability and are always tailored to the business model as well as the Overall Bank strategy and risk strategy.

The budget of the Overall Bank for variable performance-related remuneration of the employees is distributed to the employees taking into account the performance of the divisions based on the achievement of individual objectives. Fixed upper limits for ratio of variable to fixed remuneration are set for all employees of the Group in order to avoid disproportionately high variable remuneration.

Based on the specific requirements of the InstitutsVergV, HSH Nordbank defines a group of employees as so-called risk takers, who have a significant influence on the overall risk profile of the Bank by virtue of their function. Further details will be published in a separate remuneration report on the website of HSH Nordbank in line with the requirements of the regulation.

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

Economic growth gains momentum during the year

The weak growth in the global economy in the previous year continued in the first months of 2013. The main reason for this was the persistently weak economic activity in the eurozone. The global economy picked up noticeably during the course of the year. In the third quarter it grew at the highest rate since the end of 2010. A stronger expansion in the USA, a further upward trend in Japan due to economic policy stimuli as well as an increase in production in the eurozone after one and a half years of recession were contributory factors. There were also growing indications of an economic upswing in the second half of the year in emerging countries.

The German economy was not able to escape the weak environment at the beginning of 2013. However, it picked up again during the course of the year. This was initially predominantly due to catch-up effects and foreign trade stimuli, but the domestic economy has recently become much more of a contributory factor. The main driver of domestic growth is primarily robust consumer demand. However, investment activity of companies is still at a low level overall, but should increase in view of already high capacity utilisation.

Tensions ease in the financial markets

The tensions in the financial markets eased considerably in the course of 2013. This was reflected in the decrease in risk premiums for bonds issued by euro periphery countries and in the healthy level of issues by private companies. The general level of interest rates still remained low due to the very expansive monetary policy of the large central banks. Yields on US government bonds increased significantly in the meantime after the tapering by the US Federal Reserve of its bond purchases was the subject of public debate in May. However, the upward trend in yields was broken in September, when the Federal Reserve promised a very cautious approach regarding tapering and has also implemented this in the meantime. Against this backdrop, yields on ten-year German government bonds have only increased moderately over the course of the year and were 1.93% at the end of the year (US treasuries: 3.03%).

The moderate increase in yields on German government bonds is closely linked to the two reductions in the base rate of the European Central Bank (ECB) to 0.25% and its readiness to take further action in principle. At the same time the ECB announced that it would keep the base rates at the current low level for a longer period of time or in fact to reduce them even further. The expansive monetary policy of the central banks has also contributed to a significant increase in prices on equity markets in 2013.

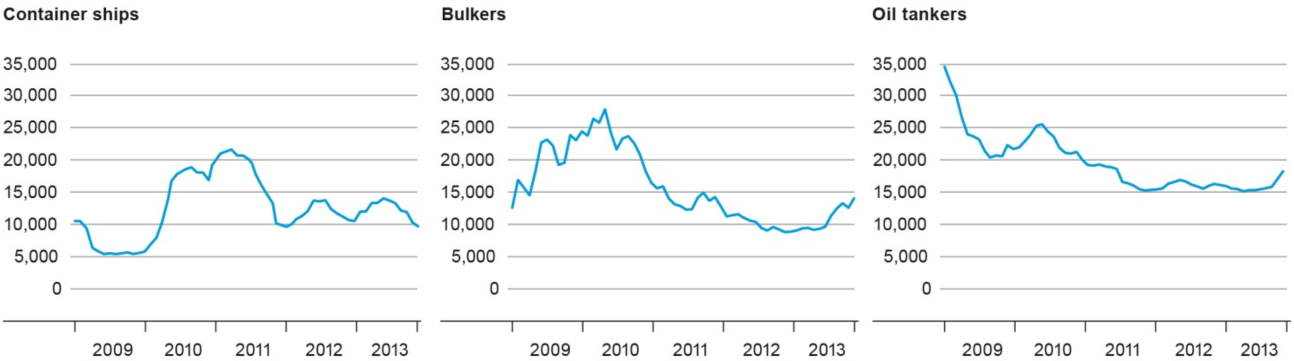
Against the backdrop of the above developments, the euro fluctuated against the US dollar in a range between 1.28 and 1.38 and closed the year at EUR/USD 1.38.

Heterogeneous trends in markets important for HSH Nordbank

In addition to macroeconomic developments and events occurring in the financial markets, the situation in the following industry sectors is important for the financial position of and the outlook for HSH Nordbank.

The shipping markets showed signs of stabilising during 2013 at a still very low level. The demand for container ship transport has increased, but was more than offset by the delivery of new tonnage. Freight and charter rates as well as ship values thus remained under pressure. The demand for bulk carriers increased in recent quarters more strongly than the supply with the effect that freight rates for these ships were able to recover somewhat. All segments (container ships, bulk carriers, oil tankers) continued to be adversely impacted by a large number of orders for new ships, which were placed primarily by institutional investors despite the difficult market situation. The financial situation of many German companies in the shipping industry remained strained in view of the low level of charter revenues.

MOVEMENT IN TIME CHARTER RATES IN THE SHIPPING INDUSTRY
(Market average, USD/day)



Source: Clarkson

The trends in the German real estate markets were predominantly positive in 2013. The residential real estate markets benefited from a sustained high demand for housing in large cities, due to higher employment, increases in income levels and the influx of migrants. The demand for space declined in the office real estate markets as the number of office employees grew more slowly. Nevertheless, vacancy rates fell as the number of office completions decreased even more sharply. The retail market also benefited from the higher employment and income situation as well as from the expansion of international chain stores. Modern retail space was still in demand, especially in prime locations in large cities. Overall, the growth in rents for office properties accelerated somewhat in the past year. Rents for retail properties only increased sharply in prime locations. The European real estate markets as a whole stabilised further over the past year. The US real estate markets also continued to recover.

The development of renewable energies made further progress in Europe, albeit at a markedly slower pace in 2013 than in previous years. The photovoltaic capacity only increased in the past year by just over 9 GW (previous year: 17 GW). The decrease in new installations in Germany, the largest photovoltaics market in Europe in 2013, was especially noticeable. This decrease was more pronounced for large-scale plants, as the subsidy programme for these ceased. The growth in wind energy capacity slowed down in Europe to just over 11 GW (previous year: 13 GW). Germany bucked this trend in Europe and saw an increase in the development of wind power plants. The volume of project financings in the transport infrastructure market increased in the past year, whereby road, port and airport projects were increasingly implemented.

The industry sectors relevant for the corporate clients business of HSH Nordbank showed a generally stable trend in the past year. In view of the subdued level of investment activity as well as the good liquidity position of many medium-sized enterprises the demand for financing and the drawing down of credit lines remained generally muted.

Banks are facing increasing regulatory requirements

In the light of the easing of tensions in the financial markets and a comparatively robust domestic economy, the underlying conditions for the German banking system improved over the past year. In this situation the larger German banks have been able to increase again their risk-bearing capacity by strengthening their capital base and further decreasing the debt equity ratio. Total assets have decreased primarily as a result of sales of activities not part of the core business and reducing exposure to the European periphery countries. With higher capital ratios the banks are preparing for the regulatory changes under Basel III, which will be introduced with effect from 2014 with gradually increasing requirements in subsequent years.

In addition to the introduction of Basel III, the banks will be subject to a "comprehensive assessment" by the ECB, which will be carried out in advance of the transfer to the common banking supervision in the eurozone planned as of 1 November 2014. The start of the common supervision together with a single supervisory mechanism (SSM) for the major banks is the first adopted cornerstone for establishing a common set of regulatory standards within the European Banking Union.

The review of the risks and balance sheets (asset quality review) started in the fourth quarter 2013 is aimed to create transparency in the banking market of the eurozone with regard to the material risks and quality of the assets. In addition to receivables from euro countries affected by the crisis focus will also be placed on higher credit risk in certain industries and sectors, in which some German banks are heavily involved. It is planned to complete the asset quality review by July 2014.

The review of the balance sheets will be followed by a stress test coordinated with the European Banking Authority (EBA), through which the resilience of the institutions is to be reviewed and any additional capital requirement identified. The overall results of all review components are to be published in October 2014.

The adoption of a single resolution mechanism (SRM) for banks classified as not viable is planned as the second pillar of the European Banking Union. At the end of 2013 the EU finance ministers were able to agree a common position regarding this. Accordingly, the SRM is to come into force on 1 January 2015. A new body, to which representatives of the member states belong, shall decide in principle on the resolution of a bank. At the beginning of 2016 more stringent regulations regarding the liability of owners and certain creditors shall come into force for future bank restructurings (“bail-in”). In addition, a single resolution fund (SRF) is to be built up through bank levies over a period of ten years, which is available, if the contributions of the shareholders and creditors are not sufficient to cover the restructuring or resolution costs. The European Parliament must still give their consent to the agreement reached by the EU finance ministers.

The earnings position of German banks was influenced by various factors in the past year. Trading and income from financial investments in particular had a positive effect against the backdrop of the improved environment in the financial markets. A comparatively low level of loan loss provisions also had a positive effect, provided that the banks were not affected by adverse developments in crisis-ridden markets such as shipping. The sustained low interest rate environment was a negative factor for many banks, as the interest margin tends to fall in periods of low interest rates and interest on deposits cannot be reduced any further. Furthermore, competition for clients that has been increasing for many years together with a subdued loan demand is putting pressure on the earnings of banks. At the same time the cost side is being adversely impacted by the constant increase in regulatory requirements and disclosure rules, which mean significant additional expense for institutions.

HSH Nordbank’s business impacted by underlying conditions

The business performance of HSH Nordbank was significantly impacted by the trend in the underlying conditions. The decrease in the spreads on high-risk debt instruments had a positive effect on the measurement of securities portfolios, especially with regard to the credit investment portfolio in the Restructuring Unit. The Bank was able to benefit from the recovery in the US as well as individual European real estate markets such as Great Britain. HSH Nordbank was successful in increasing new business at risk commensurate margins, although loan demand in the market was weak overall and competition was intense in the financing business. In light of the solid financial base of many companies loan principal repayments increased at the same time, which was partially offset by the positive effect of the increase in new business.

On the other hand, HSH Nordbank as one of the largest providers of finance to the shipping industry was significantly affected by the sustained crisis in this market. Loan loss provisions for problem loans had to be significantly increased in the 2013 annual financial statements, in order to take account of the increased risk. The ECB assessments that will continue until the autumn of 2014 prior to the launch of the Single Supervisory Mechanism also represent a significant challenge for HSH Nordbank against the backdrop of the associated use of resources. The second loss guarantee of the federal states of Hamburg and Schleswig-Holstein and the reduction in total assets, that is pushed ahead, will ensure that the increased capital requirements resulting from the transition to Basel III are met. The business performance is explained in detail in the following sections.

BUSINESS DEVELOPMENTS

SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE 2013 REPORTING YEAR

Visible progress made in implementing the business model

HSH Nordbank made significant progress in 2013 in its strategic realignment as a Bank for Entrepreneurs and in dealing with troubled assets from the past. This was reflected in the improvements in key indicators such as new business growth and the amount of assets wound down in the Restructuring Unit. A good starting basis was also created for the upcoming challenges through the replenishment of the second loss guarantee by the principal owners and the associated strengthening of the capital ratios. Nevertheless, the predominant factors affecting the Group results for 2013 were the on-going shipping crisis, higher guarantee expenses and negative special effects. At the end of 2013 HSH Nordbank initiated savings in operating expenses and made organisational changes, which will result in a more substantial reduction in administrative expenses.

Our new business with clients progressed satisfactorily in the year under review. We were able to successfully expand and again increase new lending business in the face of a fall in loan demand in the market. New business volume amounted to € 7.6 billion for the entire year compared to € 6.8 billion in the previous year and € 4.7 billion in 2011, when the realignment of the divisions was initiated following the conclusion of the EU state aid proceedings. There were also signs of a noticeable momentum over the course of 2013. The volume of new concluded commitments increased constantly from quarter to quarter and almost reached the target level for the entire year by the year end. The solid financial position of many corporate clients resulted at the same time in an increase in loan principal repayments, which was only partially offset by the positive effect of the new business increase on earnings.

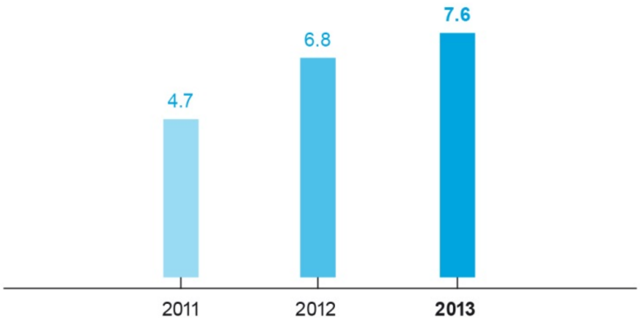
Despite increased competition in the German banking market we were able to enter into transactions with a lower risk at higher margins. This had a positive effect both on earnings and the risk profile of the Core Bank. The regional spread of the new business is balanced and contributes to the further diversification of the portfolio. About 32% of the new business transacted in the reporting year is attributable to our core region of Northern Germany. The remaining portion is accounted for by clients located in other regions of Germany (50%) and abroad (18%).

The good positioning of the core divisions in the markets and the high acceptance of the Bank by clients also outside the core region, where we have strengthened our presence as part of the realignment, are reflected in the figures on new business.

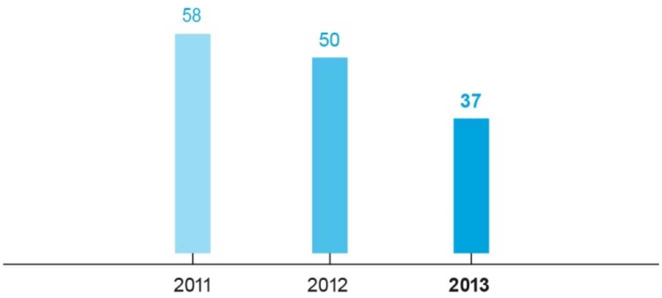
In view of the good start made in 2014 with regard to volumes, margins and the deal pipeline we expect to be able to further increase new business in line with the plan during the course of 2014.

Substantial expansion of new business, legacy portfolios significantly reduced

NEW BUSINESS CORE BANK
(€ bn)



SEGMENT ASSETS OF RESTRUCTURING UNIT
(excl. consolidation effects), € bn



We also made good progress in the past year in winding down the high-risk legacy portfolios in the Restructuring Unit. Total assets of the Restructuring Unit, which is responsible for winding down the high-risk legacy portfolios of the Bank, were reduced ahead of plan to € 37 billion by the 2013 year end. This represents a further reduction of € 13 billion compared to the previous year. Total assets of the Restructuring Unit include reclassifications from the Core Bank totalling about € 8.1 billion since 2011, which were made in order to implement the winding down measures agreed with the EU Commission and as part of portfolio adjustments. Of the total volume, € 6.5 billion were reclassified in 2011 (aircraft and real estate loans), € 1.3 billion in 2012 (shipping, corporate and energy loans) and € 0.3 billion in 2013 (shipping loans).

Alternative portfolio solutions were pushed forward in the year under review with the involvement of strategic partners in order to accelerate the reduction in problem commitments and an initial transaction was successfully concluded in the Shipping division. In view of increased investor interest further transactions of this type are planned.

The disposal of non-strategic equity holdings in accordance with the EU conditions was – measured by the carrying amount of equity holdings – completed for the most part. Numerous sales in 2013 made a significant contribution in this regard. The disposal of the remaining equity holdings will be continued in 2014. In addition, the aim is to further reduce the high risk assets in the Restructuring Unit beyond the extent agreed with the EU Commission.

The classic private clients business – a comparatively small division of HSH Nordbank – was mainly transferred to partner banks within the German Savings Banks Finance Group in order to focus on strategically important core divisions. Appropriate agreements were concluded in the year under review with Hamburger Sparkasse and Förde Sparkasse. In future, we will concentrate in our private client business solely on wealth management together with the providing of advice to wealthy individuals, foundations and non-profit organisations. We have been an established provider for many years in this business field in the North German market.

Solid Basel III common equity Tier 1 capital ratio following guarantee measure and total assets reduction

An important step taken in the past year was the replenishment of the second loss guarantee from € 7 billion to the original facility of € 10 billion by the federal states of Hamburg and Schleswig-Holstein. This was done against the backdrop of developments in the shipping markets that were significantly worse than expected, which resulted in a noticeable deterioration in the risk parameters of the Bank's portfolio. The replenishment of the guarantee that was executed in the middle of 2013 significantly strengthened the capital ratios by reducing the risk-weighted assets (RWA).

In addition to the replenishment of the guarantee, the increased reduction in risk positions ensured that the capital requirements under Basel III applicable from the beginning of 2014 can be met on a sustained basis and that the planned Basel III capital ratios for 2014 are significantly above the minimum thresholds set by the supervisory authorities. This applies to the capital ratios determined under the Basel III transitional arrangements as well as those on the anticipated full implementation of the Basel III requirements. The changeover from HGB to IFRS as the basis for determining regulatory capital for the Group that is mandatory from 2014 has been taken into account.

In the stress test planned by the ECB in coordination with the EBA a common equity Tier 1 capital ratio of 8% is required in the base scenario and a corresponding ratio of 5.5% is required in the stress scenario in accordance with the relevant Basel III transitional arrangements for the period 2014 to 2016. The common equity Tier 1 ratio calculated under the previous Basel II requirements reached at Group level 11.7% (plus a buffer of 5.2 percentage points) as at the 2013 year end, which was significantly above the ratio of 9.9% as at the 2012 year end as well as that planned for 2013 in the previous year. With this increased ratio we have created a good starting position for the upcoming challenges. Further information on the capital ratios of HSH Nordbank is set out in the "Earnings, net assets and financial position" section.

The EU Commission has given its provisional approval for the replenishment of the guarantee in June 2013. In the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein and HSH Nordbank the guarantee measure falls within the framework of the provision of the guarantee facility approved by the EU Commission in 2011. The EU Commission regards the replenishment as another case of state aid, thereby requiring an assessment of the updated restructuring plan of the Bank. Discussions with the EU Commission on the replenishment of the guarantee have been initiated as planned.

Last but not least, we are confident due to the noticeable progress in implementing the business model that the replenishment of the guarantee will be finally approved and that we will be able to successfully continue the reorganisation of HSH Nordbank.

In order to reaffirm that the replenishment of the guarantee is in accordance with the EU state aid provisions, the Bank and the guarantors are put economically in a position as if the reduction in the guarantee facility in 2011 had not occurred. This involves a subsequent payment of the base premium for the replenishment in the amount of about € 275 million for the period of the reduced guarantee facility from 2011 until mid-2013, which is payable to the guarantors in addition to the higher current guarantee fee.

The subsequent payment of the base premium will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. An amount of about € 69 million of this is recognised as an expense in 2013. The remaining expenses will be amortised on a scheduled basis over the years 2014, 2015 and 2016.

Following the replenishment of the guarantee in the past year we will periodically review the possibility of reducing the guarantee during the planning period. We are creating the conditions for a gradual reduction through the progress made in restructuring the Bank.

Headcount reduction process on schedule

The alignment of the operating structures and processes to the focussed business model of the Bank made good progress in the past year. A lean management programme helped in the past year to implement targeted process and quality improvements in the divisions. At the same time further cost savings were achieved. It was possible to decrease administrative expenses further primarily as a result of continued headcount reductions.

The ongoing reduction in headcount was pressed ahead as planned in the year 2013. Until 31 December 2013, the number of employees at individual entity level fell further to 2,358 compared to 2,542 as at the end of 2012 (calculated on a full-time equivalent basis, FTE). This means that the headcount reduction plan initiated in 2011 and to be completed by 2014 has already been largely implemented.

Exploiting further potential for savings to offset increasing cost pressure

In the fourth quarter 2013 we used the cost savings programme approved in 2011 as the basis for initiating new measures to further reduce costs. In this context, the focus is placed on savings in operating costs and changes in the organisational structure. The objective is to organise the Bank on a sustainable, efficient basis in view of the quicker than planned reduction in total assets and to counter the increased cost pressure. Substantial additional expense is also likely to be incurred, especially with regard to the constantly increasing regulatory requirements and disclosure rules for banks. Furthermore, the guarantee replenishment results in higher guarantee expense for HSH Nordbank, which was already noticeably felt in the net income for financial year 2013.

Following a detailed review of our cost base we identified a series of individual measures, the implementation of which will result in a significant reduction in administrative expenses as early as 2014. The planned savings relate to various cost types – including IT, projects and buildings. Furthermore, some currently open positions are cancelled and positions that become vacant will partly not be filled. This will enable positive effects on the cost side to be realised over the short-term.

The planned changes to the organisational structure include the optimisation of our location concept and the reduction in the number of managers. The new location concept involves the merging of units that are currently represented in both headquarters of the Bank. The measure will pool the expertise in one location and increase the efficiency of the collaboration. A reduction in the number of division and department heads and team leaders should also help to reduce costs. At the same time we want to simplify decision structures in this way and support an efficient communication process.

The Bank established a central Cost Management Board at the beginning of 2014 for the overall management of the cost budget. The Board monitors compliance with the budget and takes the measures necessary to achieve the cost objectives.

With the implementation of the initiated measures we will increase cost efficiency and improve the prospects for the planned return of the Group to profitability in 2014.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

OVERVIEW

Net income for the year was adversely impacted by loan loss provisions, guarantee fees and special effects

Despite the noticeable progress made in implementing the business model HSH Nordbank disclosed as expected a significant net loss for the year ending 31 December 2013. It amounted to € -425 million compared to € -391 million for the previous year. The key factors underlying the negative results in the past year were the high level of loan loss provisions for shipping loans and – associated with this – a significant increase in the guarantee fee. The results were also adversely impacted by the recognition of tax provisions in connection with a revised risk assessment of tax issues.

In the year under review total income decreased to € 1,077 million from € 1,548 million in the previous year. Besides the sharp reduction in interest-bearing balance sheet items, whereby interest income generated in previous periods was eliminated, this decrease reflected the higher guarantee expense as a result of the guarantee increase and positive special effects in the previous year, especially the repurchase of the subordinated bonds (€ +261 million). The growing new business with improved margins and loan prolongations had a positive effect. Total income also benefited from valuation effects in the derivatives area, which were reflected in the significant improvement in the net income of the trading portfolio.

Loan loss provisions amounting to € -1,693 million (previous year: € -111 million) are characterised by substantial additions in the shipping loan portfolio. This reflects our revised market assessment that the shipping markets will recover more slowly than previously expected. The loan loss provisions had to be increased more sharply as at the end of the year 2013 than planned in order to take the associated credit risks into account.

This also affects the level of the planned long-term utilisation of the second loss guarantee throughout the Group. We are still assuming that the payment defaults in the portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion starting from 2019 and result in actual payments being made under the second loss guarantee. Based on our new assessment these will total € 1.6 billion up to 2025 after deduction of the first loss piece of the Bank. The total default amount therefore increases over the long-term by € 0.3 billion compared to the previous year's plan, which means that any future expected fee payments for the guarantee have to be recognised in the loan loss provisions in accordance with the EU requirements, which reduce the compensation effect of the guarantee.

The result from loan loss provisions/valuation improved on an overall basis despite the clear increase in loan loss provisions. This was attributable to the reversal of the amount of € 652 million transferred to the fund for general banking risks in the previous year. The reason for this is the reinstatement of the claim of the guarantors under the additional premium due to the increase in the core Tier 1 capital ratio (capital protection clause in accordance with the EU requirements).

In addition to the increase in income, the reduction in administrative expenses to € -660 million (€ -667 million) had a positive impact on the earnings of the Bank. The continued reduction in the number of employees from 2,542 to 2,358 made a significant contribution in this regard.

The Bank's capital ratios benefited from the replenishment of the guarantee in the middle of 2013 and the reduction in RWA. The net loss for the year, the reinstated claim of the guarantors under the additional premium for the guarantee and deteriorated risk parameters in Shipping had a negative effect on the ratio.

The classical Tier 1 capital ratio improved 14.0% (previous year: 11.8%). The common equity Tier 1 capital ratio increased to 10.6% (previous year: 9.4%) and is therefore clearly above the banking supervision requirements as at the 2013 year end. Furthermore, there is a buffer for the ratio of about 4.9 percentage points resulting from the claim of the guarantors relating to the additional premium. The claim would be deferred again in return for a debtor warrant if this were to result in the reduction of the common equity Tier 1 capital ratio to below 10% (capital protection clause).

A sustainable basis was created for the upcoming regulatory challenges and planned business growth in the Core Bank through the increase in the Tier 1 capital ratio.

The substantial reduction in risk positions is reflected in the Bank's total assets as at the year end. Compared to the 2012 year end, these decreased significantly by € 23 billion to € 113 billion.

EARNINGS SITUATION

Income statement (German Commercial Code single entity)

	31.12.2013	31.12.2012	Change absolute	Change in %
Net interest income	1,103	1,432	-329	-23
Net commission income	-322	-198	-124	-63
Of which: Fees for second loss guarantees	-414	-284	-130	-46
Of which: Fees for SoFFin guarantees	-	-18	18	100
Net trading income	266	-21	287	> 100
Administrative expenses	-660	-667	7	-1
Of which: Personnel expenses	-291	-320	29	-9
Of which: Operating expenses	-369	-347	-22	6
Other operating income	30	335	-305	-91
Operating result before risk provisions/valuation	**417**	**881**	**-464**	**-53**
Loan loss provisions/valuation	-806	-1,021	215	-21
Of which: Loans	-1,693	-111	-1,582	> 100
Of which: Securities	230	127	103	-81
Of which: Equity holdings	5	-125	130	> 100
Of which: Additions to the fund for general banking risks	-	-980	980	100
Of which: Reversals from the fund for general banking risks	652	-	652	-
Operating result after risk provisions/valuation	**-389**	**-140**	**-249**	**>- 100**
Extraordinary result	-53	-44	-9	-20
Income taxes	-142	-364	222	-61
Income from the assumption of losses	159	157	2	1
Net loss for the year	**-425**	**-391**	**-34**	**-9**

Total income characterised by asset reductions and special effects

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

Net interest income amounted to € 1,103 million compared to € 1,432 million in the previous year. At the Overall Bank level the net interest income was again adversely impacted by the reduction of the interest-bearing volume of lending due to the continuous winding down of the high risk legacy portfolios in the Restructuring Unit and the scheduled repayment of loans. Furthermore, current income from shares and securities as well as from equity holdings in non-affiliated companies and interests in affiliated companies decreased. On the other hand, net interest income benefited from the growth of new business in the Core Bank, loan prolongations and the good margin trend, so that the effect of the volume reduction on the Bank's earnings could be compensated.

Net commission income of € -322 million (previous year: € -198 million) was adversely impacted by fees for government guarantees of € -414 million. This is a clear increase compared to the previous year (€ -284 million) and is caused by the replenishment of the second loss guarantee to € 10 billion, whereas fees were no longer payable in 2013 for guarantees of the Financial Market Stabilisation Fund (SoFFin) (previous year: € -18 million).

After being adjusted for the expenses for public guarantees, net commission income of € 92 million decreased compared to the previous year (€ 104 million). The lack of commission income generally reflected the focus of the Bank being placed on core businesses. Accordingly, a large proportion of the reduction was accounted for by the Restructuring Unit. At the product level the sale of derivatives was adversely affected by the low level of interest rates in particular. Costs relating to capital markets transactions executed were also higher than in the previous year.

Net trading income amounted to € 266 million (previous year: € -21 million). Positive valuation effects in the field of derivatives made a significant contribution to the substantial improvement in the results. This is partially attributable to the improvement in the creditworthiness of counterparties not regarded as being at acute risk of default. Exchange rate effects also had a positive impact on the results. Thanks to the positive result, a risk buffer as defined under Section 340e of the German Commercial Code (HGB) in the amount of 10% of the net trading income was transferred for the first time to the fund for general banking risks through profit or loss.

Other operating income decreased significantly to € 30 million (previous year: € 335 million). This was mainly attributable to special effects that had a positive effect on the previous year's results (particularly € 261 million relating to the repurchase of the publicly placed subordinated bonds).

Overall, total income – comprising net interest income, net commission income, net trading income and other operating income – amounted to EUR 1,077 million. Due to the special effects in the year 2012 this represents a substantial decrease compared to the previous year (€ 1,548 million).

Slight improvement in the cost situation

Administrative expenses were further reduced in the past year to EUR -660 million (previous year: € -667 million). The reduction in the cost base is attributable to a decrease in personnel expenses, which amounted to € -291 million and were significantly below the previous year's level of € -320 million. This is attributable to the further decrease in the number of employees as a result of the headcount reduction process. Operating expenses increased however to € -369 million (previous year: € -347 million). This reflects, amongst other things, higher project and consultancy costs in connection with the increased regulatory requirements.

Loan loss provisions mirror the shipping industry crisis

The Bank reports a value of € -806 million in the loan loss provisions/valuation item compared to € -1,021 million in the previous year.

Loan loss provisions increased due to substantial additions in the shipping loan portfolios. This could only be partially offset by an overall lower level of additions in the other core and winding down portfolios of the Bank. The higher loan loss provisions for 2013 result in a higher drawdown in the long-term of the guarantee in the years 2019 to 2025 based on our updated loan loss provision plan.

Therefore, the future expected fees for the guarantee have to be recognised additionally through profit or loss in the loan loss provisions in accordance with the EU requirements. The expected fees for the base premium and the additional premium imposed by the EU Commission for the second loss guarantee amounted to € -118 million. The additional premium for the past reporting period that still has to be processed amounted to € -344 million. Total premiums recorded in the loan loss provisions amount therefore to € -462 million.

The compensation effect of the guarantee is reduced by this amount. After taking account of these fees expected for the future the reduction in the loan loss provisions attributable to the guarantee amounted to € 132 million (compensation item). In total, loan loss provision expense shows a negative result of € -1,693 million (previous year: € -111 million).

The claim of the guarantors, Hamburg and Schleswig-Holstein, under the additional premium that was deferred in the year 2012 (capital protection clause) was again revived in full in the 2013 reporting year due to the increase of the common equity Tier 1 capital ratio. The amount of € 652 million transferred to the fund for general banking risks in the previous year on the reversal of the additional premium was accordingly reversed again at the 2013 year end.

The compensation effect of the guarantee did not result in a cash draw down as at 31 December 2013. The amount retained by the Bank was utilised by actual payment defaults in the amount of € 778 million as at the 2013 year end (losses submitted for invoicing). Further information on the second loss guarantee is set out in Note 2.

The loan loss provisions/valuation result for the securities business was improved to € 230 million (previous year: € 127 million). Lower write-downs and reversals of impairment losses in the banking books were the reasons behind the positive change.

The loan loss provisions/valuation result from equity holdings of € 5 million (previous year: € -125 million) improved mainly as a result of the sale of HSH Real Estate GmbH. The previous year's result was adversely impacted by write-downs and expenses relating to the assumption of losses recognised on this equity holding.

Operating income after loan loss provisions/valuation decreased to € -389 million (previous year: € -140 million) as a result of the developments described above, particularly the higher loan loss provisions and the reduced total income.

The extraordinary result increased to € -53 million compared to € -44 million in the previous year which was due to expenses for the reorganisation of the Bank.

Net income for the year negative as expected

Taking into account income tax in the amount of € -142 million (previous year: € -364 million) and income from the assumption of losses of € 159 million (previous year: € 157 million) from the participation of silent investors and holders of profit participation rights in the Bank's annual net loss/accumulated loss for the year, the Bank reported an annual net loss in the amount of € -425 million for the 2013 financial year (previous year: € -391 million).

Provisions for tax risks due to a change in risk assessments are reflected in the negative tax result. Further information on this is set out in the “Legal risk” section in the “Risk report”. Furthermore, deferred income tax assets on loss carryforwards were written down based on the Bank's business planning. The increase in tax expense is partially offset by the recognition of deferred tax assets on temporary differences.

As a result of the net loss for the year and the corresponding accumulated loss no distributions were made on silent participations and profit participation rights in 2013. The silent participations and profit participation capital also share in the net loss for the year and accumulated loss of the Bank. In order to avoid a double burden on the part of the hybrid capital creditors, the existing losses carried forward from the year 2012 in the amount of € -391 million were offset by withdrawing funds from other retained earnings in the 2013 financial year.

The losses of the Bank attributable to silent participations amounted to € 155 million. The profit participation capital bore a loss of € 4 million in the 2013 financial year. This is equivalent to a reduction in the carrying amount of the silent participations and profit participation capital of 10.68%. The carrying amount of silent participations and profit participation capital was already reduced in 2012 by about 9.03%, by 7.95% in 2011, by 5.01% in 2010 and by 16.40% in 2009 due to the attributed losses. The carrying amounts of the hybrid instruments were 59.6% of the original nominal amount due to the attributed losses.

NET ASSETS AND FINANCIAL POSITION

Balance sheet (German Commercial Code)

€ m	31.12.2013	31.12.2012	Change absolute	Change in %
Assets				
Cash reserve, debt instruments issued by public authorities, bills eligible for rediscount	4,802	6,681	-1,879	-28
Loans and advances to banks	5,810	9,758	-3,948	-40
Loans and advances to customers	65,585	77,842	-12,257	-16
Securities	23,749	25,799	-2,050	-8
Trading portfolio	9,052	11,729	-2,677	-23
Equity holdings in non-affiliated companies and interests in affiliated companies	1,714	1,773	-59	-3
Trust assets	13	322	-309	-96
Other assets	2,148	2,176	-28	-1
Total assets	**112,873**	**136,080**	**-23,207**	**-17**
Liabilities				
Liabilities to banks	19,295	31,628	-12,333	-39
Liabilities to customers	43,184	43,955	-771	-2
Securitised liabilities	29,381	32,989	-3,608	-11
Trading portfolio	6,903	10,874	-3,971	-37
Trust liabilities	13	322	-309	-96
Subordinated debt	4,079	4,181	-102	-2
Profit participation capital	32	36	-4	-11
Fund for general banking risks	1,409	2,032	-623	-31
Equity capital	4,806	5,477	-671	-12
Other liabilities	3,771	4,586	-815	-18
Total liabilities	**112,873**	**136,080**	**-23,207**	**-17**
Contingent liabilities	4,243	4,569	-326	-7
Other commitments	7,068	5,026	2,042	41
Derivatives (credit equivalents)	2,127	2,844	-717	-25
Volume off-balance sheet positions	**13,438**	**12,439**	**999**	**8**
Business volume	**126,311**	**148,519**	**-22,208**	**-15**
Lending volume	**121,441**	**142,325**	**-20,884**	**-15**

Total assets decreased due to the continued winding down of risk positions

Over the course of the year 2013, total assets clearly declined to € 112,873 million (31 December 2012: € 136,080 million). This reflects the significant reduction in risk positions, particularly as the result of the increased winding down of portfolios in the Restructuring Unit. The depreciation of the USD against the euro compared to the previous year also had a noticeable effect.

The decrease in total assets can be clearly seen on the asset side in loans and advances to customers, which fell to € 65,585 million (31 December 2012: € 77,842 million). A high level of principal repayments and active winding down efforts in loan portfolios of the Restructuring Unit was partially offset by the increase in new business in the Core Bank. Loans and advances to banks have slightly decreased to € 5,810 million compared to the previous year (31 December 2012: € 9,758 million). Collateralised money market transactions as well as promissory notes entered into with other banks decreased. The cash reserve was reduced to € 4,802 million as part of the liquidity management (31 December 2012: € 6,681 million).

Securities held decreased from € 25,799 million to € 23,749 million. This is due amongst other things to continued winding-down of the credit investment portfolio. The trading portfolio amounted to € 9,052 million as at the balance sheet date (31 December 2012: € 11,729 million). The decrease is primarily due to lower market values of the derivative financial instruments held in the trading portfolio, whereas fixed interest-bearing securities increased slightly again compared to the previous year end.

On the liability side of the balance sheet liabilities to banks decreased significantly to € 19,295 million as at the 2013 year end (31 December 2012: € 31,628 million). This was mainly attributable to a lower refinancing volume with central banks and fewer repo transactions. Liabilities to customers remained almost stable and amounted to € 43,184 million (31 December 2012: € 43,955 million). Whilst repurchase agreements with customers increased slightly, the savings deposit business declined due to the discontinuation of the classical private client business.

Securitised debt totalled € 29,381 million (31 December 2012: € 32,989 million). The decrease is primarily attributable to a higher level of maturities and a lower volume of new issues as part of the reduction of total assets.

Subordinated liabilities and profit participation capital remained virtually unchanged compared to the previous year end. The fund for general banking risks decreased significantly from € 2,032 million to € 1,409 million as at 31 December 2013. This is mainly attributable to the reversal of the amount of € 652 million transferred to the fund for general banking risks in the previous year. The reason for the reversal is the reinstatement of the claim of the guarantor under the additional premium as a result of the increase in the core Tier 1 capital ratio.

Equity capital decreased to € 4,806 million as at the 2013 year end (31 December 2012: € 5,477 million). This was mainly attributable to the net loss for 2013 and the amount withdrawn from other retained earnings to compensate for the net loss for 2012.

Decrease in business volume

Business volume decreased to € 126,311 million (31 December 2012: € 148,519 million). This was mainly attributable to the decrease in major balance sheet items. Contingent liabilities also decreased slightly to € 4,243 million (31 December 2012: € 4,569 million), while other commitments increased significantly to € 7,068 million (31 December 2012: € 5,026 million) due to the acceleration in new business.

Capital and Funding

Regulatory capital ratios (taking the 2013 financial statements into account)

%	31.12.2013	31.12.2012
Equity ratio (solvency coefficient)	23.9	18.9
Total ratio/regulatory capital ratio	21.7	18.0
Tier 1 capital ratio	15.9	12.6
Tier 1 capital ratio including market risk positions	14.0	11.8
Common equity Tier 1 capital ratio including market risk positions (plus buffer from additional premium)	10.6 (plus 4.9 PP)	9.4

Regulatory capital ratios (not taking the 2013 financial statements into account)*

%	31.12.2013	31.12.2012
Equity ratio (solvency coefficient)	24.5	17.7
Total ratio/Regulatory capital ratio	21.9	16.9
Tier 1 capital ratio	16.3	11.7
Tier 1 capital ratio including market risk positions	14.4	11.0
Common equity Tier 1 capital ratio (including market risk positions)	10.6	8.4

Eligible capital (not taking the 2013 financial statements into account)*

€ bn	31.12.2013	31.12.2012
Regulatory capital pursuant to SolvV	8.2	10.5
of which: Tier 1 capital for solvency purposes	5.3	6.8
Total risk assets (including market risks and operational risk)	37.9	62.3
of which: Risk assets counterparty default risk	30.8	55.2

*) Report pursuant to the German Solvency Regulation (SolvV)

Common equity Tier 1 capital ratio rises to 10.6% (plus buffer of 4.9PP)

The reported capital ratios of HSH Nordbank are solid as at 31 December 2013. The common equity Tier 1 capital ratio increased clearly to 10.6% as at 31 December. Furthermore, there is a buffer of 4.9 percentage points resulting from the claim of the guarantors relating to the additional premium, which can be converted into a debtor warrant. The ratio is significantly above the banking supervisory minimum requirements and at the same time clearly above the value of 9.4% as the 2012 year end. The other capital ratios also increased compared to the 2012 year end. The Tier 1 capital ratio (including market risk positions) amounted to 14.0% (31 December 2012: 11.8%), the regulatory capital ratio reached 21.7% (31 December 2012: 18.0%). The figures take into account the 2013 annual financial statements.

Thanks to the relieving effect of the second loss guarantee on the risk assets we are well prepared for the Basel III framework valid from 2014 and the conversion of the determination of the capital ratios from HGB to IFRS and are complying with the stricter requirements concerning capital ratios. At the same time we have a sound basis for meeting further challenges.

The capital ratios of the Bank benefited from the replenishment of the guarantee facility in the first half of the year by the federal states of Hamburg and Schleswig-

Holstein, which resulted in a clear decrease in the default risk determined on the amount of risk assets. The reduction in risk positions, which was considerably stepped up in the past year and is also reflected in the decrease in risk assets, also had a positive effect. The somewhat stronger euro against the US dollar compared to the 2012 year end (EUR/USD 1.38 as at 31 December 2013 vs. EUR/USD 1.32 as at 31 December 2012) also had a slightly positive effect on the ratios.

The claim of the guarantors under the additional premium for the guarantee was fully reinstated as a result of the increase in the Tier 1 capital ratio. This was reflected in a reduction of Tier 1 capital and regulatory capital in accordance with regulatory requirements. The net loss for the year and risk parameters in the shipping area also had a negative impact.

Including the guarantee effect, risk assets of the Bank decreased to € 37.9 billion (31 December 2012: € 62.3 billion). In this regard, the regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. Arithmetically, the risk weight of the senior tranche is less than 1% as at 31 December 2013 due to the guarantee increase (31 December 2012: 43%). This creates an additional considerable stabilising buffer for the capital ratios, as a potential increase in the risk content in the portfolio hedged by the guarantee would not affect the capital ratios until the minimum threshold of 20% is reached.

Refinancing activities expanded

We were able to secure the refinancing of the customer business and at the same time to structurally strengthen the liquidity position of the Bank for the year 2013 and beyond, through the funding activities carried out in the past year.

A key focus of these activities was the issuing of Pfandbriefe (covered bonds) on the capital markets. As at the end of the first quarter we issued a public Pfandbrief in the amount of € 500 million with a term of three years, which was increased in April to € 750 million due to the high demand from investors in Germany and abroad. We were also able to place a mortgage Pfandbrief in the markets in Germany and abroad with a volume of € 500 million in the third quarter which had a term of five years. We issued further Pfandbriefe as private placements, some of which in foreign currencies.

The distribution of bearer debentures within the Sparkassenverbund (Savings Banks Association) again made a significant contribution to the refinancing of our business. Product sales to other banks and institutional investors were developed further at the same time. In total, a volume of around € 4.1 billion of uncovered bond products were placed in the past year.

We have also further expanded our asset-based funding (ABF). We attach great importance to this instrument particularly with regard to the refinancing of our foreign currency business. In the past year the "Ocean Funding 2013“ transaction with a volume of approximately USD 661 million was executed together with Citigroup. The transaction is collateralised by a portfolio of shipping loans of HSH Nordbank. It is planned to execute further transactions of this type – also based on other asset classes.

By means of the ABF issues we are able to expand the refinancing of US dollar transactions through the use of primary transactions and at the same time reduce the use of EUR/USD basis swaps for derivative foreign currency financing. The proportion of primary US dollar refinancing for the Core Bank was substantially above the target of 50% as at the 2013 year end. At the same time a high proportion still had to be refinanced via derivatives.

In addition to the continuous issuing activities, a stable deposit base of corporate clients, financial institutions and other institutional investors contributed to a stable liquidity position of HSH Nordbank as at the reporting date. Furthermore, the Bank holds liquidity reserves in the form of highly liquid collateral eligible for refinancing at central banks and credit balances at central banks, which it can access as and when required. The longer maturities of the newly taken up funding and the significant asset reduction in the reporting year also had a positive impact on the liquidity profile. This enabled sustainable structural progress to be achieved with regard to the longer-term challenges that exist in the funding area, which result from a significant volume of maturities of issues between 2014 and 2016 against the backdrop of the expiry of the guarantor liability at the end of 2015. Bonds covered by the guarantor liability totalling about € 23 billion will fall due in this entire period in addition to the expiry of other issues.

The liquidity ratio of the Liquidity Regulation (LiqV), which is the key regulatory parameter for liquidity risk, moved between 1.69 and 2.36 during the reporting year, but was at all times above the regulatory minimum of 1.0; it was 2.30 at the year end. Detailed information on the liquidity risk of HSH Nordbank is set out in the “Risk report” in this Management Report.

In July 2013 the rating agencies Moody’s and Fitch issued statements on the Bank. Both agencies acknowledged the replenishment of the second loss guarantee in particular. Fitch has confirmed the long-term rating of the Bank – which is important for capital market funding – as A- with stable outlook on the basis of the support provided by the federal state owners and the savings banks. Moody’s has downgraded the long-term rating of HSH Nordbank by one notch to Baa3 and the short-term rating by one notch to Prime-3 on the basis of, amongst other things, the still outstanding final approval of the EU Commission for the guarantee replenishment. At the same time Moody’s confirmed the status of HSH Nordbank as investment grade and issued the ratings with a stable outlook. These rating actions did not have a material impact on the refinancing and the position of the Bank.

FINAL ASSESSMENT OF THE POSITION AND COMPARISON WITH THE FORECAST OF THE PREVIOUS YEAR

Operating progress more than offset by a high level of charges in the 2013 reporting year

The progress made in implementing the business model can be seen in the earnings, net assets and financial position in the 2013 reporting year. The substantial expansion in new business – as forecasted in the previous year – , which had a positive impact on the Bank’s earnings due to the improved margins, is particularly significant. The loss of earnings associated with the winding down of the Restructuring Unit portfolio ahead of schedule was offset by this development. At the same time new business transacted as well as the reduction in high-risk loans had a positive effect on the Bank’s risk profile. Against the backdrop of increasing cost pressure we are also on the right course as a whole with the reduction in administrative expenses ahead of schedule – due to the quicker than expected reduction in headcount amongst other things. We also benefited in the past year from reversals of impairment losses as a result of the easing of tensions in the financial markets.

However, the earnings impact of successes in the customer business and in the reorganisation of the Bank were overshadowed by special effects (including tax provisions) and the need to recognise loan loss provisions, in particular for the shipping portfolio. Despite the progress made we were not able to achieve all key financial objectives in the reporting year due to these high charges. The overall unsatisfactory performance is reflected in the high net loss for the year. This had been forecasted in the previous year on the basis of an expected high requirement for loan loss provisions for 2013, although this turned out to be even higher than planned. Whereas the net loss before taxes was at about the level planned in the previous year, the net loss after taxes was higher than expected due to the provisions for tax risks. The progress made in the Core Bank is demonstrated by the development of new business. Increase in volumes and margins show that we are well positioned in our target markets.

We have further improved the prerequisites for a sustained positive performance through the measures implemented and initiated in the past year. The replenishment of the guarantee facility to € 10 billion against the backdrop of the on-going shipping crisis resulted in a higher than planned increase in the common equity Tier 1 capital ratio to more than 10%. This provides us with the leeway necessary to deal with the high risk assets on the balance sheet of the Restructuring Unit, to comply with the increasing regulatory requirements and to expand the core business. It is planned to gradually reduce the guarantee facility again following an in-depth review carried out as part of the on-going restructuring.

The short- and mid-term liquidity position of the Bank was stable as at the 2013 year end. Structural progress was made in the past year regarding the longer-term challenges posed by the expiry of the guarantor liability, through which the liquidity position was strengthened in order to take into account the substantial funding requirements in the coming years.

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the 2013 reporting year.

FORECAST, OPPORTUNITIES AND RISKS REPORT

FORECAST REPORT INCLUDING OPPORTUNITIES AND RISKS

The following section should be read in conjunction with the other chapters in this Management Report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information currently available to us. The statements are based on a series of assumptions that relate to future events and are incorporated in our corporate plan. The occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are outside our control. Therefore actual results may differ materially from the following forward-looking statements. In this forecast report we describe in greater detail the assumptions made by us in the planning process.

Our estimates regarding the long-term trend in loan loss provisions as well as the planning for payment defaults and, consequently, the actual drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon, which can influence the future development of the Bank to a greater degree than expected. These uncertainty factors result, for example, from the movement in key market parameters such as freight and charter rates as well as the US dollar exchange rate. Developments over the past years have also shown that the ability to make forecasts in a volatile environment is limited. For example, the crisis in the shipping industry is lasting longer than expected.

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

ANTICIPATED UNDERLYING CONDITIONS

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

Continued recovery in the economic environment expected

Global economic growth is expected to accelerate in 2014. The USA and the eurozone in particular will be the drivers behind this growth. Economic growth in China should stabilise at a somewhat lower level, whereas economic activity should revive somewhat in most other emerging economies. The turbulence in the financial markets of individual emerging countries is not expected to have a sustained negative impact on the growth of the global economy. Germany will benefit from the recovery of its main trading partners. Following a long period of restraint on the part of German companies we are expecting a higher level of investment activity this year. At the same time private consumption will continue to boost the economy.

The US Federal Reserve should continue its tapering of the bond purchases that was started in January, as long as the economy expands moderately as expected. We do not expect the ECB to ease its monetary policy even further at the present point in time, although the central bank is continuing to keep this option open. Yields on long-term German government bonds and US treasuries should increase moderately in 2014. The US dollar should tend to appreciate slightly as a consequence of the central bank policy. Our plan for 2014 is based on an exchange rate of EUR/USD 1.30.

Crisis in the shipping industry persists

We still do not expect an imminent recovery of the international shipping industry. We must assume that the crisis will be overcome more slowly than expected in the previous year. Growth in demand in the container shipping industry will, in all likelihood, also not be sufficient in 2014 to reduce the existing excess supply. We are expecting a declining delivery volume in 2014 for bulk carriers that could result in the start of a slow recovery, whereas oil tankers should continue to suffer from a relatively weak demand trend. In 2013 we observed in all segments an increase in the level of investment in newbuilds. We use a weighted average of our own and independent, external forecasts of the leading market research institutions, Marsoft und MSI, for our assessment of future developments in the shipping industry.

The performance of the real estate markets in Germany should be largely positive in 2014. The excess demand in residential markets in large cities will continue to grow thanks to the continued high influx of migrants and despite the appreciable increase in newbuilds. The retail sector will continue to benefit from the positive consumer sentiment. Vacancy rates in the office property markets will stagnate on a marked increase in the number of office completions resulting in the office rents remaining stable. Growth in rents for retail and residential properties will slow slightly.

Following a moderate level of development in 2013 the outlook for the expansion of renewable energies in Europe is cautious for 2014. In many countries subsidy measures even for renewable energies are being reviewed. There is great uncertainty in Germany regarding the future shape of the turnaround in energy policy. Overall, we do not expect any appreciable increase in photovoltaic installations in Germany in 2014. In the wind energy sector completions in 2014 are expected to be slightly below the previous year's level. The economic recovery in Germany and Europe should provide a stimulus to the transport infrastructure sector and boost demand again for transport services.

Increasing regulatory requirements for banks

The environment for banks will remain characterised by significant challenges in 2014. A central theme is the assessment of risks, balance sheets and resilience of institutions carried out by the ECB in advance of the establishment of the European Banking Union as part of a stress test (comprehensive assessment). In view of the increasingly more demanding regulatory environment and stiff competition in the German banking market institutions are also required to continuously update their business models to the changing underlying conditions.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

Focus placed on sustainably profitable core areas

In 2014 we will continue to concentrate on the implementation of the business model in order to align the Bank together with its viable business divisions in the Core Bank on a sustainably stable and profitable basis. The conditions for the long-term successful future of the Bank were further improved by the visible progress made in the past year and the additional measures initiated at the end of 2013, although there are still major challenges to be tackled.

Earnings forecast

In the Core Bank we want to build on the successes achieved in the past year and to again significantly expand new business with customers. Increase in volumes and margins in the new business of the past year show that we are well positioned in our target markets. Based on this we also want to strengthen the sales of our entire product range. We are assuming a slight increase in the volume of interest-bearing loans in the Core Bank taking into account principal repayments and loan loss provisions to be expected for 2014.

We will continue to quickly wind down the portfolio in the Restructuring Unit, which will result in a further significant reduction in the total assets of the Restructuring Unit. Following an initial successful transaction concluded last year, we are concentrating on alternative portfolio solutions involving strategic investors for the purposes of further reducing risk in the Shipping portfolios. Furthermore, we want to actively contribute to a market consolidation and in this way preserve the value added potential of the ships. Income in the Restructuring Unit will continue to be affected through the continuous winding down of the portfolio. We also do not expect – in contrast to last year – that in 2014 there will be significant reversals of impairment losses recognised on debt instruments.

The progressive increase in new business in the Core Bank and stronger product sales will also be reflected positively in total income at the Group level in the year 2014. However, we expect a substantial reduction in total income for the Group compared to 2013 due to the continuous portfolio reduction in the Restructuring Unit, lower net trading income and higher costs for the guarantee.

Opportunities and risks in the earnings forecast

A lower reduction in income than forecasted may arise where new business with customers increases at an even faster rate than expected, for example as a result of higher margins achieved in the market, stronger than planned product sales or an unexpectedly high loan demand. On the other hand, it cannot be ruled out that developments on the financial markets will result in larger losses being incurred on debt instruments held in the portfolio, for example as a consequence of renewed tensions in the sovereign debt crisis. This would be reflected in the trading and financial investment results and in a more pronounced reduction in total income. At the same time the demand for loan financing may be worse than assumed due to, for example, a worsening of the economic environment.

Forecast for administrative expenses

On the cost side we are assuming that measures initiated at the end of 2013 to offset the increasing cost pressure, for example as a result of the increasing regulatory requirements, will have an impact and that administrative expenses can be substantially reduced in 2014. Tangible savings in operating expenses as well as the optimisation of our location concept for both headquarters and the reduction in the number of managers (details are set out in “Business developments”) are the focus of this series of measures.

The number of employees will continue to decrease moderately in 2014. We also anticipate that the 2011 headcount reduction plan that has been largely implemented will be successfully concluded. Not filling some open positions and positions that become vacant should contribute to the reduction in the number of employees

Opportunities and risks in the forecast for administrative expenses

We are confident that the savings targets set will be achieved. These targets may also be exceeded if the measures are implemented consistently and additional savings are identified. At the same time it cannot be ruled out that some costs cannot be reduced to the extent desired or not as quickly as planned. Cost reductions achieved in other areas could be offset by unexpected cost increases in individual areas, for example as a result of a greater need for consultancy services relating to regulatory requirements and the on-going EU proceedings. It is currently not possible to make a final assessment of the external costs, which will be invoiced to banks by the ECB for the comprehensive assessment. This could result in risks relating to the change in operating expenses compared to the plan.

We are assuming with the expected reduction in the number of employees that measures initiated to reduce costs will be implemented successfully. The composition of the series of planned measures may be changed as a result of the negotiations with the works council that are still on-going at the beginning of 2014, which could also impact the planned cost reductions. Irrespective of the need to cut costs there remains the important task of retaining qualified staff at HSH Nordbank and motivating them in order to retain key competences and limit operational risk.

Forecast for loan loss provisions

The high level of loan loss provisions in the 2013 consolidated financial statements took account of all risks identifiable at the reporting date. In so doing, we anticipated a slower recovery in the shipping industry – based on a market forecast updated in the fourth quarter 2013. In 2014 we expect that the capital protection clause in accordance with the EU requirements will apply and the claim of the federal states under the additional premium will be deferred again in return for a debtor warrant.

Based on the high level in 2013 the developments result in an increase in the reduction of loan loss provisions as expected. We expect a sharper reduction in loan loss provision expense in the Restructuring Unit.

In our long term risk provisions we are still assuming that the payment defaults in the portfolio covered by the second loss guarantee will exceed the amount retained by the Bank of € 3.2 billion starting from 2019 and will then result in actual payments being made under the second loss guarantee. Based on our current assessment these will total € 1.6 billion up to 2025 after deducting the first loss piece of the Bank. The total default amount therefore increases over the long-term by € 0.3 billion compared to the previous year's plan. This is due to the higher than planned loan loss provisions in the past year, which reflect the less favourable forecast for the shipping industry. The largest share of the expected payment defaults is attributable to the Restructuring Unit's portfolios.

Our loan loss provision plan is based on valuation models that also take into account the regulatory environment, risk parameters over time as well as the Bank's empirical values in critical situations in addition to portfolio developments and key macroeconomic data. Details on the loan loss provision plan and expected payment defaults are set out in the "Default risk" section ("Planning for loan loss provisions and losses") in the "Risk report".

Risks and opportunities in the forecast for loan loss provisions

There is still significant uncertainty particularly in relation to the estimate of loan loss provisions over the long-term. In particular the estimates regarding the long-term trend in loan loss provisions as well as loss planning and, consequently, the final drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon. For example, this applies to the movement in the US dollar exchange rate and key market parameters in the shipping industry such as freight and charter rates, which are key factors for determining the loan loss provisions. In view of the on-going overcapacity in the shipping markets it cannot be ruled out that the extent and timing of the market recovery will not be achieved in the planning period as was assumed in the loan loss provision plan.

Furthermore, it cannot be ruled out for the future that the euro sovereign debt crisis in Europe will flare up again, which could lead to a weakening of the markets and the euro. This in turn could result in additional impairment losses having to be recognised in the Bank's high risk portfolios. Market turbulence in emerging countries as well as geopolitical risks, such as those related to the crisis concerning the Ukraine, could have a negative impact. A lower than planned reduction in the loan loss provisions would result if the capital protection clause does not apply or to a lesser extent than expected.

A lower need for loan loss provisions could be expected, if the relevant market parameters and the macroeconomic environment developed more favourably than assumed. It is conceivable that the economy could grow more strongly in 2014 than forecasted, which in turn could support a gradual recovery of the shipping markets. A further acceleration in the winding down of the loan portfolios in the Restructuring Unit would also reduce loan loss provisions in the future to a greater extent than expected.

Capital and RWA forecast

A sustainable starting point for the increasingly stringent regulatory environment was created by the strengthening of the capital ratios in the past year. As a result of the guarantee replenishment in the middle of 2013, which has been provisionally approved by the EU Commission, and the continued reduction in risk the Basel III capital requirements applicable in 2014 can be met and a ratio significantly above the minimum threshold set by the supervisory authorities can be achieved. After we closed 2013 with a common equity Tier 1 capital ratio of 11.7% (plus a buffer of 5.2 percentage points) calculated in accordance with the former Basel II framework, we plan to disclose in 2014 a Basel III common equity Tier 1 capital ratio of at least 10% after taking the capital protection clause into account.

We expect that in 2014 the increase in new business will be reflected more strongly in the RWA development after taking the guarantee effect into account than the further reduction in risk. Overall, we therefore expect a slight increase in RWA calculated in accordance with Basel III.

The provisional approval of the guarantee increase is valid until a final decision is issued by the EU Commission, which we expect at the earliest in the second half of 2014 following the conclusion of the formal investigation. In the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein and HSH Nordbank the guarantee measure falls within the framework of the provision of the guarantee facility approved by the EU Commission in 2011. The EU Commission regards the replenishment as another case of state aid, thereby requiring an assessment of the updated restructuring plan of the Bank. Discussions with the EU Commission on the replenishment of the guarantee already performed have been initiated as planned.

Last but not least, we are confident due to the noticeable progress in implementing the business model that the replenishment of the guarantee will be finally approved and that we will be able to successfully continue the reorganisation of HSH Nordbank.

Opportunities and risks in the capital and RWA forecast

Opportunities and risks for the capital ratios and RWA result in particular from future portfolio runoff trends, growth in new business, market and risk parameters, the final decision of the EU Commission regarding the guarantee replenishment as well as the regulatory environment (e.g. questions concerning interpretation under Basel III, regulatory consolidation under IFRS 10 with regard to large exposure limits). It cannot also be ruled out that the external investigation being carried out as part of the comprehensive assessment of banks, including HSH Nordbank as well, may result in additional capital requirements. The forecast of the medium-term common equity Tier 1 capital ratio is also based on the assumption that the operation of the guarantee structure remains unchanged under the regulations currently applicable to securitisations.

In view of the high costs relating to the provision of the guarantee facility by the federal state owners we plan to make the first significant reductions in the guarantee in the planning period up to 2016. We will carry out a periodic review taking into account the progress made in reducing the high risk legacy portfolios to determine to what extent the reduction of the guarantee would be reasonable. Should the risk situation become worse than expected, the reductions could be deferred to a later date.

Funding plan

We will continue to implement our diversified funding strategy in 2014 for the refinancing of our customer business. The focus will remain on the proven and established business relationship with the Sparkassenverbund (Savings Bank Association), which enables funds to be raised largely independently of events in the capital markets through the sale and distribution of tailored bond products. At the same time the sale of products to other financial institutions and institutional investors and deposit business with corporate customers of the Bank is driven forward.

As in the previous year, another focus is on the issuing of covered bonds (Pfandbriefe) and uncovered bonds aimed at institutional investor groups – as private placements as well as on the public sector capital market, to the extent permitted by market conditions. Additional forms of potential funding are loan-based transactions, to which we attach great importance especially with regard to the refinancing of the US dollar asset business. A funding platform created last year is used as the basis for this, through which we want to execute further loan-based transactions following a successful initial US dollar transaction at the end of 2013 ("Ocean Funding 2013" with a volume of USD 661 million).

Longer-term and structural challenges will result from the expiry of the guarantor liability at the end of 2015. Issues falling due that are covered by the guarantor liability shall be refinanced as planned by new funding measures on the one hand and offset by the further asset reduction of the Restructuring Unit on the other.

Based on a high level as at the 2013 year end we expect the regulatory liquidity ratio as defined in the Liquidity Regulation (LiqV) to decrease moderately in the year 2014 as part of the liquidity management process.

Opportunities and risks in the funding plan

The fulfilment of the funding plan is mainly influenced by external factors. For example, a positive capital markets environment would in principle make it easier to issue bonds on the market. The reverse applies in that tensions in the financial markets, which cannot be ruled out based on the experience of recent years, can make obtaining funding more difficult. Despite the further progress made in the past year, access to the capital markets is still not unrestricted so that future refinancing continues to represent a major challenge. The refinancing options are also influenced by the monetary policy of central banks. Whereas a sustained expansive monetary policy facilitates funding, a more restrictive monetary policy would restrict access to funding sources.

Furthermore, changes in the rating of the Bank also have a decisive influence on access to the capital markets. A continued confirmed rating as investment grade would significantly underpin the implementation of the funding targets. On the other hand, rating downgrades make it more difficult to raise funds via the capital markets and increase funding costs. Against this backdrop stable access to the Sparkassenverbund (Savings Bank Association) as well as to collateralised refinancing sources such as Pfandbriefe and asset-based funding is very important. The latter is also important to securing primary US dollar refinancing.

Derivatives (basis swaps) also used for US dollar funding are subject to market price fluctuations, which are determined by the basis swap spread and are reflected in the income statement through revaluation gains and losses. In this regard, changes in the US dollar exchange rate also affect the amount of liquidity provided as collateral (cash collateral). An appreciation in the US dollar results in an increase in the cash collateral required and therefore in pressure on the liquidity situation, whereas cash collateral decreases on a depreciation in the US dollar result in an improvement in the liquidity situation.

It is essential that new funding be obtained and that the balance sheet can be further reduced as planned in order to offset the issues covered under the guarantor liability that are falling due. In a worse-case scenario balance sheet assets would have to be reduced further resulting in possible unscheduled losses. However, such additional measures would not have to be taken if business performance progressed as planned.

Opportunities and risks relating to the regulatory liquidity ratio result, for example, from changes in the short-term deposit volume.

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

Net income forecast

Despite the noticeable progress made in implementing the business model further considerable efforts are required to deal with the existing challenges. We must expect further losses particularly as a result of the persistent crisis in the shipping industry. Nevertheless, we expect loan loss provision expense to decrease in 2014 compared to the high level of expense recognised in the 2013 annual financial statements. The reduction in risk in the Restructuring Unit, which we will continue to drive forward quickly, will also make a contribution to this in addition to the capital protection clause. At the same time we will counter the increasing cost pressure by implementing additional savings in operating expenses and further efficiency gains in the organisation in 2014.

In the forward-looking divisions of the Core Bank we want to build on the successes of the past year, appreciably expand new business and the sales and distribution of additional products and thereby also strengthen the income side. Increase in volumes and margins in the new business in 2013 show that we are well positioned in our target markets. With the expected common equity Tier 1 capital ratio under Basel III significantly above the minimum requirements we have created a good basis for the planned business expansion in the Core Bank as well as for meeting the regulatory challenges. Based on the visible progress made in implementing the business model we are assuming that the replenishment of the guarantee will be finally approved and the restructuring of the Bank can be successfully continued. There are material uncertainties regarding the future in particular because of the changing regulatory requirements and a difficult market environment. From today’s perspective, HSH Nordbank is properly prepared for the stress test planned by the ECB in coordination with the EBA through its comprehensive hedging of the legacy assets under the guarantee issued by the federal states and a solid capital base under Basel III.

Overall, we are confident that we will align HSH Nordbank on a sustainably stable and profitable basis. The conditions for dealing with the upcoming challenges and for positive developments in the future have been clearly improved through the successful core activities, the accelerated reduction in risk and the strengthened capital ratio.

We still expect that a loss will have to be disclosed for 2014 under the accounting principles of the German Commercial Code (HGB). Based on current estimates, the results for 2015, 2016 and in part 2017 will be needed in order to replenish the hybrid capital decreased by accumulated loss participations. Against this backdrop it is expected that coupon payments on silent participations and profit participation capital will be paid again for the 2017 financial year.

Going concern

Accounting and measurement are carried out on the basis of the assumption of a going concern. This assumption is based on the EU Commission granting final clearance to the replenishment of the guarantee that provides capital relief and to the amendment of the guarantee agreement following the preliminary approval given in June 2013 and such clearance will only be tied to conditions that can be implemented within a sustainable corporate plan. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank's business model be preserved.

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

RISK REPORT

RISKS WITHIN HSH NORDBANK GROUP

HSH Nordbank manages its risks on a uniform basis under the global head principle. All management instruments, including risk reporting to the Management Board and the Risk Committee – a committee under the Supervisory Board – follow this principle. In the same manner, the Bank's risk bearing capacity is ensured at the Group level. As the presentation of risks relevant to HSH Nordbank cannot be meaningfully separated for individual legal entities, we consider below the risks of the Group, i.e. of the HSH Nordbank AG as well as subsidiaries identified as relevant for purposes of risk management.

RISK MANAGEMENT SYSTEM

PRINCIPLES OF RISK MANAGEMENT

Active risk management represents a core component of the Overall Bank management at HSH Nordbank. Against this backdrop the Bank has developed the risk culture and the methods and procedures applied in risk management further on a systematic basis. The current version of the "Minimum Requirements for Risk Management" (MaRisk) laid down by the Supervisory Authorities serves as the main framework for the design of our risk management system.

HSH Nordbank defines risk as the threat that unfavourable future developments may adversely affect the Bank's assets, earnings or financial position. Material risks within the meaning of MaRisk are default risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk. The individual elements of risk management constitute a system in their entirety to identify, analyse, evaluate, manage, continuously monitor and report on risks.

There are clear rules in the Bank concerning risk management responsibilities. The overall responsibility for risk management in the Bank lies with the Management Board. This also includes the methods and procedures employed for purposes of risk measurement, management and monitoring.

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

Risk management objectives and the measures used to achieve these objectives are defined in the risk strategy and sub-risk strategies on the basis of the planned development of the main business activities. The main focus is on ensuring the risk-bearing capacity and liquidity of the Bank. Specifically, this involves the allocation of scarce resources such as risk coverage potential and long-term liquidity taking into account risk tolerance, strategic business goals, the market environment and the existing portfolio.

A significant objective of the risk strategy and its implementation at the operational level in addition to the necessity of effective risk management for business purposes, is also the satisfaction of relevant regulatory requirements, as they are, in particular, set out in the German Banking Act (KWG) and MaRisk.

The risk strategy is supplemented by guidelines for granting loans (Credit Standards) and Investment Guidelines which contain detailed rules and regulations concerning the individual business areas of the Bank.

The major rules on the methods, processes and internal organisation used for risk management are documented in the Credit Manual of HSH Nordbank, in separate process descriptions for the individual risk types as well as in individual illustrations of the internal organisation and are published throughout the Bank. The Management Board and the Risk Committee are informed of the risk situation of the Group by means of a comprehensive quarterly risk report. As an internal winding down unit, the Restructuring Unit is fully integrated into the Group's risk management process. The risk methods and processes of the Core Bank apply to the Restructuring Unit accordingly.

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

ORGANISATION OF RISK MANAGEMENT

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

The Management Board adopts the risk strategy of the Group on an annual basis as part of its overall responsibilities. As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling, including risk monitoring, as well as for the back office functions of the Core Bank. In this context, he is responsible for the divisions Group Risk Management, Credit Risk Management as well as Loan and Collateral Management. The divisions Compliance, Legal and Internal Audit are the responsibility of the Chief Executive Officer.

Group Risk Management develops the methods and procedures for measuring, managing and monitoring risks and is responsible for a significant number of tasks of operative portfolio management. In so doing, it ensures that the material risks of the Group are transparent and manageable. The methods and procedures applied as well as the key ratios determined are periodically reviewed by Group Risk Management for appropriateness and plausibility.

Among the tasks of Credit Risk Management are the preparation of the risk analysis, including the determination of the internal rating and the drawing up of the credit applications for Core Bank business as well as the structuring of the processes and regulations for the lending business of the whole Bank. Loan and Collateral Management is responsible in particular for the settlement and administration of the lending business as well as for loan collateral. The tasks of the Restructuring division were transferred to other divisions of the Bank in December 2013. A separate department within Credit Risk Management is responsible now for decisions on and management of restructuring cases of the Core Bank, while operative restructuring activities are carried out in the Restructuring Unit.

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

The Restructuring Unit (RU), which is established as a back office department in terms of organisational and operational structure, is responsible for the positions of the non-strategic business areas and for specific risk positions. Central responsibility for the risk-oriented and loss-minimising winding down of the credit investment portfolio is also included among its tasks. The Restructuring Unit independently takes all decisions necessary in respect of the positions transferred to it. This responsibility includes normal, intensive-care, restructuring and workout cases of the Restructuring Unit. The Restructuring Unit is also responsible for the processing of restructuring and workout cases of the Core Bank.

Similar to the Core Bank, risk reporting for the Restructuring Unit is generally carried out by means of the management and reporting systems of the Group Risk Management division. The CRO and the board member responsible for the Restructuring Unit make decisions independently of the members of the Management Board responsible for the market or trading divisions. In this way the separation of functions required under the regulatory rules between the market and trading divisions on the one hand and risk controlling, settlement and control as well as back office on the other is taken into account at all levels of the Bank from an organisational perspective. The CRO provides the Management Board as well as the Risk Committee with information on the risk situation of the Group.

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

The Finance division is responsible for the Overall Bank management process including planning activities for the Overall Bank.

The Compliance division monitors adherence to the requirements of the Bank with respect to the issues securities compliance, anti-money-laundering, financial sanctions/financing terrorism and prevention of other offences under Section 25c of the German Banking Act (KWG). With the fourth amendment to MaRisk it became necessary to establish a so-called MaRisk compliance function, which is likewise established in the Compliance division. Compliance reports to the Management Board and to the Audit Committee as the responsible body of the Supervisory Board in particular on the results of its control and monitoring activities on an annual basis.

The Legal division monitors the legal risks of the Bank as an independent department and is the contact point for all legal questions. It provides the Management Board with information on material legal risks and legal disputes on a regular basis.

Internal Audit reviews the effectiveness and appropriateness of risk management and the internal control system from a risk-oriented and process-independent perspective as well as the correctness in principle of all activities and processes. It includes the Core Bank, the Restructuring Unit, outsourcing and equity holdings in its review. It plays an accompanying role in important projects while maintaining its independence and avoiding any conflicts of interest.

Business areas are managed in line with uniform Group standards on the basis of a global head principle. Based on this, the heads of the individual market and/or risk divisions as the respective Global Heads are responsible on a worldwide basis for the strategy of the business areas assigned to them. The Global Heads are supported by the heads of the respective foreign branches (General Managers), who are responsible for all corporate and service functions on-site. The global head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

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

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

PORTFOLIO MANAGEMENT BY A CENTRAL COMMITTEE STRUCTURE

Among the tasks of the Asset Liability Committee (ALCO) are the management of liquidity/funding, the balance sheet structure, capital, RWA and economic capital as well as the limitation of risk concentrations. Furthermore, the ALCO monitors compliance with the restructuring and early warning indicators introduced in the middle of the year 2013 in order to implement the Minimum Requirements for the Design of Recovery Plans (in short: MaSan). The ALCO is composed of the Management Board as well as the heads of divisions Strategic Treasury (in charge of administration), Group Risk Management, Finance, Capital Markets and Strategy. The basis for decision-making are, among other things, the current and expected business development of the Bank, the current utilisation of the relevant management limits as well as the liquidity development report, which is prepared in a manner consistent with the Bank’s business planning and is updated periodically. This places the Bank in the position to react flexibly to market trends and to allocate resources as needed.

The Transaction Committee (TC) is a sub-committee of the ALCO. Within the framework of its weekly meetings the TC decides on new business applications that fulfil certain qualitative and quantitative relevance criteria. The aim is an operative management of the use of the resources liquidity, balance sheet capacity as well as economic and regulatory capital geared towards the objectives of the Overall Bank. Other key objectives are the continuous improvement in the portfolio quality through active portfolio management, compliance with the requirements of the "Reputation Risk Strategy" for the purposes of avoiding reputational risks, as well as ensuring compliance with commitments to the European Commission in regards to new transactions and prolongations. In individual cases, transactions together with a corresponding risk assessment are forwarded to the ALCO for a decision. The risk assessment of the TC does not replace the risk assessment of the transaction performed as part of the lending decision process as well as the actual loan decision.

Business area analyses regularly performed by Group Risk Management form an important basis for the central credit portfolio management at HSH Nordbank. Detailed expectations regarding the possible movement in individual asset classes and sub-portfolios are developed on the basis of thorough analyses of past trends and forward-looking market and portfolio assessments. In this context, particular importance is attached to risk concentrations. The recommended course of action derived from the results of the analyses is submitted to the Board for a decision. Implementation of these recommendations supports the achievement of the Bank's business objectives. The implementation of the decisions is backed up by appropriate controlling procedures.

The central early warning system used to identify adverse trends for the Bank on a timely basis is another component of portfolio management. This early warning system was enhanced during the reporting period both in terms of procedure and content. For example, it was possible to further improve the management of the relevant loan portfolio by means of the implementation of additional early warning signals.

Since 2012 the so-called Business Review Meeting, chaired by the Chairman of Management Board and with the involvement of the other Board members as well as members of the management of the Bank, has been monitoring on a quarterly basis the achievement of targets by the divisions with regard to new business, income and costs as well as compliance with the EU requirements. The analysis is used as a basis for identifying any plan variances and initiating any possible measures at an early stage, such as the strategic reallocation of resources.

The objective of the Group Risk Committee (GRC), created in mid-2013, is the monitoring and management of all significant risks to HSH Nordbank, in order to secure the risk-bearing capacity at all times, on the basis of the risk appetite determined by the Bank. To implement this objective the GRC under the chair of the CRO deals with, among other things, segment analyses, the methodical further development of the risk steering models as well as monthly reports on market price and liquidity risk. Other points of focus are the stress test results, risk strategies, loan loss provision planning, risk inventory and forecasts of the panel of experts for risk parameterisation and the Overall Bank planning.

INTERNAL CONTROL SYSTEM

Bank-wide internal control system

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

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

- prioritisation of processes to be revised (annually);

- updating of the process, risk and control documentation;
- assessment of the appropriateness of the controls;
- assessment of the effectiveness of the controls (testing);
- determination of measures to be taken with regard to weaknesses identified in the controls;
- final assessment after implementation of the measure (re-testing).

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

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

In order to ensure that the system is functioning on a sustained basis, the process is closely monitored by means of continuous communication and governance throughout the Bank. The ICS expertise in the operational departments is built up through a series of training measures so that the tools for process management and ICS can be applied on an independent basis in the individual divisions of the Bank.

The bank prioritises the processes for running the control cycle annually based on their risk and their last cycle run. Approximately 62% of the processes were prioritised for a run of the control cycle in 2013. It was possible to remedy all control weaknesses identified for these processes. All main processes not yet taken into account were integrated into the Bank's ICS procedures during the 2013 reporting year. The management of the outsourcing of material functions to external service providers by the ICS is reported to the Management Board on an annual basis. All defects reported as at 31 December 2012 in this regard were remedied on a timely basis, except for one longer-term measure, the implementation of which is on schedule.

Furthermore, subsidiaries of HSH Nordbank are classified annually as to the materiality of their respective processes for the Bank's ICS. The majority of subsidiaries were classified as immaterial. A further material subsidiary was integrated into the ICS management processes in 2013. It is planned to complete in 2014 the ongoing integration of the relevant processes of subsidiaries in the highest materiality category into the ICS management processes of the Bank.

Internal control system with regard to the accounting process

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

The accounting process is reviewed on a regular basis by the responsible member of staff in charge of the process and adjusted to the current framework conditions and requirements. The focus is on the identification of material risks and the implementation of measures to prevent these. In addition the accounting process is audited by the Internal Audit division from a process-independent perspective. The documentation of the processes was extended in the reporting year. Additional measures were also implemented to reduce risk; for example, manual controls were replaced by automated, technical processes.

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

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

REGULATORY REQUIREMENTS

HSH Nordbank determines the amount of regulatory capital backing required for default, market and operational risks on the basis of the German Solvency Regulation (SolvV). In this context the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. This means that the Bank takes consistent parameters into account for regulatory reporting and internal default risk management purposes. The amounts allocated to market risk positions are determined in accordance with the predefined or optional standard procedures. We take account of operational risk under the standard approach.

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

In accordance with the requirements of Section 26a of the German Banking Act (KWG) and the German Solvency Regulation respectively, we have been publishing material qualitative and quantitative information on equity capital, risks incurred, risk measurement procedures and risk management in a separate disclosure report. As an institution that uses the IRB Advanced Approach, particular requirements apply to HSH Nordbank. The document provides more information than statements made in this Annual Report on the basis of the accounting principles applied, as it provides a comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The Disclosure Report is available on our website, www.hsh-nordbank.de. With its publication HSH Nordbank complies with the third pillar of Basel II (market discipline).

HSH Nordbank maintains a central data storage system, which takes into account requirements of the German Solvency Regulation, for the purposes of analysing, monitoring and reporting risks. In particular this includes the providing of data and information for the regulatory reporting and disclosure under Basel II and Basel III in future.

MASAN RECOVERY PLAN

In November 2011 the G-20 countries endorsed an international standard that governs the key attributes of national resolution regimes. Amongst other things, the key attributes provide that recovery and resolution plans be drawn up by, at the very least, global systemically important financial institutions as the basis for resolving crisis situations. In November 2012 the Federal Financial Supervisory Authority (BaFin) published a draft on the “Minimum Requirements for the Design of Recovery Plans" (MaSan) regarding the implementation of these requirements, which have to be complied with by all systemically important institutions in Germany.

HSH Nordbank has prepared a draft of the recovery plan in accordance with the MaSan requirements and submitted it to the supervisory authorities in June 2013 for consultation. HSH Nordbank received comments on this draft from the supervisory authorities in November 2013 and January 2014, which are currently being processed. The revised draft of the recovery plan is scheduled to be submitted to the supervisory authorities by the end of April 2014.

In addition to a strategic analysis of the business activities and intra-group as well as external interconnections the recovery plan contains several serious stress scenarios that assume deterioration in the company-specific and/or market-wide underlying conditions. Specific options for action that enable HSH Nordbank to overcome the crisis situation that has arisen using its own resources were determined for all stress scenarios.

In order to be able to react to significant risks in due time, HSH Nordbank has specified a range of recovery indicators including a threshold in each case, which, when reached, triggers an information and escalation process. The recovery indicators are based on, amongst other things, the capital situation, risk-bearing capacity and liquidity situation of HSH Nordbank as well as the movement in external factors and are monitored regularly as part of a reporting of the recovery indicators. This warning system therefore supplements the existing processes for the ongoing monitoring and reporting of risks.

RISK-BEARING CAPACITY

HSH has integrated a capital adequacy process (ICAAP) into its risk management pursuant to MaRisk in order to monitor and safeguard its risk-bearing capacity on a sustained basis. Risk-bearing capacity is managed in conjunction with equity capital and the contribution margin.

As part of the monitoring of our risk-bearing capacity we regularly compare the total economic capital required to cover all major quantifiable types of risk (overall risk) to the available amount of economic risk coverage potential. This comparison is made within an integrated limit system that forms the basis of Group-wide economic limits on all types of risk material for the Bank. HSH Nordbank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

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

As at 31 December 2013, risk coverage potential amounted to € 8.7 billion (31 December 2012: € 10.1 billion). This reduction is mainly caused by a methodology adjustment agreed with the supervisory authorities that was made to the risk-bearing capacity management as well as the annual net loss reported in the financial statements prepared in accordance with the German Commercial Code (HGB) for the 2013 financial year.

The risk tolerance as a measure of HSH Nordbank's risk appetite is determined as part of the annual preparation of the risk strategy and the Bank's planning process. Amongst other things this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global limit). The buffer serves to cover any potential increase in the capital required in the event of adverse developments for the Bank as well as any non-quantified risks. Limits for the individual risk types are derived from this global limit.

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

In the case of losses arising from default risk, we make a distinction between the expected and unexpected loss. The expected loss is equivalent to the default which is expected within one year on a given probability of default (PD), loss given default (LGD) and exposure at default (EaD) for a borrower. The exposure at default (EaD) corresponds to the loan amount outstanding taking into account credit conversion factors (CCF) with respect to contingent liabilities and commitments. The maximum amount, by which an actual loss can exceed the expected loss with a specified probability (99.9%) within a specified time period (1 year) is described as the unexpected loss. HSH Nordbank uses a modified IRBA approach to determine the unexpected loss, which is based, for example, on the analysis of the individual positions of subsidiaries classified as economically important and which waives the grandfathering provision regarding equity holdings. PD, LGD and EaD are also relevant risk parameters in this context. Economic capital required is determined for internal steering purposes on the basis of the calculation of the equity capital backing in accordance with SolvV taking due account of any adjustments that are justified on economic grounds, e.g. commitments classified as being in default. In addition, institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the risk of valuation adjustments on OTC derivatives caused by credit considerations (Credit Valuation Adjustments) are taken into account in determining the economic capital required for default risks. The economic capital required for default risk as at the reporting date amounted to € 1.5 billion (31 December 2012: € 2.6 billion). This decrease mainly results from the replenishment of the second loss guarantee from € 7 billion to € 10 billion concluded with effect from 30 June 2013 and the portfolio reduction continued in 2013.

As part of the risk-bearing capacity concept, market risk (value-at-risk), which is determined on a daily basis at a confidence level of 99.0% and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a confidence level of 99.9% and a risk horizon of one year. The economic capital required for market risk as at the reporting date 31 December 2013 amounted to € 0.7 billion (31 December 2012: € 0.9 billion).

HSH Nordbank uses a value-at-risk approach for quantifying liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs on the open liquidity positions. The liquidity value-at-risk (LVaR) as a measurement of economic capital required for liquidity risk amounted to € 0.5 billion as at the end of the year 2013 (31 December 2012: € 0.3 billion). Besides methodology enhancements the increase is attributable to a reduction in the secured funding potential available for the issue of Pfandbriefe and the regular exclusion of historical scenarios in determining the LVaR. Insolvency risk, which is in principle the more important aspect of liquidity risk as compared with the liquidity maturity transformation risk, is backed by a buffer of liquid funds. Information on managing the insolvency risk, among other things, is included in the section "Liquidity risk".

Operational risks are determined in accordance with the regulatory Standardised Approach. The corresponding economic capital required amounted to € 0.2 billion as at 31 December 2013 (31 December 2012: € 0.3 billion). The reason for the decrease in the capital required is the decline in the gross income of the Bank.

As a result of the effects described above, overall economic risk decreased by € 1.3 billion compared to the end of 2012 and amounted to € 2.9 billion as at the reporting date (31 December 2012: € 4.2 billion). The utilisation of risk coverage potential amounted to 33% as at the reporting date. The risk-bearing capacity was secured at all times during the period under review.

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

Risk-Bearing Capacity of the Group

€ bn	31.12.2013	31.12.2012
Economic risk coverage potential[1]	**8.7**	**10.1**
Economic capital required	**2.9**	**4.2**
of which: for default risks[2]	1.5	2.6
for market risks	0.7	0.9
for liquidity risks	0.5	0.3
for operational risks	0.2	0.3
Risk coverage potential buffer	**5.9**	**5.9**
Utilisation of risk coverage potential (in %)	**33**	**42**

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

In addition to the assessment of the utilisation of the risk coverage potential as at the reporting date, we regularly conduct risk-type-specific stress tests as well as stress tests across all risk types in order to be in a better position to estimate the effects of potential crises on the overall risk position of HSH Nordbank. This involves carrying out a review applying uniform macroeconomic scenarios (e.g. severe economic downturn) and historical scenarios (deepening of the 2008/2009 financial crisis) to determine whether sufficient risk coverage potential is maintained to compensate for effects from stress scenarios. The forecasting quality of the macroeconomic scenarios was improved in 2013 by making other components of the risk-bearing capacity more dynamic (primarily the risk coverage potential). In addition, inverse stress tests are carried out at least once a year to identify scenarios which could endanger the Bank's ability to survive. The results of the stress tests are supplemented by scenario-specific valuations and recommendations for actions. This information is incorporated quarterly into the Bank’s internal reporting and used by the Management Board of HSH Nordbank as a benchmark in the actual/plan analysis in the course of the fiscal year and to consider and decide upon any action required to ensure the risk-bearing capacity of the Bank.

DEFAULT RISK

HSH Nordbank breaks down its default risk into credit, country, equity holding and settlement risk. In addition to the traditional credit risk, credit risk also includes counterparty and issuer risk. A counterparty default risk exists in the case of derivatives and refers to the risk that a counterparty defaults during the term of a transaction and the Bank must cover the shortfall for the residual term by means of a new contract on the market at the price prevailing at that time which might be less favourable. Issuer risk denotes the risk that a loss is incurred on a financial transaction as a result of the default or deterioration in the creditworthiness of the issuer. Settlement risk consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due, have not been met by both parties. Advance performance risk arises where the Bank has performed its contractual obligations but consideration from the contracting party is still outstanding. All elements of default risk referred to are taken into account within the context of equity capital management. For risk concentrations and equity holding risks additional management measures are in place.

The organisation of and methods applied in default risk management are being constantly improved in order to reflect changes in market conditions and new regulatory requirements.

ORGANISATION OF DEFAULT RISK MANAGEMENT

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

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

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

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

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

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

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

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

DEFAULT RISK MANAGEMENT

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

There is a significant reduction in the economic capital required for default risk after taking into account the second loss guarantee made available by the federal states of Hamburg and Schleswig-Holstein. HSH Nordbank manages both the guaranteed and non-guaranteed portfolio in accordance with regulatory and economic principles.

Default risk exposure

The loan amount outstanding corresponds to the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance sheet transactions (before taking credit conversion factors into account), such as irrevocable, undrawn loan commitments, that is at risk. The total loan amount outstanding was € 121,275 million as at 31 December 2013.

The loan amount outstanding broken down by internal rating categories is presented in the following table. The loan amount outstanding with an investment grade rating (rating category 1 [AAAA] to 5) at Group level accounts for € 66,555 million or 55% of the total exposure (previous year: € 74,208 million or 54%). The loan amount outstanding for investment grade exposures amounts to € 49,916 million or 65% (previous year: € 51,516 million or 64%) for the Core Bank and € 16,639 million or 38% (previous year: € 22,692 million or 40%) for the Restructuring Unit. 52% of the Overall Bank portfolio is covered by the second loss guarantee (previous year: 59%). The guarantee coverage is particularly high in the worse rating categories.

Default risk structure by rating category[1)]

€ m	**Core Bank**	**Restructuring Unit**	**Total 2013**	**Of which guaranteed (in %)**	Core Bank	Restructuring Unit	Total 2012	Of which guaranteed (in %)
1 (AAAA) to 1 (AA+)	19,158	7,791	26,949	30	18,559	10,539	29,098	41
1 (AA) to 1 (A-)	12,846	3,349	16,195	32	13,741	5,137	18,878	40
2 to 5	17,912	5,499	23,411	42	19,216	7,016	26,232	54
6 to 9	15,866	5,286	21,152	53	15,697	8,069	23,766	64
10 to 12	2,584	2,016	4,600	76	3,839	3,107	6,946	78
13 to 15	2,396	5,420	7,816	86	3,385	6,686	10,071	86
16 to 18 (default categories)	5,819	14,048	19,867	91	4,494	15,909	20,403	91
Other [2)]	612	673	1,285	-	1,226	384	1,610	-
Total	**77,193**	**44,082**	**121,275**	**52**	**80,157**	**56,847**	**137,004**	**59**

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

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

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

Default risk structure by sector

€ m	Core Bank	Restructuring Unit	Total 2013	Core Bank	Restructuring Unit	Total 2012
Industry	9,798	2,378	12,176	9,296	3,486	12,782
Shipping	15,202	9,355	24,557	17,722	10,909	28,631
Trade and transportation	5,789	2,583	8,372	5,637	3,746	9,383
Credit institutions	9,795	2,505	12,300	11,026	4,306	15,332
Other financial institutions	2,940	7,743	10,683	2,528	9,761	12,289
Land and buildings	8,974	8,380	17,354	8,639	11,379	20,018
Other services	6,646	3,416	10,062	8,082	4,510	12,592
Public sector	16,286	6,754	23,040	15,537	7,572	23,109
Private households	1,762	968	2,730	1,648	1,175	2,823
Other	1	-	1	42	3	45
Total	**77,193**	**44,082**	**121,275**	**80,157**	**56,847**	**137,004**

The following table shows the loan amount outstanding broken down by residual maturities.

Default risk structure by residual maturities

€ m	Core Bank	Restructuring Unit	Total 2013	Core Bank	Restructuring Unit	Total 2012
Up to 3 months	10,294	3,602	13,896	12,620	5,273	17,893
> 3 months to 6 months	3,001	1,450	4,451	3,434	1,214	4,648
> 6 months to 1 year	4,858	2,647	7,505	5,154	3,207	8,361
> 1 year to 5 years	33,282	19,000	52,282	32,453	24,878	57,331
> 5 years to 10 years	17,106	8,078	25,184	16,684	10,929	27,613
> 10 years	8,652	9,305	17,957	9,812	11,346	21,158
Total	**77,193**	**44,082**	**121,275**	**80,157**	**56,847**	**137,004**

Rating procedure/LGD

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

The RSU is responsible for new development, consistent validation and further development of the rating systems in accordance with the regulatory quality requirements and for the operation of the rating modules in a standard IT environment. The RSU is supported in methodology and expertise by specialists from the participating banks. In addition to the rating modules supported by the RSU, HSH Nordbank also uses rating systems that are provided, maintained and enhanced by S Rating. HSH Nordbank is in charge of the shipping and leveraged finance rating modules. It is also jointly responsible for the international real estate as well as the country and transfer risk rating modules.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as exposure at default (EaD). HSH Nordbank uses a differentiated LGD methodology for all rating procedures to forecast loss given default (LGD). Item-specific collateral recovery rates and borrower-specific recovery rates are estimated based on historic loss information. The respective default amount expected is determined from the EaD using the LGD.

As part of the annual validation process the predictive accuracy of the rating modules was reviewed in the reporting year with regard to the predicted probabilities of default using anonymous, aggregated data. In addition the LGD and CCF methods were also reviewed and are being continually refined.

The bank, corporate clients, international sub-sovereigns, country and transfer risk, insurance companies, leveraged finance, leasing and funds rating modules used by HSH Nordbank, as well as the standard rating used for smaller domestic corporate clients, are based on the so-called scorecard methods. Within the framework of different scorecard approaches, quantitative and qualitative characteristics and factors are identified to assign borrowers to different rating categories. The scorecard approach can be used only if there is a sufficient number of relatively homogenous borrowers.

As this precondition is often not met with regard to special financing, simulation techniques are primarily used in this case. For example, special financings in the shipping, real estate, projects and aircraft areas are assessed with the help of cash flow simulation models. Revenues from the object financed represent the primary source for reducing the liability. The cash flow of the object is simulated using scenarios with different macroeconomic and industry-specific conditions that simulate the future development of factors such as rents, vacancies and charter rates. The result is a probability of default (PD) for each borrower and hence an allocation to a concrete rating category.

The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings.

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

HSH Nordbank applies a uniform method across the Bank for the ex-ante calculation of lending transactions through calculating the present value of the expected and unexpected losses arising on default risk positions taking into account, where necessary, any currency transfer risk. In addition to liquidity and standard processing costs, the rating, LGD and CCF risk parameters determined internally on an individual transaction basis are incorporated in the ex-ante calculation. In the same way, an actual costing (profit centre accounting) is made for all transactions on a monthly basis. Based on the current risk parameters of the individual transactions, standard risk costs and the resulting contribution margins are determined. Furthermore, utilisation of the economic and regulatory default risk limits set as part of the Bank's annual plan is determined regularly at the division level for the purposes of managing default risk. When a limit is overdrawn, new transactions and prolongations from € 20 million must be approved by ALCO. The objective of this dual limit system is to ensure that both the risk-bearing capacity and regulatory ratios are adhered to.

Risk concentrations

Within the framework of regular business segment analyses potential risk concentrations regarding regions, industrial sectors and borrower units for example and their systematic reduction are monitored among other things. At the end of 2013 the material risk concentrations of HSH Nordbank were in the shipping portfolios of the Core Bank and Restructuring Unit which accounted for 21% of the overall portfolio as well as in the US dollar business which accounted for 32%. Additional information on business segment analyses may be found in the Section "Portfolio management by a central committee structure".

Risk concentrations at the counterparty level are limited under supervisory law within the framework of large exposures in accordance with Section 13a and 13b KWG. The regulatory limits for borrower and risk units are monitored in accordance with Section 19 (2) KWG by the internal large risk management, which also includes internal lines in addition to drawdowns and external commitments outstanding.

In the year under review, the Management Board was informed within the framework of the internal quarterly Risk report of all cases where the limit was exceeded at the level of borrower units and of the status of the key measures introduced.

The limitation of risk concentrations at the country level is discussed in the following “Country risk” section.

Country risk

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

Country risk limitation is an additional management dimension within the management of risk concentrations. Main parameters for recording country risk are the rating and the LGD of the transfer risk-relevant country. Country ratings and country LGDs are based on a methodology that was developed by the RSU as part of the joint project of the Landesbanken.

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

The following table provides an overview of the foreign exposure by region, which reached € 60,717 million as at 31 December 2013 (previous year: € 70,147 million).

Foreign exposure by region

Loan amount outstanding

€ m	**Core Bank**	**Restructuring Unit**	**Total 2013**	Core Bank	Restructuring Unit	Total 2012
Western Europe	16,493	19,672	36,165	19,767	21,215	40,982
of which: eurozone countries	9,920	11,779	21,699	12,294	11,431	23,725
Central and Eastern Europe	568	1,173	1,741	1,467	840	2,307
of which: eurozone countries	45	143	188	91	161	252
Africa	548	620	1,168	918	406	1,324
North America	6,857	6,130	12,987	6,594	8,768	15,362
Latin America	508	861	1,369	901	935	1,836
Middle East	94	879	973	83	1,119	1,202
Asia-Pacific region	2,109	3,259	5,368	3,095	3,206	6,301
International organisations	922	23	945	784	23	807
Other[1)]	-	1	1	3	23	26
Total	**28,099**	**32,618**	**60,717**	**33,612**	**36,535**	**70,147**

[1)] The item “Other” includes, for example, ABS and funds that cannot be clearly allocated to a country or region.

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

Due to their unfavourable fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular Portugal, Ireland, Italy, Greece, Spain, Slovenia, Hungary and Cyprus. The Bank's total exposure to these countries was reduced by 14% in the 2013 financial year.

The following table shows the loan amounts outstanding of the exposures in the EU countries stated. The loan amount outstanding for these countries totalled € 7,775 million as at 31 December 2013.

Loan amount outstanding in selected European countries

	Country		Banks		Corporates/Others		Total	
€ m	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Greece	6	7	-	-	1,301	1,780	1,307	1,787
Ireland	-	-	62	158	327	411	389	569
Italy	529	565	136	122	726	821	1,391	1,508
Portugal	280	280	5	5	58	68	343	353
Spain	222	228	494	1,332	1,662	1,394	2,378	2,954
Slovenia	90	90	-	-	18	23	108	113
Hungary	17	37	1	5	81	86	99	128
Cyprus	-	-	-	-	1,760	1,671	1,760	1,671
Total	**1,144**	**1,207**	**698**	**1,622**	**5,933**	**6,254**	**7,775**	**9,083**

Note 72 includes more information on the selected European countries.

Equity holding risk

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

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

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

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

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

Loan loss provisions

Within the framework of risk management, the Bank pays the most attention to default risk. The credit risk relating to a borrower is shielded through the creation of individual valuation allowances for loans and advances or provisions for contingent liabilities in the amount of the potential loss in accordance with Group-wide standards. The Bank also creates general loan loss provisions with regard to receivables not subject to loan loss provisions but which contain latent risks. In the case of loans to borrowers with an increased country risk, country-specific general loan loss provisions are created taking into account the respective internal country rating as well as collateral.

For purposes of risk provisioning, we calculate the anticipated default from the amount of the receivable less the net present value of all payments still expected to be received. The expected incoming payments comprise in particular all expected interest and redemption payments as well as payments from the liquidation of collateral, with any liquidation costs taken into account.

In the case of problem loans the basis for the respective amount of the risk provision is the impairment in accordance with IFRS, as a matter of principle. The appropriateness of the loan loss provision is monitored continuously as part of the problem loan processing.

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

Total loan loss provisions

€ m	**31.12.2013**	31.12.2012
Loans and advances to customers	65,586	77,842
Loans and advances to banks	5,810	9,758
Volume of impaired loans	15,525	13,830
Total specific loan loss provisions for loans and advances to customers	-6,151	-4,920
Total general loan loss provisions for loans and advances to customers	-490	-616
Total specific loan loss provisions for loans and advances to banks	-125	-133
Total general loan loss provisions for loans and advances to banks	-9	-10
Total loan loss provisions for balance sheet items	**-6,775**	**-5,679**
Provisions for individual risks in the lending business	-107	-388
Provisions for contingent liabilities (general loan loss provisions) in the lending business	-62	-61
Total loan loss provisions for off-balance sheet items	**-169**	**-449**
Total loan loss provisions (before compensation item)	**-6,944**	**-6,128**
Compensation item	2,911	2,778
Total loan loss provisions (including compensation item)	**-4,033**	**-3,350**

The decrease in loans and advances to customers and banks is in particular due to the continued winding down of risk positions in the Restructuring Unit. The development of total loan loss provisions reflects our expectations, that the crisis in the shipping industry will be resolved more slowly than previously expected. The loan loss provisions in the shipping portfolio were increased to take appropriate account of the resultant risks.

The loss rate in the Group increased to 0.61% in the reporting year (previous year: 0.35%). The loss rate is calculated based on the actually realised defaults as a ratio of the credit volume. The total amount of the actually realised defaults is calculated from the utilisation of the specific loan loss provisions plus direct write-downs less income from recoveries on loans and advances previously written-off. The total amount of actually realised defaults in 2013 was € 738 million (previous year: € 500 million) and the credit volume € 121,441 million (previous year: € 142,325 million).

Loan loss provisions for the Bank in the form of individual valuation allowances and provisions for default risks amounted to € -6,383 million in total as at 31 December 2013 (previous year: € -5,441 million). This corresponds to a ratio of 5.26% in relation to the credit volume (previous year: 3.82%). General loan loss provisions (including country-specific general loan loss provisions) amounted to € -560 million (previous year: € -686 million). Total loan loss provisions (including compensation item) amounted to € -4,033 million as at 31 December 2013 (previous year: € -3,350 million) due to the hedging effect of the second loss guarantee.

Planning for loan loss provisions and losses

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

The plan is drawn up with the aid of models that take account of the change in risk parameters based on macroeconomic forecasts and expected portfolio growth, the statistical analysis of historical loan loss provision and loss data as well as the extensive experience gained in processing problem loans, the quarterly loan loss provision process and restructurings and liquidations that have been carried out.

In planning additions to the individual valuation allowances a methodological distinction is made between commitments classified as in default and not in default. The so-called expected loss resulting from the probability of default and loss given default in the event of a loan default is simulated for non-default exposures over the planning period at the individual transaction level using transaction-specific parameters. Forecasts of future economic developments are also incorporated as part of the scenario analyses and thus in the assumed risk parameter trends. The amount of the allocations to the loan loss provisions is determined based on the historical relationship of the individual valuation allowances and portfolio valuation allowances to the expected loss. The expected required level of loan loss provisions for new business is determined on the basis of the new business volume plan as well as on historically observed risk parameters or those stipulated as part of the new business strategy (rating, loss given default).

The loan loss provisions determined as part of the quarterly loan loss provision process are applied to exposures classified as being in default. In the case of exposures in default, for which a portfolio valuation allowance has been recognised, the probability of a change from a portfolio to an individual valuation allowance or classification as a non-default exposure is determined on the basis of historical empirical values. The Bank assumes in the case of commitments on which an individual valuation allowance has been recognised, that the material risks have been identified and included in the loan loss provisions in light of the stabilisation of the macroeconomic environment and several years of experience in processing the problem loans. The main exception to this is the Shipping portfolio, where, in the opinion of the Bank, individual customers could also get into liquidity difficulties in 2014 regardless of general market developments, which seriously jeopardise a going-concern strategy and may therefore require a higher loan loss provision.

Accordingly, the planned additions result over the medium-term primarily from the migration of commitments from the non-defaulted portfolio to the default categories or from the initial recognition of a specific loan loss provision on commitments already in default.

Utilisation and reversals of loan loss provisions are planned based on analyses of the past years, taking the overall economic scenario on which the plan is based into account.

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

On this basis the losses expected until the planned expiry of the guaranteed portfolio amount to a total of € 4.8 billion as the end of the year 2013, of which a first loss piece of € 3.2 billion remains with HSH Nordbank. Further details on the second loss guarantee can be found in Note 2 to the consolidated financial statements.

The long-term planning of loan loss provisions is associated to uncertainties which are described in the section "Forecast report including opportunities and risks".

MARKET RISK

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

ORGANISATION OF MARKET RISK MANAGEMENT

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

Market risk was actively managed in the Capital Markets division in the year under review. The Asset Liability Committee (ALCO) is responsible for selected strategic positions exposed to market risk. Daily market risk reports regularly keep the Management Board and the trading divisions informed on the extent of existing market risks and current utilisation of limits.

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

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

MARKET RISK MANAGEMENT

Market risk measurement and limitation

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

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

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

Where necessary, HSH Nordbank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements (e.g. with regard to interest rates, exchange rates) on its own positions. Derivative financial instruments in particular, such as interest rate and cross-currency swaps for example, are used as hedging instruments. Further information on this and the type and categories of the hedging instruments and hedging relationships entered into by HSH Nordbank as well as the type of risks hedged is presented in the Notes. In particular we refer to Note 12 "Hedge accounting via valuation units" and Note 70 "Derivatives business".

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

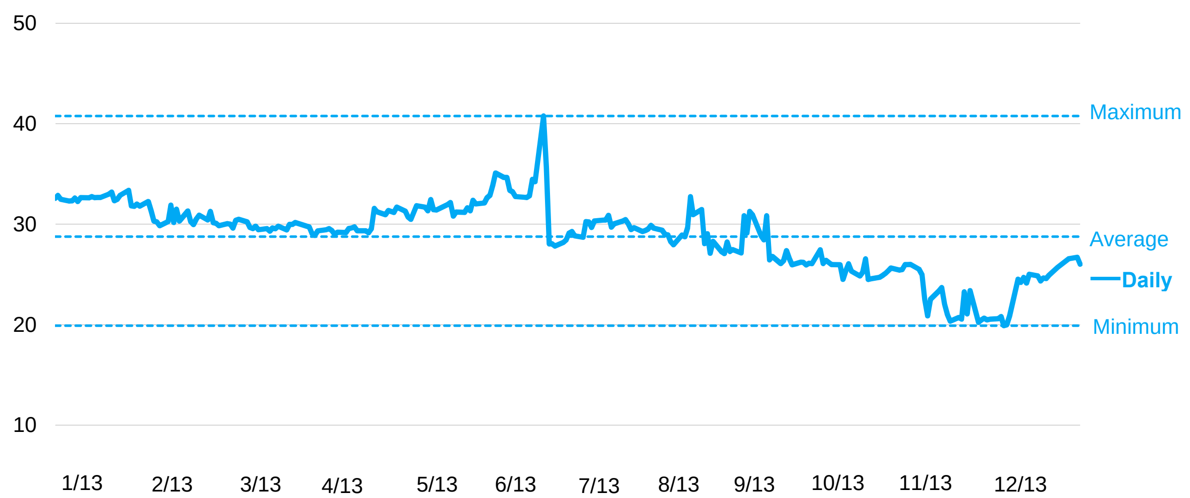
The VaR model used and continuously enhanced by the Bank contains all of the Bank's significant market risks in an adequate form.

Daily value-at-risk during the year under review

The following chart illustrates the movement in the daily VaR for the total trading and banking book positions of HSH Nordbank over the course of 2013. The market risk fluctuated between € 20 million and € 41 million with the VaR of the trading book positions amounting to € 2 million as at 31 December 2013, while that of the banking book transactions amounted to € 25 million. On the last trading day in 2013, the total VaR of the Bank amounted to € 26 million, while the VaR limit for restricting market risk amounted to € 65 million. The utilisation of the limit was therefore 40%. As part of the risk-bearing capacity management, the VaR is scaled up to the amount of € 0.7 billion in the framework of aggregating the individual risk types to the overall risk.

Daily value-at-risk in the course of 2013

€ m



The total VaR decreased to € 26 million in the course of 2013. The decrease could be observed primarily in relation to interest rate and credit spread risk. In addition to the normal elimination of volatile trading days in 2012 from the historical simulation the methodological enhancements made to the market risk measurement were also principal reasons for this development.

In the first half of 2013 the integration of the credit spread risk on third party issues held in certain valuation units into the daily market risk measurement was pushed forward and finalised for the most part. This led to a reduction in the overall risk at the Group level of about € 5 million as a result of portfolio diversification effects.

As a result of the improved mapping of loans in the risk system all interest rate and currency basis risks for these transactions have also been fully included in the VaR since December 2013. This resulted in a reduction in the interest rate risk of about € 16 million and an increase in the currency risk of about € 8 million. The measurement of collateralised derivatives was also changed over to OIS curves in 2013 and thereby completed the mapping of interest rate basis risks.

The "Daily value-at-risk of the Group" table shows the VaR for the entire trading and banking book positions. The maximum and minimum represent the range over which the respective risk amount moved in the course of the year under review. The overall risk is determined by aggregating the individual types of market risk. The market risk of the Group is determined in full in HSH Nordbank AG, taking account of the Group-wide correlations. Market risk arising on derivative transactions is included in the amounts disclosed. The volatility risk arising on the option positions is also included here.

Daily value-at-risk of the Group

	Interest rate risk[1]		Credit spread risk[1]		Foreign exchange risk		Equity risk		Commodity risk		Total[2]	
€ m	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Average	30.6	33.2	31.5	53.0	7.2	18.2	3.2	2.0	0.2	0.5	28.8	51.9
Maximum	47.3	46.9	45.4	71.3	16.0	27.6	5.4	3.9	0.6	1.5	40.8	65.0
Minimum	7.4	5.7	19.0	37.6	2.2	1.4	1.3	0.8	0.1	0.2	19.9	35.1
Period end amount	7.4	38.0	19.2	44.6	12.2	1.4	4.3	3.4	0.2	0.3	26.0	37.6
of which: Core bank	16.0	35.8	5.3	8.3	13.8	4.9	0.3	0.5	0.2	0.3	17.5	34.3
of which: Restructuring Unit	6.8	9.3	20.0	39.7	1.4	4.5	4.5	3.1	0.0	0.0	19.3	48.7

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

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

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

The market risk that results on derivative positions from the change in the market's assessment of the creditworthiness of the counterparties amounted to € 8.3 million as at the reporting date. This risk is not included in the VaR amounts disclosed for the Group.

Backtesting

We perform regular backtests to verify the appropriateness of our VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecasted using historical simulation. Based on the assumption of the confidence level of 99% applied by the Bank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. In 2013 less than four outliers were recorded at the HSH Nordbank Group level at all times resulting in the Bank's market risk model being confirmed.

Stress tests

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

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

Furthermore, the market risks in the reporting year were also part of the stress tests across risk types and the inverse stress tests on a regular basis.

Instruments for managing market risk as part of hedge accounting

For purposes of managing market risk from loans and liabilities, as well as from securities, the Bank's financial market division also employs derivative financial instruments. In particular, interest rate swaps and other interest rate/currency derivatives are employed to hedge interest rate and foreign exchange risks from underlying transactions. This may include the hedge of market risks at the micro, portfolio, and macro level.

When hedging assets not held for trading, transactions which clearly are related to another in a documented hedge relationship may be accounted for as a valuation unit within the meaning of Section 254 German Commercial Code (HGB) provided the requirements for the application of Section 254 are met. In addition, a determination is made from a net present value perspective in accordance with IDW Statements RS BFA 3 in respect of all interest-related financial instruments held in the banking book as to whether a provision is to be recognised for contingent losses arising on such financial instruments. Financial instruments not included in a valuation unit or in the netting area of the loss-free valuation of the banking book are measured individually.

LIQUIDITY RISK

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

The risk of insolvency refers to the risk that present or future payment obligations cannot be met in part or in full. This is referred to as liquidity risk in the narrower sense. The key driver of this liquidity risk is the cash flow structure in the liquidity development report which is determined by the assets (maturity/currency structure) and liabilities (funding structure by maturity/ currency/investor). In this regard the market liquidity risk, i.e. the danger, that transactions cannot be sold or only at unfavourable conditions because of a lack of market depth, is reflected in the liquidity development report as a component of the insolvency risk. Another component of insolvency risk is the refinancing risk, i.e. the danger of not being able to obtain liquidity or not at the expected conditions if required. The refinancing risk is determined by the refinancing structure. Information on the refinancing structure can be found in Note 41 "Residual maturities".

Liquidity maturity transformation risk refers to the risk that a loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept and is discussed in the section "Risk-bearing capacity".

ORGANISATION OF LIQUIDITY RISK MANAGEMENT

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

The Group Risk Management division is responsible for the methods used to measure and limit liquidity risk within the Group. In addition it measures risk and monitors limits as part of the daily reporting of liquidity risk. This supports Strategic Treasury in managing liquidity for all time buckets and enables it to counter possible risks at an early stage.

The Asset Liability Committee is responsible for the strategic management of the resources liquidity/funding, balance sheet structure, capital, RWA and economic capital. In addition, resources are allocated by the Transaction Committee to individual transactions within certain volume limits in the sense of an active portfolio management.

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

LIQUIDITY RISK MANAGEMENT

Measurement of liquidity risk

The transactions of the Bank impacting liquidity are presented as cash flows and the resultant inflows and outflows allocated to time buckets (liquidity development report) for the purposes of measuring the risk of insolvency or funding requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant time buckets. The gaps are presented accumulated from day 1 to 12 months in order to map future liquidity requirements. They are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the respective limit for insolvency risk. Utilisation of the limits is monitored on a daily basis. The net liquidity position, which shows the extent of the insolvency risk, is determined as the net amount from the gaps and the respective liquidity potential.

Liquidity development reports are prepared daily at the level of the Group, the Overall Bank, the foreign branches and for HSH Nordbank Securities S.A. In addition to all on-balance-sheet business, loan commitments already granted, guarantees, transactions with forward value dates and other off-balance sheet transactions are incorporated in the report. Maturity scenarios are used for a number of positions to map economic maturities more effectively. In doing so any possible minimum levels of deposits as well as the liquidation periods and realisation amounts of assets, for example, are modelled conservatively as a matter of principle. The liquidity development reports reflect the current market situation as a base scenario (normal case assessment). In addition to calculating the liquidity development report in euro equivalents, a separate liquidity development report is prepared monthly for all US dollar transactions. In this way we support adequate management of our US dollar position.

In addition to the normal case liquidity development report, which is compiled on the assumption of business developments in a normal market environment, the Bank also compiles the results of a market liquidity stress test on a daily basis in the form of a stressed liquidity development report (stress case assessment) in order to reflect critical market developments. The stress case includes, for example, difficult refinancing conditions and additional cash flows under stress assumptions.

HSH Nordbank quantifies its liquidity maturity transformation risk by means of a VaR approach. The liquidity-value-at-risk (LVaR) is calculated through historical simulation (confidence level 99.9%) of the liquidity spread and its present value effect on transactions, which would be necessary theoretically in order to immediately close the current maturity transformation position. In doing so, it is assumed that these hypothetical close-out transactions could actually be effected in the market and that full funding is therefore possible.

Limiting and monitoring liquidity risk

Limits are set for the cumulative gaps for numerous maturity bands up to 12 months for the purposes of managing insolvency risks.

Insolvency risk is in principle limited by the ability of HSH Nordbank to exhaust its total liquidity potential. This liquidity potential comprises different elements, the total of which represents the total limit. The liquidity potential (limit) represents the respective ceiling for cumulative gaps of individual maturities and is composed of a securities portfolio held as a crisis precaution measure (liquidity buffer), further highly liquid and liquid securities, according to how liquid they are, unsecured funding options, secured funding potential from the issue of Pfandbriefe and industrial loans eligible for refinancing with central banks. In addition, the long-term funding potential from illiquid assets used as collateral is also taken into account. Most of the portfolio of securities and promissory notes is invested in liquid markets and can be liquidated via the refinancing channels, namely central banks, Eurex repo market, bilateral repo market or the cash market.

The components of the liquidity potential – such as the liquidity buffer required under MaRisk for example - are monitored continuously and validated in accordance with internal and external minimum requirements. Safety buffers and risk discounts are incorporated into the limits in order to keep the probability of full utilisation or overdrawing the limits as low as possible. These discounts are, for example, haircuts or other safety margins that reflect the uncertainty about the future development of the respective limit component. Market access to the funding sources relevant for the Bank is also monitored on a regular basis. This is achieved firstly through the ongoing market observation of all funding sources by the Bank's market departments. Secondly, Group Risk Management reviews daily the funding potential based on the expected prolongation ratios for customer deposits, and Strategic Treasury also prepares actual/plan analyses regarding long-term funding.

Group Risk Management calculates and monitors limit utilisation daily and reports the results to the Management Board and responsible divisions. In the event that limits are exceeded ALCO determines appropriate measures as proposed by Strategic Treasury that are implemented by the Capital Markets division. Implementation of the measures is monitored by Group Risk Management.

The LVaR for the liquidity maturity transformation risk is determined each month by Group Risk Management and reported to the Management Board and management responsible for it. Limits are set at Group level and are part of the risk-bearing capacity concept.

Group Risk Management provides the Management Board and the responsible divisions on a monthly basis in aggregate form with an overall assessment of the liquidity position of the Group. In addition to analyses on limit utilisations in the normal case, in the stress case and in the other stress scenarios (insolvency risk) this report contains analyses on risk concentrations and the liquidity maturity transformation risk as well as on liquidity risks resulting from USD positions.

Liquidity management

The Bank prepares a long-term liquidity plan for the strategic long-term management of the liquidity resource on a quarterly basis and a liquidity plan for the USD, a major currency of the Bank, on a monthly basis. The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Capital Markets division based on general parameters specified by the Strategic Treasury division. In addition to the regulatory requirements the liquidity development reports are relevant amongst other things to determine these general parameters. Any setting of or change to the individual parameters or the framework requirements is decided by the ALCO. This places the Bank in the position to react flexibly to market developments.

The collateral pool of HSH Nordbank consisting of cash balances, securities and loan receivables that are eligible for funding is coordinated by Strategic Treasury in order to be able to utilise the potential for secured funding in the best possible manner.

Backtesting and enhancement

In our backtesting we review the modelling of products with stochastic cash flows in the liquidity development report on the basis of statistical evaluations of historical cash flows. The selection of the relevant products is based on the product volume and its risk content in terms of uncertainty in previous modelling.

In the reporting year we carried out, amongst other things, a backtesting of the modelled loan portfolios, irrevocable loan commitments, liquidity potential in securities as well as the equity holding portfolio. The modelling of deposits with cancellation rights was enhanced. Furthermore, we have subjected the modelling assumptions applied to products and limits for the stress scenarios “rating downgrade by one notch” and “rating downgrade by one notch in severe economic downturn” to another backtest following the downgrade made by Moody’s in July 2013.

Stress tests

Our regular stress tests for insolvency risk include unusual scenarios and their impact on the liquidity situation of the Group in the risk assessment. When determining these scenarios, the risk and significant parameters were identified for all types of transactions included in the liquidity development report, which change the cash flow profile in the respective stress case. For example, inflows may be lower or occur later or outflows may be higher or occur earlier than expected.

The selection of our stress tests is the result of an analysis of historical events and hypothetical scenarios. The selection is reviewed on an annual basis and adapted to current developments where necessary.

As part of the ongoing enhancement process the knowledge obtained on the rating downgrade of HSH Nordbank in July 2013 was also incorporated into the modelling and/or the definition of parameters in the reporting year. Within the different stress modelling market specific scenarios (e.g. severe economic downturn), institution-specific scenarios (e.g. rating downgrade of HSH Nordbank AG) as well as a combined scenario (severe economic downturn and rating downgrade) are assessed on the basis of current market developments. In each of these scenarios it is assumed, for example, that new lending business will continue to some extent and that loans and advances to customers maturing must be extended and refinanced on an increasing basis while the rollover of liabilities is partially cut back or is quite impossible and as a result a financing gap is created. Furthermore, increased drawdowns on loan commitments issued and the early redemption of own issues and securitised liabilities among other things are incorporated in the modelling. The stress test results are reported to the Management Board and the responsible divisions on at least a monthly basis.

In addition, the Bank performs a monthly US dollar stress test which is based on the normal case liquidity development report and simulates an immediate as well as a gradual appreciation in the US dollar affecting the US dollar cash flows and the cash collateral for US dollar derivatives. The stress factor for the appreciation is determined based on an analysis of the historical movement of the EUR/USD exchange rate.

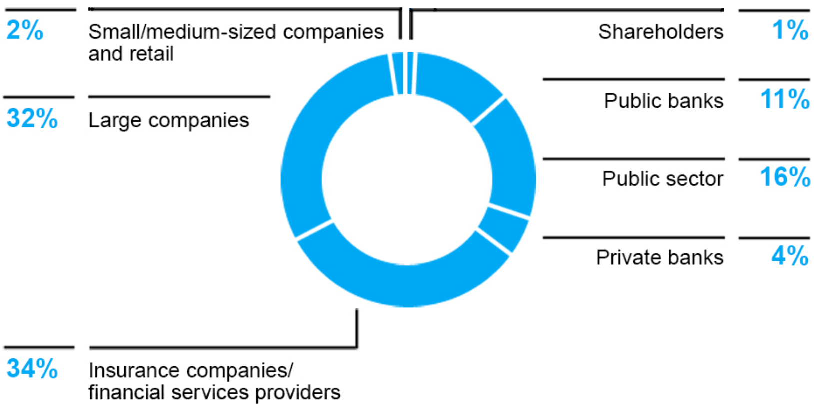
Within the framework of a stress test for the liquidity maturity transformation risk we analyse how the LVaR moves on increasing liquidity spreads. The scenario parameters are determined using a macroeconomic approach, under which the relevant stress volatilities are derived from economic forecasts. The stress LVaR serves as an indicator for the sensitivity of the LVaR to an increase in the spread/liquidity costs and constitutes an additional piece of management information.

Furthermore, events that could have a critical impact on the Bank’s solvency were analysed in the reporting year within the framework of the periodic implementation of inverse stress tests.

Risk concentrations

Risk concentrations occur in liquidity risk in several ways. Concentrations of both asset and liability products can increase liquidity risk. In addition to the existing management system for concentrations of asset instruments HSH Nordbank has therefore established a monitoring system for concentrations of liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities) and deposit drain risk.

Depositor structure as at 31 December 2013
in %



Compared to the previous year the proportion of insurance companies, financial services providers and large companies has increased (previous year: insurance companies/financial services providers 29%; large companies 25%), while the proportion of banks decreased (previous year: public banks 17%; private banks 8%).

Various quantitative measures (e.g. concentration curve, Herfindahl index and relationship ratios) are calculated for the purposes of analysing risk concentrations. Furthermore, an analysis is performed not only on the structure but especially on the risk content in order to be able to derive control impulses from the quantitative measures in combination with a qualitative discussion.

In addition to the analysis of the depositor structure, liquidity concentrations are examined with regard to macroeconomic factors. This shows a dependency of the liquidity situation on the movement in the US dollar, which has decreased slightly compared to the previous year, but is still to be regarded as significant. This is due to the large amount of US dollar assets that are refinanced through cross-currency swaps among other things. A decrease in the EUR/USD exchange rate will increase the cash collateral to be provided on foreign currency derivatives, representing a burden on liquidity. For the purposes of analysing the dependency on the US dollar, sensitivity analyses are therefore performed regularly for cash collateral. In addition a US dollar stress test of the liquidity development report is performed.

Stable liquidity situation in an improved market environment

Tensions on the financial markets have eased considerably during the course of 2013. The improvement in the economic situation in the eurozone contributed to this. The gross domestic product in the eurozone has increased again since the second quarter 2013. This development was also supported by the continued expansive monetary policy of the ECB and the US Federal Reserve. Given the low interest rate policy of the ECB yields on ten year German government bonds only increased slightly despite the economic revival during the course of the year. The improved economic situation in the USA as well, together with the announcement by the US Federal Reserve of the tapering of the bond purchase programme with effect from January 2014, resulted in a more significant increase in the yields on US government bonds. Risk premiums for the periphery countries in the eurozone have fallen again during the course of the year, although the adjustment processes have not yet been completed with respect to the high unemployment and high levels of private and public debt.

It was possible to further stabilise the Bank's liquidity position in the area of short- and medium-term maturities. The measures focused on increased efforts to obtain new deposits and funding. For example, we successfully placed a five-year mortgage Pfandbrief and a three-year public Pfandbrief in the year under review in the amount of € 500 million each within the framework of two benchmark issues. The public sector Pfandbrief was increased to € 750 million due to the good domestic and international demand. We have also further expanded our asset-based funding. Further information on the funding measures are set out in the "Earnings, net assets and financial position" section of this Management Report.

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 December 2013 as well as at the end of 2012. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes the liquidity buffer required under supervisory law.

Limit on cumulative liquidity gaps

Utilisation of liquidity potential

	Normal Case		Stress Case	
%	**31.12.2013**	31.12.2012	**31.12.2013**	31.12.2012
1st day	12	7	16	11
7th day	26	0	36	2
14th day	30	1	40	10
3rd week	35	11	47	23
4th week	36	15	50	30
2nd month	51	46	71	68
3rd month	55	71	79	95
6th month	63	76	95	111
9th month	71	79	110	125
12th month	78	81	126	134

Risk tolerance of the Bank with regard to liquidity risk is reflected, among other things, in the definition of a minimum survival period, which describes how long a utilisation of a liquidity potential under 100% is to be maintained under the normal and stress cases for insolvency risk.

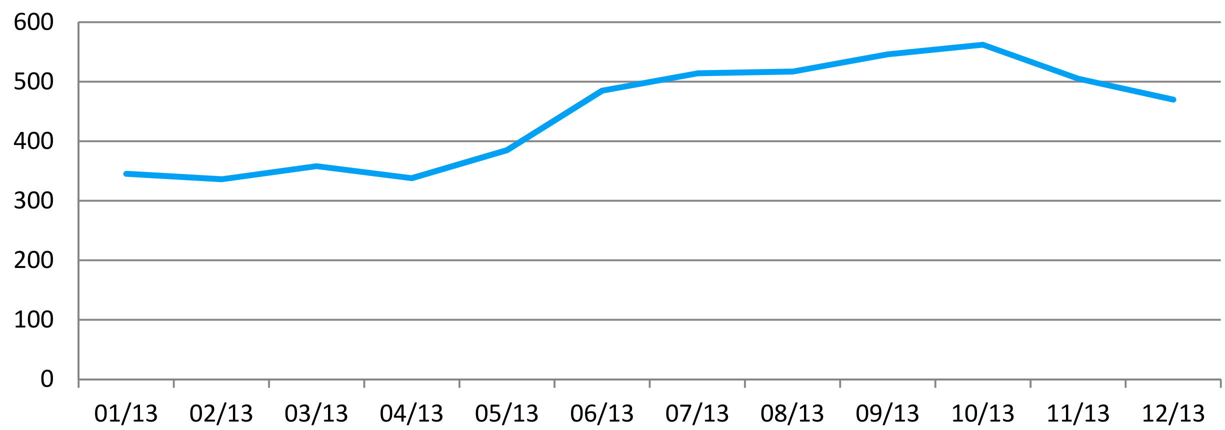
In the normal case assessment the liquidity potential had a peak utilisation of 78% in the 12th month as at the reporting date. All limits within the minimum survival period of twelve months defined by the Bank were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking Minimum Requirements for Risk Management (MaRisk) into account. In fact, the limits as at the end of 2013 are even adhered to for a period of six months. The utilisation levels tended to decrease compared to the end of 2012, which signified an improvement in the liquidity situation. Critical limit utilisation levels were recorded neither in the normal case nor in the stress case liquidity development report in the course of the period under review.

The results of the market-specific and Bank-specific stress scenarios and the combined scenario determined in addition to the stress case liquidity development report show that as at December 2013 the liquidity requirement of HSH Nordbank was covered for two months up to twelve months despite the strict worst case assumptions for each scenario. A minimum survival period of one month is thereby maintained in all scenarios. The results show that the Bank is suitably prepared for the crisis scenarios assessed.

In the year under review, the LVaR as an expression of the liquidity maturity transformation risk moved on a monthly basis between € 336 million and € 562 million. It amounted to € 471 million as at 31 December 2013.

Liquidity-value-at-risk in the course of 2013

€ m



The long-term liquidity position of HSH Nordbank has improved in the course of the year. The Bank continued to implement its issuance plan in the reporting year accompanied by a stable development of the depositor base. Despite this success, access to the capital markets remains limited so that the future funding and rating continue to represent some of the significant challenges facing the Bank. The section “Earnings, net assets and financial position” contains further information on the Bank’s funding situation.

Liquidity ratio of HSH Nordbank AG

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.69 and 2.36, our liquidity ratio remained above the regulatory minimum value of 1.0 at all times throughout the reporting period. The average value for 2013 was 2.06 (previous year: 1.79).

Liquidity ratio (LiqV)

Month-end figures

	2013	2012
January	1.69	1.75
February	1.76	1.86
March	2.01	1.82
April	1.92	2.14
May	2.09	1.81
June	1.96	1.65
July	2.04	1.76
August	2.13	1.77
September	2.36	1.65
October	2.24	1.69
November	2.28	1.68
December	2.30	1.89

OPERATIONAL RISK

HSH Nordbank defines operational risk (OpRisk) as the risk of direct or indirect losses caused by the inappropriateness or failure of the internal infrastructure, internal procedures or staff or as a result of external factors (risk categories). This definition includes legal risk and compliance risk.

ORGANISATION OF OPERATIONAL RISK MANAGEMENT

The management of operational risk at HSH Nordbank is organised in a decentralised manner. The risks are identified and managed directly in the individual organisational units of the Bank. Accordingly, the division heads are responsible for the management of operational risk and the quality of such management in their respective areas of responsibility. The operational implementation is supported by decentralised OpRisk officers in the individual divisions.

The OpRisk Controlling department in the Group Risk Management division defines the basic principles of operational risk management applicable throughout the Bank and develops the central methods and instruments to be used in the identification, measurement, management and monitoring of operational risk.

A Bank-wide steering committee dealing with operational and other risks in the Group, the OpRisk Committee convenes every quarter. It provides support to the Management Board in the implementation of the OpRisk Strategy under the chairmanship of the CRO. The objective of the interdisciplinary OpRisk Committee is to promote dialogue between the persons involved at all hierarchy levels and to determine appropriate measures for reducing operational risk.

Operational risk is closely linked to the Internal Control System (ICS) of HSH Nordbank. A major objective of the ICS is to optimise the internal bank processes in order to avoid losses that may arise as a result of, for example, processing errors. Detailed information on the ICS is set out in the “Risk management system” section.

OPERATIONAL RISK MANAGEMENT

The identification, analysis, evaluation and monitoring of operational risk and the promotion of a corresponding risk culture in the Group represents an important success factor for HSH Nordbank. Different procedures and instruments are used in this process.

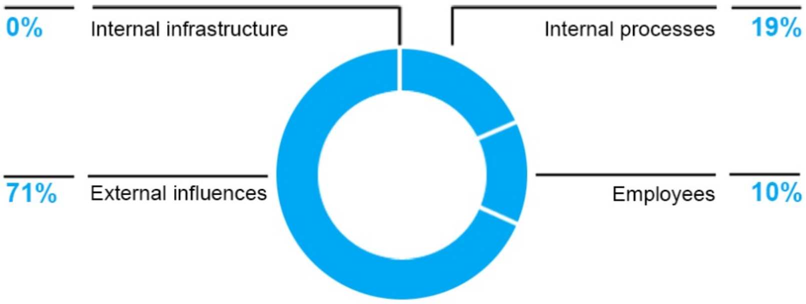
Loss event database

The loss events arising from operational risk are consolidated into a central loss event database for the Bank and relevant subsidiaries. The loss events are recorded locally by the divisions affected and forwarded to central risk controlling. The results of the analyses of actual loss events provide a starting point to eliminate existing weaknesses. The OpRisk Committee is informed on a quarterly basis regarding loss events and measures undertaken related thereto. The Management Board is immediately informed of material operational risk events.

The loss event database includes all loss events with a gross loss of at least € 2,500 and all material near-loss events.

Share of risk categories in gross operational losses 2013

%



HSH Nordbank participates in the exchange of operational loss event data as part of the Operational Risk Data Pool (DakOR). Thus, HSH Nordbank obtains a more comprehensive data base for the evaluation of risk scenarios and external comparisons.

Risk inventory

HSH Nordbank performs a risk inventory each year for the whole Group. Information about the risk situation of the divisions gained from this inventory supplement the reporting of operational risk and encourage the preventive management and monitoring of operational risk. The Bank performs the risk inventory based on defined scenarios, which take into account both own as well as external loss event data, and derives the loss potential from this.

The 2013 risk inventory was also performed against the backdrop of the strategic realignment of the Bank and the reduction in staff associated with it. In order to counter the resultant operational risk, the Bank has introduced measures which, on the one hand, retain important know-how carriers of the Bank and on the other hand ensure a proper implementation of the restructuring process.

Control of measures

Based on an analysis of the causes of significant loss events and the results of the risk inventory, suitable measures are established in order to avoid future losses as far as possible. The measures identified are to be appropriate under cost-benefit aspects. In doing this, the instruments of risk mitigation consist above all of a large number of organisational safeguarding and control measures which are also applied in the context of the internal control system. The central risk controlling function monitors the actual implementation of the measures determined using the measures controlling procedures.

Risk indicators

Risk indicators are collected on a quarterly basis and incorporated in the OpRisk reporting. The indicators are selected based on the estimated risk situation and are periodically reviewed to ensure that they are up-to-date. The aim is to identify risks at an early stage and prevent their causes by the use of an ongoing and comparative analysis of loss events and risk indicators.

IT risk management

The primary objective of IT risk management for which the IT division is responsible is to avert potential losses resulting from an inadequate IT infrastructure. For this purpose, IT-specific risk instruments are used to ensure early identification, analysis and evaluation of IT risks, and to initiate economically worthwhile measures to minimise risk.

Legal risk

In accordance with the German Solvency Regulation (SolvV), legal risk also falls under operational risk. Legal risk includes economic risks arising as a result of non-compliance or incomplete compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law. Tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits have not yet been finalised for the years starting from 2003. The Legal and Taxes divisions are responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff and external consultants. A structured process with clear requirements and responsibilities serves to ensure that the Bank's contracts and agreements are kept up-to-date.

In the reporting year HSH Nordbank appointed a law firm to carry out an independent investigation of possible unjustified investment income tax credits in connection with share arbitrage transactions over the dividend record date (so-called cum-/ex trades). The interim findings submitted in 2013 identified suspicious transactions, which are currently subject to an in-depth investigation. Due to a revised risk assessment concerning the cum-/ex-trades and tax-driven structured transactions and due to VAT reimbursements HSH Nordbank has increased its tax provisions. Provisions for potential tax reimbursement claims totalling € 194 million were recognised in the 2013 tax result in particular for these issues.

Until final completion of the investigations it cannot be ruled out for the future that new findings will lead to additional expenses.

Compliance risk

Compliance risk comprises legal and regulatory sanctions or financial losses caused by non-compliance with certain laws, regulations and guidelines as well as organisational standards and codes of conduct.

The Compliance division is responsible for compliance risk management. Compliance with the different standards is also ensured by the respective divisions concerned.

The Code of Conduct summarises all behavioural requirements for compliance, which are set out in detail in internal instructions. It applies to all employees, managers as well as the Management Board of HSH Nordbank AG and is a mandatory part of the target agreements.

Staff and managers of the Bank are regularly trained in compliance-relevant topics. The objective of the training is to firmly anchor compliance as a corporate culture, to disseminate relevant standards and changes thereto and to enable new staff to quickly become familiar with corporate practices in order to ensure compliance with such standards.

The Bank receives notification of suspicious cases of misconduct via internal reporting channels and the so-called "whistleblowing office" and forwards these to the responsible internal and external bodies. The whistleblowing office is staffed by independent ombudsmen from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and enables anonymous reporting of suspicious cases.

OTHER MATERIAL RISKS

Among other material risks of HSH Nordbank are strategic risk and reputation risk.

STRATEGIC RISK

Strategic risk is the risk of a financial loss being incurred as a result of long-term decisions which are erroneous or based on incorrect assumptions, particularly with respect to the performance of individual areas of business or the banking sector as a whole.

The strategic realignment of HSH Nordbank was successfully continued during the reporting year. The strategic risk of the Bank was further reduced in the year under review through concentrating on the core business areas, the separation and active winding down of risk-bearing and non-strategic portfolios in the Restructuring Unit, the consolidation of the international network of locations and with the sale of numerous equity holdings in line with the conditions imposed and the commitments of the Bank.

The second loss guarantee was replenished to the original amount of € 10 billion as at 30 June 2013 following a partial cancellation in 2011 in order to comply with the increasingly strict regulatory conditions and the requirements of the capital markets concerning capital ratios in a sustainable manner. As the replenishment of the guarantee constitutes a case relevant under state aid law, the European Commission instituted new state aid proceedings. It is not expected that a decision will be reached until the second half of 2014 at the earliest.

REPUTATION RISK

Reputation risk is the risk of direct or indirect loss caused by damage to the Bank's reputation and related opportunity costs. Damage to reputation means a public loss of confidence in the Bank or a loss of esteem of the Bank from the viewpoint of individual stakeholder groups (e.g. capital markets, clients, shareholders, investors, the general public, employees).

Firstly, damage to reputation can be directly caused by the behaviour of internal staff, external stakeholders or by the social environment as a whole. This can give rise to further negative repercussions for the Bank. Secondly, reputation risk in terms of a consequential risk can arise indirectly as a result of the occurrence of a loss in another risk type.

HSH Nordbank manages reputation risk particularly by means of preventive measures via the review of specific transactions on the one hand and via process-related rules on the other in order to prevent the occurrence of reputational damage if possible. A reputation risk strategy that defines the bank-wide principles for managing reputation risk was adopted in 2013 as a supplement to the already existing regulations and instructions, such as the Code of Conduct.

SUMMARY AND OUTLOOK

The 2013 financial year was characterised by the continuing winding down of high-risk, non-strategic lending and capital markets transactions held in the Restructuring Unit portfolio as well as by the progress made in implementing the new “Bank for Entrepreneurs” business model.

The risk-bearing capacity of HSH Nordbank was maintained at all times during the year under review with a maximum utilisation of the risk coverage potential of 39%. The replenishment of the guarantee facility in June 2013 to the original amount of € 10 billion as well as the ongoing winding down of risk positions as part of the implementation of the EU conditions made a positive contribution in this regard. There are still some challenges facing the Bank, in particular with regard to risk concentrations in the shipping portfolios and the US dollar business of the Bank. The overcapacity in large parts of the shipping markets is having a particularly negative impact in this regard.

A central committee for monitoring and managing all material risks of HSH Nordbank, the so-called Group Risk Committee, was established in the reporting year. Furthermore, the Bank has submitted a draft of the recovery plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) issued by the Federal Financial Supervisory Authority in June 2013. HSH Nordbank received comments on this draft from the supervisory authorities in November 2013 and January 2014, which are currently processed. The revised draft of the recovery plan is scheduled to be submitted to the supervisory authorities by the end of April 2014. In addition to options for action that enable the Bank to overcome crisis situations using its own resources the plan contains recovery indicators that are regularly monitored and thereby supplements the existing processes for the ongoing monitoring and reporting of risks.

Since the first quarter 2014 HSH Nordbank, as is the case for many other German and European banks, has been subject to a special audit (“comprehensive assessment”) conducted by the supervisory authorities. This is linked to the transfer of banking supervision to the ECB planned for 1 November 2014. A key component of the comprehensive assessment is an audit of the asset side of bank balance sheets (asset quality review) including the valuation of loan commitments and trading portfolios in risk portfolios defined by the ECB. Directly following the asset quality review, it is planned that a stress test will be performed jointly by the ECB and EBA. The results are expected to be available by October 2014 and may in principle also lead to adjustments in the income statement.

The implementation of the new supervisory requirements will continue to be a focus of our activities in 2014. The requirements resulting from the Basel III set of rules and gradually entering into force from 2014 will be implemented within the framework of projects.

The risk and bank management systems described in this report are aligned to take account of risk on a systematic basis. This also applies to our expectations regarding future market and business developments. We believe that we have appropriately presented the opportunities and risks inherent in the future development of our business activities, among others in the “Forecast report including opportunities and risks” and in this Risk report. Accordingly, we assume that the risk-bearing capacity and solvency of HSH Nordbank will also be maintained on a sustained basis in the future based on the measures already initiated.

FINAL DECLARATION TO THE DEPENDENT COMPANY REPORT IN ACCORDANCE WITH SECTION 312 OF THE GERMAN SECURITIES ACT (AKTG)

In accordance with Section 312 of the German Securities Act (AktG), the Management Board of HSH Nordbank AG is obliged to submit a report on relations with affiliated companies (Dependent Company Report) for the financial year 2012.

The final declaration of the Management Board concerning the Dependent Company Report is as follows:

“With respect to the transactions listed in the Dependent Company Report HSH Nordbank AG has received adequate consideration for every transaction entered into under the circumstances known to us at the time the transactions were concluded. The company did not take nor fail to take any action at the instigation or in the interests of both controlling companies.“

Controlling companies of HSH Nordbank AG are the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, which coordinate their decision-making process via HSH Finanzfonds AöR – Gemeinsame Anstalt der Freie und Hansestadt Hamburg und des Landes Schleswig-Holstein (HSH Finanzfonds AöR) – incorporated with effect from 21 April 2009.

Hamburg/Kiel, 25 March 2014

von Oesterreich

Ermisch

Temp

Wartenweiler

Wittenburg

ANNUAL ACCOUNTS
of HSH NORDBANK AG

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2013

Assets

€ k

	(Note)				31.12.2013	31.12.2012
1. Cash reserve						
a) Cash on hand				14,228		13,499
b) Balances with central banks				4,450,436		6,342,323
thereof: with Deutsche Bundesbank		1,593,460			**4,464,664**	**6,355,822**
	(previous year	6,043,228)				
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks						
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions				337,043		325,134
thereof: eligible for refinancing at the Deutschen Bundesbank		330,156				
	(previous year	317,691)			**337,043**	**325,134**
3. Loans and advances to banks	**(5, 6, 22-26)**					
a) Payable on demand				3,165,717		4,117,642
b) Other loans and advances				2,644,194		5,639,958
					5,809,911	**9,757,600**
4. Loans and advances to customers	**(5, 6, 23-26)**				**65,585,528**	**77,842,063**
thereof: secured by mortgages		12,047,370				
	(previous year	13,724,146)				
public-sector loans		6,750,406				
	(previous year	7,415,296)				
secured by ship mortgages		8,449,084				
	(previous year	10,826,369)				
5. Debentures and other fixed-interest securities	**(8, 23-26, 28, 29, 37)**					
a) Money market instruments						
aa) from other issuers			69,694			103,413
				69,694		
b) Bonds and debentures						
ba) from public-sector issuers			8,048,790			6,298,975
thereof: eligible as collateral at the Deutsche Bundesbank		7,548,124				
	(previous year	5,700,697)				
bb) from other issuers			12,482,346			15,161,709
				20,531,136		
thereof: eligible as collateral at the Deutsche Bundesbank		7,569,536				
	(previous year	8,965,627)				
c) Own debentures				2,811,354		3,862,783
Nominal value		2,806,016			**23,412,184**	**25,426,880**
	(previous year	3,873,504)				
To be carried forward					**99,609,330**	**119,707,499**

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2013

Assets

€ k

	(Note)			31.12.2013	31.12.2012
	Carried forward			99,609,330	119,707,499
6. Shares and other non-fixed-interest securities	(8, 25, 28, 29, 30, 37)			336,543	372,205
6a. Trading portfolio	(9, 25, 27)			9,052,437	11,728,438
7. Equity holdings in non-affiliated companies	(14, 28, 37, 68)			163,401	169,483
thereof: in banks		45,342			
	(previous year	44,087)			
8. Interests in affiliated companies	(14, 28, 37, 68)			1,550,951	1,603,148
thereof: in banks		57,000			
	(previous year	65,500)			
in financial services institutions		181			
	(previous year	189)			
9. Trust assets	(31)			12,652	322,256
thereof: trust loans		11,662			
	(previous year	14,369)			
10. Intangible fixed assets	(15, 37)				
a) Industrial property rights acquired inhouse and similar rights and assets			4,160		3,425
b) Licences, industrial property rights and assets as well as licenses to use such rights and assets purchased			15,879		22,559
				20,039	25,984
11. Tangible fixed assets	(16, 37)			108,317	109,590
12. Other assets	(32)			394,851	530,861
13. Prepaid expenses	(5, 18, 33)			409,549	205,433
14. Deferred tax assets	(17, 34)			1,215,032	1,303,676
Total assets				112,873,102	136,078,573

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2013

Liabilities

€ k

	(Note)			31.12.2013	31.12.2012
1. Liabilities to banks	**(18, 38-41)**				
a) Payable on demand			1,126,172		1,078,750
b) With agreed maturities or notice periods			18,168,950		30,549,002
				19,295,122	**31,627,752**
2. Liabilities to customers	**(18, 39-41)**				
a) Savings deposits					
aa) with agreed notice period of three months		34,238			58,734
ab) with agreed notice period of more than three months		1,663			2,250
			35,901		60,984
b) Other liabilities					
ba) Payable on demand		10,934,413			9,081,255
bb) With agreed maturities or notice periods		32,213,314			34,812,261
			43,147,727		43,893,516
				43,183,628	**43,954,500**
3. Securitised liabilities	**(18, 40, 41, 71)**				
a) Debentures issued			29,279,414		32,468,105
b) Other securitised liabilities			101,778		521,327
thereof: money market instruments	101,778			**29,381,192**	**32,989,432**
	(previous year 506,172)				
3a. Trading portfolio	**(9, 42)**			**6,902,733**	**10,873,502**
4. Trust liabilities	**(43)**			**12,652**	**322,256**
thereof: trust loans	11,662				
	(previous year 14,369)				
5. Other liabilities	**(44)**			**1,738,932**	**2,225,534**
6. Deferred income	**(5, 18, 45)**			**204,557**	**225,473**
6a. Deferred tax liabilities	**(17, 46)**			**348,160**	**488,064**
7. Provisions	**(19)**				
a) Provisions for pensions and similar obligations			686,697		660,214
b) Tax provisions			183,178		92,393
c) Other provisions	**(47)**		610,383		893,951
				1,480,258	**1,646,558**
8. Subordinated debt	**(48)**			**4,079,242**	**4,180,774**
9. Profit participation capital	**(49)**			**31,737**	**35,571**
thereof: maturing in less than two years	16,314				
	(previous year 18,284)				
10. Funds for general banking risks	**(50)**			**1,409,216**	**2,032,075**
of which special items under Section 340e (4) HGB	29,523				
	(previous year -)				
To be carried forward				**108,067,429**	**130,601,491**

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2013

Liabilities

€ k

	(Note)			31.12.2013	31.12.2012
	Carried forward			**108,067,429**	**130,601,491**
11. Equity capital	**(51)**				
a) Subscribed capital					
aa) Share capital		3,018,225			3,018,225
ab) Silent participations		1,298,486			1,545,177
			4,316,711		4,563,402
b) Capital reserves			595,804		595,804
c) Retained earnings					
Other retained earnings		317,877	317,877		708,391
d) Accumulated loss			-424,719		-390,515
				4,805,673	5,477,082
Total liabilities				**112,873,102**	**136,078,573**
1. Contingent liabilities	**(63)**				
a) Liabilities from guarantee and indemnity agreements				**4,243,223**	**4,568,887**
2. Other commitments	**(63)**				
a) Irrevocable loan commitments				**7,067,520**	**5,025,942**

INCOME STATEMENT OF HSH NORDBANK AG

for the period of 1 January to 31 December 2013

€ k

	(Note)			31.12.2013	31.12.2012
1. Interest income from	**(52, 53)**				
a) lending and money market transactions		5,188,693			7,039,614
b) fixed-interest securities and book-entry securities		557,112			675,035
			5,745,805		7,714,649
2. Interest expenses			4,744,593		6,560,727
				1,001,212	**1,153,922**
3. Current income from	**(52)**				
a) shares and other non-fixed-interest securities			9,644		128,956
b) equity holdings in non-affiliated companies			12,051		14,602
c) interests in affiliated companies			67,936		103,459
				89,631	**247,017**
4. Income from profit pooling, profit transfer or partial profit transfer agreements	**(52)**			**12,699**	**30,896**
5. Commission income	**(52, 54)**		166,931		189,039
6. Commission expenses	**(54)**		488,771		386,761
				-321,840	**-197,722**
7. Net income/expenses from the trading portfolio	**(52)**			**265,682**	**-20,821**
8. Other operating income	**(52, 55)**			**221,453**	**676,294**
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		226,089			255,227
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		64,957			64,670
			291,046		319,897
thereof: for retirement pensions	29,716 (previous year 30,725)				
b) Other administrative expenses	**(56)**		352,882		328,418
				643,928	**648,315**
10. Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets				**16,448**	**18,652**
11. Other operating expenses	**(57)**			**189,176**	**340,310**
12. Depreciation and impairments on loans and advances and certain securities and additions to provisions in the lending business				**1,571,749**	**-**
13. Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business				**-**	**119,601**
To be carried forward				**-1,152,464**	**1,001,910**

INCOME STATEMENT OF HSH NORDBANK AG

for the period of 1 January to 31 December 2013

€ k

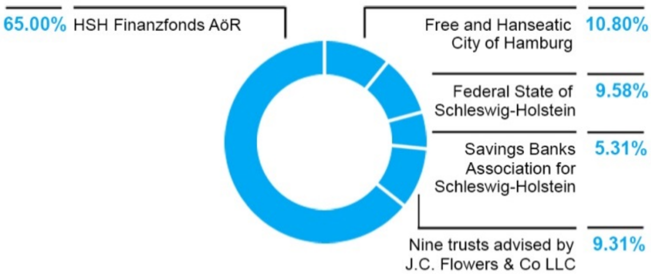
	(Note)			31.12.2013	31.12.2012
	Carried forward			**-1,152,464**	**1,001,910**
14. Additions to the fund for general banking risks				**-**	**980,382**
15. Reversal from the fund for general banking risks				**652,382**	**-**
16. Depreciation and impairments on equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets				**-**	**99,728**
17. Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets				**136,707**	**-**
18. Expenses from the transfer of losses				**23,445**	**60,287**
19. Profit on ordinary activities				**-386,820**	**-138,487**
20. Extraordinary income			19,421		9,080
21. Extraordinary expenses			71,995		53,281
22. Extraordinary result	**(58)**			**-52,574**	**-44,201**
23. Income tax expenses	**(59)**		142,415		363,269
24. Other taxes not shown under item 11			2,013		1,557
				144,428	**364,826**
25. Income from the assumption of losses	**(60)**			**159,103**	**156,999**
26. Annual net loss				**-424,719**	**-390,515**
27. Loss carried over from the previous year				**-390,515**	**-330,435**
28. Withdrawals from the capital reserve				**-**	**330,435**
29. Withdrawals from the retained earnings a) other retained earnings				**390,515**	**-**
30. Accumulated loss				**-424,719**	**-390,515**

NOTES FOR THE 2013 FINANCIAL YEAR

GENERAL INFORMATION AND NOTES

1. HSH Nordbank AG and its shareholders

HSH Nordbank AG, with its registered offices in Hamburg and Kiel, was established by the merger of the Hamburgische Landesbank – Girozentrale –, Hamburg, and the Landesbank Schleswig-Holstein Girozentrale, Kiel, on 2 June 2003. For accounting and tax purposes, the merger took effect retroactively as of 1 January 2003.



The following overview shows HSH Nordbank AG and its shareholders with their respective direct and indirect holdings of voting capital.

2. Provision of a guarantee facility

BASICS OF THE EFFECT OF THE SECOND LOSS GUARANTEE

On 2 June 2009, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee facility in the amount of € 10 billion via the HSH Finanzfonds AöR as the guarantor in order to secure the future of the Bank. This agreement on the provision of a guarantee facility as well as a related recapitalisation of the Bank are subject to approval by the European Commission in accordance with the law regarding state aid. The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on commitments with all the parties involved and imposed conditions. The conditions include a prohibition on the payment of dividends until the financial year 2014 (including the financial year ending on 31 December 2014). The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee 1 relates to non-structured financial instruments. Partial guarantee 2 relates to structured financial instruments, in particular those that are full or partial derivatives in nature and equity instruments. Both partial guarantees are reflected in the HGB single entity statements of HSH Nordbank AG in accordance with IDW AcPS BFA 1 and are financial instruments of the non-trading portfolio.

The guarantor guarantees actual rating-related defaults on financial instruments selected based on certain defined criteria that form part of the assets of HSH Nordbank AG.

The amount of default on a specific commitment is determined by the amount outstanding, taking into account the specific loan loss provision existing as at 31 March 2009. The amount outstanding is at the most the amount repayable as at 31 March 2009, plus all interest owed and other ancillary payments. Losses may only be allocated under the guarantee once the guarantee case has been examined and approved by the guarantor.

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee case for the full amount. HSH

Nordbank AG may reduce the guarantee down to € 4 billion between 1 January 2010 and the end of 2013 through partial cancellations of no more than € 3 billion per year. The guarantee may be cancelled in full from 2014 onwards.

In 2011 the guarantee was reduced by a total of € 3 billion to € 7 billion. The guarantee facility was replenished as at 30 June 2013 by € 3 billion to the original amount of € 10 billion. The guarantee agreement was adjusted by way of an appropriate amendment agreement. Under this agreement the fee provisions for the replenished guarantee remain essentially unchanged. However, a one-off payment of € 275 million for the re-increased amount becomes payable on the coming into force of the amendment agreement. Through this the guarantor is put in a position as if the guarantee had never been reduced. The one-off payment represents a fee for a time-related service and is amortised over the period of the expected benefit. In 2013 € 69 million has been recognised through profit or loss in the commission expense line item. The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process, which will probably be concluded in 2014.

In exchange for the guarantee HSH Nordbank AG pays a contractually agreed base premium of 4% p.a. on the guarantee volume outstanding at the time. Drawdowns do not reduce the calculation basis of the premium. The recurring base premium payable is recognised through profit or loss on an accrual basis in commission expense.

As long as and insofar as the cash drawdown of the guarantee is not yet made through the invoicing of losses that in total exceed the first loss piece of € 3.2 billion to be borne by the Bank, a claim for compensation against HSH Finanzfonds AöR cannot be recognised. Against this background the hedging effect of the guarantee recognised in the balance sheet is accounted for on a net basis. The Bank initially determines specific and general loan loss provisions without taking the hedging effect of the second loss guarantee into account and then records the balance sheet hedging effect on the face of the balance sheet through the use of a compensation item and deducts it from loans and advances to customers on the assets side. The individual valuation allowance and general loan loss provisions recognised are not changed by the accounting applied to hedging effect.

The compensation item is reduced by the additional premium imposed by the EU Commission in the amount of 3.85% p.a. This additional premium is only paid to HSH Finanzfonds AöR in the case of an actual drawdown of the guarantee. The additional premium is payable at the latest until 31 December 2019 and ceases to apply retroactively in the event that the guarantee is not drawn down. For the compensation item deduction the Bank calculates the additional premium (ex post) on the actual balance sheet hedging effect (compensation item). The additional premium also results in the recognition of a contingent liability in equity with a corresponding recourse claim against HSH Finanzfonds AöR, as the latter may only use the funds on an actual drawdown of the guarantee. The contingent liability resulting from this additional premium is calculated based on the outstanding guarantee facility not yet cancelled. This calculation has been performed since 1 April 2009.

If it is more likely than not that the guarantee will be drawn down, the premiums to be paid in the future also need to be recognised (on a present value basis) as loan collateral expense, as, according to the guarantee agreement, drawdowns do not reduce the basis for calculating the guarantee premiums. The future premiums result in a reduction of the compensation item as does the additional premium. The present value calculation gives rise to an interest effect, which is disclosed under net interest income.

Insofar as the obligation to pay the additional premium would have the effect of decreasing the Tier 1 capital ratio (both from an ex-post and ex-ante perspective) excluding hybrid capital (common equity ratio) of HSH Nordbank to below 10% (minimum common equity ratio) or of increasing an already existing shortfall, the guarantor is obliged to waive the portion of the entitlement that would result in the ratio falling below the minimum common equity ratio against the issue of a debtor warrant (so-called capital protection clause).

If, during the restructuring and workout programme, measures consistent with the guarantee are implemented in respect of hedged commitments that conflict with recognition of the hedging instrument in the financial statements as a financial guarantee under IAS 39.9, commitments may be transferred to the partial guarantee 2 under the framework agreement, subject to approval from the trustee appointed by the guarantor. The maximum guarantee amount is not altered by the revival of partial guarantee 2 and the respective partial amounts offset each other. The hedging effect of the partial guarantee 2 amounted to € 8.0 million as at 31 December 2013.

In 2011 HSH Nordbank AG was obliged to make a one-off payment through profit or loss in the amount of € 500 million to the guarantor of the second loss guarantee that had to be recovered by means of a contribution in kind. The Annual General Meeting in an extraordinary meeting held on 18 January 2012 resolved to increase capital by means of a mixture of cash and non-cash contributions. This increase became effective on the entry of the capital increase in the commercial registers on 20 February 2012.

ACCOUNTING IMPACT OF THE SECOND LOSS GUARANTEE IN THE 2013 FINANCIAL YEAR

The guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR which had a hedging effect for the first time as at 31 December 2010, amounted to € 4,147 million as at 31 December 2013 (previous year: € 2,903 million).

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion. Future expected fees (base and additional premium) for the second loss guarantee were recognised for the first time starting in the 2012 reporting year in loan loss provisions on the basis of this. These amounted to € 459 million at the end of the 2013 financial year and are offset against the compensation item. € 267 million is attributable to the future additional premium (ex-ante additional premium) and € 192 million to the future base premium (ex-ante base premium).

The common equity ratio has increased above the benchmark of 10% during the 2013 financial year with the effect that the amount of € 652 million resulting from the debt waiver recognised in 2012 under the compensation item was reversed again in 2013 through profit or loss in compensation items.

€ 4,147 million were initially offset in the loan loss provisions line item as at 31 December 2013. An additional premium of 3.85% p.a. was calculated on this amount for the period between 1 April 2009 to 31 December 2013 and an amount of € 770 million recognised as an expense in loan loss provisions (€ 345 million of which are attributable to the financial year 2013). In addition a claim for compensation of interest of € 7 million was determined. Future premiums of € 459 million (of which € 110 million is attributable to the 2013 financial year) were also determined. As settlement would be made on a net basis with HSH Finanzfonds AöR in the event of an actual drawdown of the guarantee, the compensation item and the attributable additional postings under the additional premium (ex-post and ex-ante), the claim for compensation of interest, the base premium (ex-ante) and the debt waiver are netted. After taking into account all components to be offset under the agreement the compensation item in the loan loss provisions on the balance sheet is € 2,911 million (previous year: € 2,778 million). The corresponding compensation effect in loan loss provisions in the income statement amounts to € 132 million (previous year: € 1,636 million).

Hedging effect of the guarantee on loan loss provisions

€ m	Balance sheet 31.12.2013	31.12.2012	Income statement 2013 Loan loss provisions	Net interest income	Income statement 2012 Loan loss provisions	Net interest income
Hedging effect before guarantee costs	4,147	2,903	1,244	-	1,620	-
Additional premium ex-post	-770	-425	-345	-	-287	-
Debt waiver	-	652	-649	-3	653	-1
Base and additional premium ex-ante	-459	-349	-118	8	-350	1
Claim for compensation of interest	-7	-3	-	-4	-	-3
Compensation under the second loss guarantee	**2,911**	**2,778**	**132**	**1**	**1,636**	**-3**

Since the 2009 reporting year the Bank has recorded premium expense totalling € 3,460 million for the provision of the second loss guarantee. € 2,328 million has been paid to date, of which € 1,553 million is attributable to the current base premium and € 775 million to one-off payments.

3. Deposit guarantee fund, guarantee obligation (Gewährträgerhaftung) and maintenance obligation (Anstaltslast)

HSH Nordbank is a member of the Landesbanken/ Girozentralen support fund, which falls under the support system of the German Savings Banks Finance Group. Within this system, the regional savings bank guarantee fund, the Landesbanken/Girozentralen support fund and the support fund of the Landesbausparkassen (cf. Note 65) are part of a joint liability scheme (Haftungsverbund). The support system ensures the on-going liquidity and solvency of all affiliated institutions.

The transitional agreement reached in the understanding with the EU Commission dated 17 July 2001 on the expiration of the maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) mechanisms on 18 July 2005 also applies to HSH Nordbank AG pursuant to Section 2 of the treaty signed by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on 4 February 2003 concerning the merger of the predecessor institutions. Liabilities entered into on or before 18 July 2001 are therefore covered by the guarantee obligation, regardless of there maturities. The guarantee obligation likewise covers liabilities created after this date but before 18 July 2005 if they do not mature after 31 December 2015.
As previous owner of Landesbank Schleswig-Holstein Girozentrale, Landesbank Baden-Württemberg, Stuttgart is liable within the scope of the guarantee obligation described above for the liabilities agreed upon prior to its withdrawal effective 23 May 2003 and transferred to HSH Nordbank AG by way of the merger. Westdeutsche Landesbank, Dusseldorf, and/or its legal successor are liable for liabilities entered into before the expiry of the guarantee obligation.

4. Accounting standards applied

We prepared the annual financial statements and the management report of HSH Nordbank AG as at 31 December 2013 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association - IDW.

ACCOUNTING AND VALUATION PRINCIPLES

Accounting and valuation are based on the assumption that the Bank is a going concern.
In this context it is particularly presumed that the EU Commission will now grant final clearance to the replenishment of the guarantee that provides capital relief and to the amendment of the guarantee agreement

following the preliminary approval given in June 2013 and that such clearance will only be tied to conditions that can be implemented within a sustainable corporate plan. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank AG's business model be preserved.

5. Loans and advances

We recognise loans and advances to banks and to customers (asset items 3 and 4) at their nominal value or at their cost of acquisition. Premiums or discounts are recorded under prepaid expenses or deferred income and amortised on a straight-line basis over the term of the loan or the fixed-interest period, whichever is shorter. Pro-rata interest is recognised on an accrual basis and disclosed in the corresponding loans and advances line items. We observe the strict lower-of-cost-or-market principle by rigorously applying our risk provisioning principles which are described below.

If, in the case of non-genuine securitisation transactions, loans and advances are not derecognised and the risk on such loans and advances remains fully with HSH Nordbank AG, any necessary loan loss provisions are recognised solely on our original loans and advance amounts.

6. Valuation allowances and provisions in the lending business (loan loss provisions)

In order to provide for possible loan losses, we make valuation allowances in accordance with the following principles. These adjustments are set off against the corresponding items in the balance sheet. For off-balance sheet business this is achieved by means of provisions. In order to ensure that our loan loss provisions cover all identifiable counterparty default and country risks, risk is determined in three steps:

Our loan exposures are monitored on an on-going basis. We make individual valuation allowances in the amount of the anticipated loss for all counterparty default risks identifiable when examined individually. We calculate the exposure at default from the carrying amount of loans and advances less the net present value of all payments still expected to be received. The expected incoming payments comprise in particular all expected interest and redemption payments as well as payments from the liquidation of collateral, with any liquidation costs taken into account.

In addition, we set up country-specific general loan loss provisions for exposures related to borrowers domiciled in countries rated as non-investment grade. The valuation allowance rates are scaled according to rating grades in 5% steps. Transactions in countries with a default rating (16-18) are 100% value-adjusted. In determining the basis for calculation, we take no account of any transactions of clients and banks in respect of which counterparty-related loan loss provisions have already been created. Similarly, other risk-mitigating factors (such as valuable collateral, for example) are taken into account.

Finally, we create general loan loss provisions in accordance with the German commercial law for the remaining loan exposures not accounted for in the first two steps, but still involving latent risks. The portfolio valuation allowances are determined on the basis of the regulatory calculation parameters under Basel II, i.e. probability of default (PD) and loss given default (LGD). The loss identification period factor (LIP) used in the calculation represents the interval between the occurrence of a loss event and its becoming known and serves to derive the losses that actually occurred from the expected loss.
We recognise general loan loss provisions for loans and advances, contingent liabilities and irrevocable loan commitments to customers. These general loan loss provisions are determined for tax purposes in accordance with the bulletin of the Federal Ministry of Finance dated 10 January 1994.

Provided the credit risk no longer exists or is reduced, all three types of loan loss provisions mentioned above are reversed accordingly. We thereby comply with the obligation to reverse impairments in accordance with tax law and with the provisions of the German Commercial Code.

If the Bank determines that a receivable must be classified as unrecoverable (in whole or in part), its derecognition is initiated.

Please refer to Note 2 for details on the hedging effect of the guarantee facility of HSH Finanzfonds AöR.

7. Determining fair value

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or, if this is not possible, on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model respectively).

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into. This is generally the case with regard to securities and derivatives traded on liquid markets.

The mark-to-matrix method is used to determine fair value where no market price is available under the mark-to-market method. Fair value is determined on the basis of prices prevailing at a point in time shortly before the valuation date. Alternatively, transaction prices may be used, i.e. prices from a recent, genuine transaction. If fair value cannot be determined from the market or transaction prices of the financial instrument, it is either derived from the prices of comparable financial instruments or a model valuation is carried out using parameters that are almost completely observable in the market. Alternatively, quality-assured market data from suitable price agencies or validated prices of market partners (arrangers) are used.

Fair value is determined by the mark-to-model valuation using a suitable model (e.g. option price model, discounted cash flow method, collateralized debt obligation model) if a valuation cannot be derived either of adequate quality or at all. Trading assets and liabilities are measured using mid-market rates.

Where valuation techniques and models are concerned, a distinction can be drawn between procedures based exclusively on observable market data or parameters that are non-observable only to an insignificant extent (mark-to-matrix) on the one hand and those based to a significant extent on non-observable parameters (mark-to-model) on the other hand. Observable market data is usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices). Valuation techniques and models based on non-observable market data, and which therefore require assumptions to be made with regard to these parameters, are usually necessary for structured securities – or more generally for securities whose markets are illiquid - and for complex OTC derivatives. Examples of non-observable parameters are correlations, volatilities and prepayment rates. In these cases a significant number of judgements have to be made with regard to the selection of both the model and the parameter estimates.

If the valuation technique or model used to determine the value of a derivative does not appropriately reflect modelling risks and credit or counterparty risk, the value is correspondingly adjusted by the Bank. The methods applied for this draw to some extent on non-observable market parameters in the form of estimates.

If the valuation of a financial instrument is based partly on non-observable parameters, the fair value determined is the best estimated value in accordance with a discretionary decision by the Bank. However, it remains subjective in that there may be alternative parameter selection options that cannot be refuted by observable market data.

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

A substantial proportion of securities held in the trading portfolio is valued using liquid market prices. If a current price from a liquid market is not available, interest-bearing securities are valued using the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

In a few cases, a fair value cannot be determined for securities disclosed under Shares and other non-fixed-interest securities on the assets side of the balance sheet (asset item 6). This applies to non-negotiable public limited companies, which means that no direct market prices or observable market data are available for use in a valuation model. As with Equity holdings in non-affiliated companies and Interests in affiliated companies (asset items 7 and 8), these items are measured at amortised cost and regularly tested for permanent impairment.

Exchange-traded derivatives are also valued using market prices. If no current price is available, recognised valuation models (such as the Black-Scholes model for European options) are used for the valuation that are based on estimates of non-observable parameters to an insignificant extent at most.

8. Securities

For valuation purposes, we divide our securities (asset items 5 and 6) not assigned to the trading portfolio in accordance with the provisions under German commercial law into an investment portfolio and a liquidity reserve, depending on the respective purpose.

Given that securities held in the investment portfolio are intended for long-term investment, we value a larger portion at the moderate lower-of–cost-or-market value. When impairments are considered to be temporary we recognise the corresponding securities at acquisition cost. Impairments are considered to be temporary if they are not considered indications of future disruptions in the servicing of interest and capital payments. This is the case, for example, where impairments are caused by changes in interest rates. We thus avoid reporting performance volatility, which would not be economically justified based on the short-term nature of the value fluctuations. As part of the risk provisioning process for securities, we have defined comprehensive criteria (“trigger events”) for identifying possible permanent impairments. These are identified on a quarterly basis. All securities under review including any cover assets/ underlyings are subjected to an analysis and a two-stage risk assessment process. Depending on the security’s asset class, this analysis includes additional indicators (e.g. external ratings, calculation of over-collateralisation for mezzanine tranches, cash flow analyses). As long as the analysis of an individual case does not confirm a trigger event in economic terms or no trigger event is identified, there is no permanent impairment. In the case of impairments expected to be permanent – usually caused by changes in the credit rating – we write down the security to the lower of the exchange price, market price or fair value.

We value the securities held in the liquidity reserve in accordance with the strict lower-of-cost-or-market principle. Accordingly, securities are stated at the lower of cost or exchange price, market price or fair value, irrespective of whether an impairment is permanent.

For the balance sheet treatment and the presentation of hedging relationships, please refer to our remarks under Note 12.

Interest resulting from the Bank’s own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on securities held in the investment portfolio are allocated to Net income from financial investments (item 14 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 12 in the income statement).

Dividends and other disbursements are reported under Current income from shares and other non-fixed-income securities.

During the financial year there were no reclassifications between the trading portfolio, liquidity reserve and/or the investment portfolio.

9. Financial instruments held in the trading portfolio

We include in the assets and liabilities held for trading (asset item 6a and liability item 3a) all financial instruments which we acquired or sold for purposes of realising a short-term proprietary trading profit. In addition to securities, this includes in particular derivative financial instruments as well as certain receivables (e.g. promissory notes) as well as liabilities arising from the short-selling of securities. Securities, receivables and derivatives with a positive fair value are disclosed under Trading portfolio (assets) (item 6a); derivatives with a negative fair value are disclosed under Trading portfolio (liabilities) (item 3a). The criteria for allocation to the Trading portfolio remained unchanged during the financial year.

We value all financial instruments held in the trading portfolio at fair value less a risk discount. Where no stock market or market prices are available for financial instruments, fair value is calculated on the basis of generally accepted valuation models (cf. also Note 7). In order to account for counterparty risks from derivatives held in the trading portfolio versus clients we have created counterparty default adjustments and have reduced the Trading portfolio (assets) accordingly.

The risk discount represents a potential loss (value at risk) determined by mathematical methods and is based on all positions held in HSH Nordbank AG's trading portfolio. The value at risk (VaR) is calculated in such a way that a potential loss on items held for trading will not be exceeded within a holding period of ten days with a confidence level of 99%. The observation period for the VaR is 250 trading days. The VaR discount is calculated taking into account correlations between the individual transactions in the Trading portfolio. In general, the risk discount is deducted from the assets held for trading. In those exceptional cases in which the liabilities held for trading are larger than the assets held for trading, a risk mark-up is instead disclosed under Trading portfolio (liabilities).

Income and expense (current income and expense, realised and unrealised valuation income and expense) from financial instruments held for trading are generally disclosed under Net income/expense from the trading portfolio. Current income and expense from securities, receivables and short sales are exempt from the foregoing. Consistent with HSH Nordbank AG's internal management, these are stated under Interest income, Interest expense respectively Current income from shares and other non-fixed-interest securities.

For every year in which HSH Nordbank AG reports Net income from the trading portfolio, we will state 10% of such net income under the special item "Funds for general banking risks" (liability item 10). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or as far as the item exceeds 50% of the average of the past five years net income in the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expense of the trading portfolio. € 30 million from the net result of the trading portfolio were added to the special item during the financial year just expired.

10. Derivative financial instruments

Derivate financial instruments are recognised and valued in accordance with the general rules of commercial law. Internal transactions and their accounting are required to comply with uniformly determined conditions. In particular the terms must be in line with market conditions.

Income and expenses from option contracts held in the non-trading portfolio are disclosed under Other operating income or Other operating expenses in accordance with the disclosure requirements of IDW AcPS BFA 6. Income and expenses from interest rate cap agreements are disclosed under Interest income or Interest expenses.

As at 31 December 2013, accounting for internal derivatives resulted in interest income in the amount of € 2,242 million (previous year: € 3,061 million) and interest expense in the amount of € 1,936 million (previous year: € 2,685 million), other operating income of € 13 million (previous year: € 78 million) and other operating expense of € 7 million (previous year: € 85 million). Reverse effects are reported in the Net income from the Trading portfolio.

Premiums paid or received on purchased or written options, which are not part of the trading portfolio, are disclosed under Other assets or Other liabilities. If necessary, we conduct write-offs or create provisions to comply with the lower-of-cost-or-market or the recognition-of-loss principle (imparity principle).

To the extent a margin system is used in the case of financial instruments, the initial margin payments are recognised as assets or liabilities. Variation margin payments relating to the trading portfolio are recognised for income purposes directly in trading portfolio net income or loss. Variation margins outside of the trading portfolio are recognised as assets or liabilities.

The amount, the time and the certainty of future cash flows from derivatives, and thereby their fair values, are uncertain. Major influencing factors are:

- future developments with regard to interest rates, exchange rates, market prices, commodity prices, credit indices and other market prices;
- the future volatility of such prices;
- the default risk of the respective counterparty.

11. Structured products

We account for structured products in accordance with the IDW AcPS HFA 22 interpretation. Structured products valued at fair value or in accordance with the strict lower-of-cost-or-market principle are not subject to separate accounting. Structured assets that are valued in accordance with the moderate lower-of-cost-or-market principle are subject to separate accounting with regard to the derivative components and the host instrument. As a matter of principle, the separated derivative components are included in valuation units (cf. also Note 12). Derivate components of equity-linked structured products however are valued individually under the recognition-of-loss principle (imparity principle).

12. Hedge accounting via valuation units

We account for hedging relationships with regard to which the clear assignment of hedged items to hedging instruments is documented in a comprehensible manner in risk management as valuation units within the meaning of Section 254 of the German Commercial Code (HGB) in accordance with the IDW AcPS HFA 35, in cases where the requirements for the application of Section 254 HGB are met. Hedged items included in valuation units are assets and liabilities in the form of receivables, securities, liabilities as well as derivative financial instruments. Hedging instruments are derivative financial instruments. All types of market risks may be hedged. However, by far the largest share of valuation units has the purpose of hedging interest rate risk. The clear assignment of the hedged item to the related hedging instrument, the determination of the risk hedged as well as the risk management strategy, information as to the prospective effectiveness and to the methods for determining effectiveness are documented for balance sheet hedging relationships. In addition, the intention to retain or the period of time for which the hedging relationship is to remain in place is included in the documentation. In principle, the intention is to maintain all hedging relationships for the full residual maturity of the hedged transaction. In individual cases, hedging relationships are designated only for a certain term of hedged items and/or hedging instruments.

We present not only micro hedges but also portfolio hedges as valuation units.

A micro hedging relationship is present where a certain risk from a single hedged item is hedged by a single hedging instrument. A portfolio hedging relationship is present where a certain risk from a portfolio of hedged items of the same type is hedged with multiple hedging instruments of the same type. In the case of micro valuation units, the combination into a related unit within the system is already required in the trading system upon the conclusion of the transaction. These are perfect hedging relationships where the value parameters are the same for the hedged portion of the hedged item and the hedging portion of the hedging instrument (e.g. currency, nominal amount, interest rate, interest due date, term). In the case the interest rate risk of a securities portfolio of the same type of fixed-interest securities is hedged by multiple interest swaps, this hedging relationship may be considered for purposes of forming a portfolio valuation unit. We create portfolio valuation units for the corresponding securities portfolios included in the liquidity reserve.

The depiction of hedging relationships accounted for as valuation units is made in two steps. In the first step, the changes in value to be attributed to the hedged risk from the hedged item and the hedging instruments are determined with regard to a valuation unit. We apply the so-called “net hedge presentation method.” Changes in value are neither recognised in the carrying amount of the hedged items/hedging instruments on the face of the balance sheet nor in the income statement. Any unrealised loss arising on the netting of such changes in value is recognised in the income statement in accordance with the imparity principle as a provision for contingent losses, which is disclosed on the balance sheet under Other provisions. Additions to loan loss provisions for liquidity reserve portfolios as well as additions to loss provisions in the lending business are disclosed in the income statement under Depreciation and impairments on loans (and advances) and certain securities and reversals of such provisions under Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business. Other holdings are disclosed under Other operating expenses. In the second step, the residual change in fair value of the hedged item and hedging instrument are determined on the basis of the individual transaction. This represents the change in fair value attributable to the non-hedged risks. This is separately accounted for in accordance with the imparity principle under general accounting standards. In the second step unrealised losses relating to the liquidity reserve are disclosed in the same manner as in the first step.

The prospective and retrospective effectiveness of a hedging relationship is substantiated and documented at least once a year at the time the annual financial statements are prepared. In the case of micro hedges, the prospective documentation of effectiveness is made on the basis of the critical-terms-match method. As part of this substantiation it needs to be shown that the value parameters of the hedged item and the hedging instruments to be allocated to the hedged risk match. If they match, it is to be presumed that changes in value attributable to the hedged risk will be offset over the entire residual maturity/the designated term of the transactions. In the case of portfolio hedges, prospective substantiation of effectiveness is accomplished by means of quantitative and maturity range-dependent sensitivity analyses in relation to the hedged risk. In the case of a corresponding offset of sensitivities of hedged items and hedging instruments in the relevant maturity ranges, it may be presumed that there will be a high degree of correlation between the changes in the value attributable to the hedged item and those attributable to the hedging instrument over the entire residual maturity of the transactions. The retrospective measurement of effectiveness is generally accomplished, not only for micro but also for portfolio hedges by mathematically determining the ratio of the cumulative changes in value on the part of the hedged item to be attributed to the hedged risk arising since the designation of the hedge to those of the hedging instruments.

Amount of hedged items and hedging instruments included in valuation units

The following table shows the carrying amount of assets and liabilities included in valuation units by balance sheet item. Derivative financial instruments included in valuation units are disclosed under the items Positive market value derivatives/Negative market values derivatives at their respective fair values.

Hedged items

€ k	31.12.2013 Micro valuation units	31.12.2013 Portfolio valuation units	31.12.2012 Micro valuation units	31.12.2012 Portfolio valuation units
Assets				
Loans and advances to banks	25,951	-	73,198	-
Loans and advances to customers	907,017	-	907,053	-
Debentures and other fixed-interest securities	1,881,906	10,922,642	2,048,540	9,483,015
Liabilities				
Liabilities to banks	213,272	-	243,827	-
Liabilities to customers	2,578,828	-	2,831,773	-
Securitised liabilities	2,943,175	-	3,226,076	-
Subordinated liabilities	-	-	-	-
Positive market values of derivatives	229,456	-	370,275	-
Negative market values of derivatives	654,018	-	654,017	-

Hedging instruments

€ k	31.12.2013 Micro valuation units	31.12.2013 Portfolio valuation units	31.12.2012 Micro valuation units	31.12.2012 Portfolio valuation units
Positive market values of derivatives	1,165,356	28,921	1,421,593	2,491
Negative market values of derivatives	1,137,106	562,971	1,578,389	792,260

In relation to the underlying nominal values, interest rate risk is being hedged in approximately 92% of the valuation units. The other risks largely involve currency and equity risks.

Amount of the risks hedged in valuation units

The following table shows the effective portion of the changes in value to be allocated to the hedged risks on a cumulative basis since the designation of the valuation unit.

Hedged items

	31.12.2013				31.12.2012			
	Micro valuation units		**Portfolio valuation units**		Micro valuation units		Portfolio valuation units	
€ k	**Positive change in value**	**Negative change in value**	**Positive change in value**	**Negative change in value**	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Loans and advances to banks	3,071	-	-	-	5,266	-	-	-
Loans and advances to customers	226,151	628	-	-	315,945	642	-	-
Debentures and other fixed-interest securities	501,205	-	200,961	-	674,737	-	500,490	-
Liabilities								
Liabilities to banks	99	10,189	-	-	200	12,594	-	-
Liabilities to customers	2,710	208,556	-	-	11	369,921	-	-
Securitised liabilities	16	64,041	-	-	15	145,207	-	-
Subordinated liabilities	-	-	-	-	-	-	-	-
Derivatives	129,178	80,049	-	-	188,748	106,102	-	-

Positive changes in value on the part of the hedged items are offset by corresponding negative changes in value on the part of the hedging instruments for which no provisions for contingent losses were created. Negative changes in value on the part of the hedged items are offset by corresponding positive changes in value on the part of the hedging transactions.

13. Accounting for interest-related financial instruments held in the banking book

We have performed the loss-free valuation of interest-related transactions in the banking book by means of a computation based on the present value approach in accordance with IDW AcPS BFA 3. We have included all balance sheet and off-balance sheet interest-related financial instruments that are not part of the trading book. The whole banking book was used as the net risk exposure for the purpose of the calculation – in line with the funding context. Within the framework of the calculation we have compared the carrying amount of balance sheet and off-balance sheet transactions in the banking book under commercial law with the interest-related net present values. We then deducted the risk costs and administrative costs determined on a present value basis from the amount of the net present values exceeding the carrying amounts.

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation no provisions needed to be created as at 31 December 2013.

Derivative financial instruments not allocated to the trading book and that are neither included in a valuation unit nor in the net risk exposure of the loss-free valuation and do also not fall under the specific cover, are valued individually under the recognition-of-loss principle.

14. Equity holdings in non-affiliated companies and interests in affiliated companies

We recognise equity holdings in non-affiliated companies and interests in affiliated companies at acquisition cost. In the case of impairments expected to be permanent – usually induced by changes in the credit rating – we write them down to the lower fair value.

15. Intangible fixed assets

We account for internally-developed and purchased software under intangible fixed assets. Internally developed software is recognised in the amount of the production costs incurred in its development. Production costs include expenses directly attributable to the development of the software (so-called development costs). Expenses which cannot be directly allocated to the development of the software (so-called research costs) are not included in production costs but rather are expensed against income for the year incurred. During the financial year, software development costs in the amount of € 2 million (previous year: € 1 million) and no research costs were incurred as in the previous year.

Purchased software is valued at acquisition cost.

Intangible fixed assets are subject to scheduled, straight-line depreciation, whereby we assume a useful life of five years for standard software. In the case impairments are expected to be permanent, we conduct exceptional write-downs. If the reasons for such write-downs no longer exist, we conduct reversals up to the maximum amount of the amortised acquisition or production cost.

16. Tangible fixed assets

Tangible fixed assets are recognised at acquisition cost. For depreciable assets, we calculate straight-line depreciation for the following periods of useful live:

Tangible fixed asset category	Useful life in years
Buildings	50
Leasehold improvements	The useful life is determined on the basis of the remaining period of the lease.
Plant and equipment	3 to 13
Leasing assets	Customary useful life
Low-value items (€ 150 to € 1,000)	5

In the case of tangible fixed assets we conduct extraordinary write-downs where it is likely that permanent impairment has occurred. If the reasons for the write-downs no longer exist, we conduct write-ups up to the maximum amount of the (amortised) acquisition or production costs.

Any acquisition cost subsequently incurred is capitalised and depreciated in line with the adjusted depreciation schedule. Expenses for the maintenance of tangible fixed assets are recognised as expenses in the appropriate accounting period.

Tangible fixed assets with a purchase price of up to € 150 are recognised as an expense in the year of acquisition in accordance with the applicable tax provisions.

17. Deferred taxes

Deferred taxes are calculated based on the different carrying amounts of assets and liabilities in the balance sheet drawn up for accounting and tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax expenses or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the realisation of the tax benefit from the losses carried forward is expected to occur within the next five years. The Overall Bank is subject to an overall tax rate of 31.68%. Deferred taxes are not discounted in accordance with the regulations. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6a).

At each reporting date HSH Nordbank AG makes an assessment as to whether the realisation of future tax benefits is sufficiently probable to recognise deferred tax assets. Amongst other things, this requires a management assessment of the tax benefits that arise from the existing tax strategies and future taxable income as well as the consideration of other positive and negative factors. The deferred tax assets disclosed could decrease, if the estimates of the planned taxable income and the tax benefits achievable under the existing tax strategies are revised downwards or if changes to current tax legislation restrict the timing and extent of the realizibility of future tax benefits.

18. Liabilities

We recognise liabilities at the amount repayable. Premiums and discounts are shown as deferred income or prepaid expenses, respectively, and are reversed over the term on a straight-line basis. We treat pro-rata interest on an accrual basis and report it in the corresponding liabilities line item.

19. Provisions

We value provisions at the expected call on the provisions in accordance with reasonable commercial judgment. Provisions with a residual maturity of more than one year are generally discounted on the basis of the average market rate determined and published by the Deutsche Bundesbank in accordance with the Regulation on the Determination and Disclosure of Discount Rates for Provisions (RückAbzinsV) which corresponds to the residual maturity. We report income and expenses from the discounting of provisions under the interest income/interest expense (see Note 53) including the income effect of changes in the discount rate applied.

Provisions for pensions and similar obligations are calculated by independent actuaries based on the projected-unit-credit method. For this purpose, the unmodified 2005 G mortality tables from Professor Klaus Heubeck are employed as the biometrical basis. The following assumptions were made in calculating pension liabilities:

	31.12.2013	31.12.2012
Salary growth	2.0%	2.0%
Personnel growth	0.5%	0.5%
Pension growth		
Employment contract 1/old pension provision rules	individual	individual
New pension provision rules	2.0%	2.0%
Employment contract 4	2.0%	2.0%
Staff turnover		
Age 30	6.0%	6.0%
Age 30–55	Linear decline to zero	Linear decline to zero
Age above 56	0.0%	0.0%
Retirement age	Pursuant to the 2007 AGAnpassG	Pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted using the applicable average market interest rate which results from the assumption of a residual maturity of 15 years. The discount rate applied as at the balance sheet date was 4.89% p.a. (previous year: 5.05% p.a.).

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets) are recognised at their fair value of € 7 million (previous year: € 6 million), which is also equivalent to the acquisition cost of the assets. Fund assets in the same amount have been offset against provisions for pensions and similar obligations. The amount required to meet the resultant liability was € 10 million as at 31 December 2013 (previous year: € 9 million). Please refer to Note 7 for information concerning the determination of fair value.

20. Currency translation

Currency translation is performed pursuant to Section 256a HGB in conjunction with Section 340h HGB as well as IDW AcPS BFA 4 of the expert banking committee (BFA) of the IDW.

Currency translation with regard to financial instruments included in the trading portfolio is an implicit part of the valuation of such transactions (see comments under Note 9).

Remaining assets, liabilities and pending transactions – including financial instruments that are not classified as held for trading – are translated at the average spot rate prevailing as at the balance sheet date. As forward exchange transactions serve to hedge interest-bearing positions, we divide the agreed-upon forward exchange rate into spot exchange rate and swap positions, and allocate the swap positions over the term of the transaction. The corresponding expense and income are reported in net interest income. Positive and negative spot exchange rate differences from pending transactions are netted within the same currency and reported under other assets or other liabilities.

To the extent the assets, liabilities and pending transactions are specifically hedged by other assets, liabilities or pending transactions, all expenses and income from currency translation are reported through profit and loss. All assets, liabilities and pending transactions in the same currency are in principle specifically hedged as the foreign exchange risk is managed via a currency position for each foreign currency, the individual currency items are transferred to the corresponding currency position and the amounts of positions or transactions in a foreign currency match. In addition, we also view matching foreign currency transactions which are not managed under a currency position as specifically hedged. If, in exceptional cases, there is no specific hedge (e.g. in case of assets with an acute default risk) and the residual term of the corresponding transactions is more than one year, valuation is made under the recognition-of-loss principle and unrealised income from the currency translation is only recognised to the extent the acquisition costs of assets are not exceeded or the settlement amount of liabilities is not undercut. In the case of residual terms of less than one year, we also recognise unrealised income in the case of corresponding transactions, if such income is not specifically hedged. Expenses and income from currency translation related to items not classified as held for trading are disclosed under other operating income/other operating expenses.

For financial statements of entities to be consolidated that have been prepared in a foreign currency, we translate the assets and liabilities at the corresponding mid-market rate of the ECB on the balance sheet date. Average rates for the reporting period are used to translate expenses and income.

21. Accounting treatment applied to the restructuring

Following the conclusion of the EU state aid proceedings in 2011 HSH Nordbank AG is legally obliged to implement the key points set out in the catalogue of conditions and commitments. If this has resulted in obligations or pending obligations for the Bank, from which the Bank cannot escape, a provision has been recognised in accordance with the regulations of Section 249 (1) Sentence 1 HGB in conjunction with Section 253 (1) Sentence 2 and Section 253 (2) HGB. The Bank discloses provisions for announced personnel measures as well as provisions for administrative cost measures under Other provisions.

As soon as an obligation becomes sufficiently certain or can be quantified – e.g. through the signing of agreements – it is reclassified to liabilities or provisions for pensions and similar obligations.

The resultant income and expense continues to be disclosed under the extraordinary income and expenses and is explained in detail there.

NOTES ON BALANCE SHEET ASSETS

22. Loans and advances to associated savings banks

Loans and advances to banks include loans and advances to associated savings banks in the following amounts:

€ k	**31.12.2013**	31.12.2012
Loans and advances to associated savings banks	405,024	561,255

23. Affiliated companies

The following balance sheet items include loans and advances to affiliated companies in the following amounts:

€ k	**31.12.2013**	31.12.2012
Loans and advances to banks	771,709	1,429,659
Loans and advances to customers	655,005	926,565
Debentures and other fixed-interest securities		
Bonds and debentures	146,335	330,603

24. Non-affiliated companies

Loans and advances to non-affiliated companies are included in the following balance sheet items:

€ k	**31.12.2013**	31.12.2012
Loans and advances to banks	2,897	2,551
Loans and advances to customers	775,348	580,072

25. Subordinated assets

Assets must be reported as subordinated if they can only be honoured after the claims of other creditors in the event of the liquidation or insolvency of the debtor. We disclose subordinated assets under the following balance sheet items:

€ k	**31.12.2013**	31.12.2012
Loans and advances to banks		
Other receivables	104,129	69,598
Loans and advances to customers	235,746	290,270
Debentures and other fixed-interest securities		
Bonds and debentures	254,177	408,016

26. Residual maturities

The balance sheet items listed below are classified by their residual maturities as follows:

€ k	31.12.2013	31.12.2012
Loans and advances to banks		
Other receivables		
Up to 3 months	592,170	3,144,808
Between 3 months and 1 year	812,213	245,119
Between 1 year and 5 years	641,451	1,610,952
More than 5 years	598,360	639,079
Loans and advances to customers		
Up to 3 months	12,754,690	14,523,046
Between 3 months and 1 year	9,106,238	11,394,125
Between 1 year and 5 years	28,623,535	32,989,889
More than 5 years	15,101,065	18,935,003
Debentures and other fixed-interest securities		
Due in the following year	2,189,384	3,229,392

27. Trading portfolio (assets)

The trading portfolio is comprised of the following:

€ k	31.12.2013	31.12.2012
Derivative financial instruments	6,519,937	10,845,559
Loans and advances	29,730	31,035
Debentures and other fixed-interest securities	2,502,221	844,871
Shares and other non-fixed-interest securities	4,200	5,176
Other assets	4,326	4,858
Risk discount	-7,977	-3,061
Total	**9,052,437**	11,728,438

28. Negotiable securities

€ k	Listed 31.12.2013	Listed 31.12.2012	Unlisted 31.12.2013	Unlisted 31.12.2012	Total 31.12.2013	Total 31.12.2012
Debentures and other fixed-interest securities	21,566,485	23,539,515	1,845,699	1,887,365	23,412,184	25,426,880
Shares and other non-fixed-interest securities	12,639	8,040	316,027	328,192	328,666	336,232
Equity holdings in non-affiliated companies	2,424	2,712	93,412	21,291	95,836	24,003
Interests in affiliated companies	-	-	32,700	41,200	32,700	41,200

29. Negotiable securities not valued using the lower-of-cost-or-market principle

€ k	31.12.2013	31.12.2012
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	8,055,603	9,841,000
Carrying amount of securities reported above their fair value	4,270,628	6,227,776
Market value of securities reported above their fair value	4,004,238	5,729,802
Unrealised losses	266,390	497,974
of which unrealised losses from securities which are not part of a valuation unit	261,121	457,302
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	312,879	344,831
Carrying amount of securities reported above their fair value	175,475	201,210
Market value of securities reported above their fair value	163,972	193,539
Unrealised losses	11,503	7,671

The unrealised losses stated above result from the difference between the market value and carrying amount without taking the effects from the valuation units into account. Any collateral or guarantees are similarly not taken into account in calculating the unrealised losses.

Unrealised losses relating to securities held in valuation units, which are not to be allocated to the hedged risk (resulting for the most part from the creditworthiness of the issuer), amounted to € 197 million as at 31 December 2013. The unhedged risk is not recorded as the valuation is based on the moderate lower-of-cost-or-market principle These also include unrealised losses on securities relating to the unhedged risk, which would show an unrealised loss without taking the valuation unit into account.

If there is not a permanent, but rather only a temporary impairment of securities to be expected, which generally is not induced by changes in the credit rating, a write-down to fair value is not undertaken (cf. Note 8).

Unrealised losses on securities which show only a temporary impairment are comprised of the following - broken down by reason (the difference between the carrying amount and fair value is shown for each respective group):

€ k	Securities rating	31.12.2013	31.12.2012
No “trigger events” have occurred		**94,313**	**146,297**
	Rating investment grade or better	78,921	142,954
	Rating lower than investment grade	15,392	3,343
“Trigger events” have occurred		**183,594**	**359,504**
	Rating investment grade or better	106,932	231,410
	Rating lower than investment grade	76,662	128,094
Total		**277,907**	**505,801**

A review of instruments with existing “trigger events” and a rating lower than investment grade did not identify any requirement to recognise impairment losses. These instruments mainly concern holdings of Spanish and Portuguese sub-sovereign instruments.

30. Investment assets

We provide information on investment assets with regard to which the Bank owns more than a 10% interest. The units are disclosed under the item Shares and other non-fixed-interest securities (asset item 6):

€ k Name of the fund	Investment objectives	Carrying amount	Unit value within the meaning of Section 36 InvG	Difference	Distributions in the financial year
RE-Fundmaster	Special funds (mixed assets)	14,813	13,337	-1,476	430

The units in the above-named special funds may be returned to the investment company on demand without limitation. Please see comments under Note 8 regarding the valuation of the units.

31. Trust assets

Trust assets are comprised of the following balance sheet items:

€ k	31.12.2013	31.12.2012
Loans and advances to banks	990	990
Loans and advances to customers	11,662	321,266
Total	**12,652**	**322,256**

32. Other assets

The major components of other assets are:

€ k	31.12.2013	31.12.2012
Adjustment item for currency translation	218,546	279,123
Receivables on fiscal authorities	59,075	103,226
Receivables from profit and loss transfer agreements and from dividends	34,141	57,487
Tenant loans	22,953	19,832
Premiums paid from options trading and from interest limitation agreements	17,297	21,898

33. Prepaid expenses

The major items disclosed here are:

€ k	31.12.2013	31.12.2012
Accrual of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee (cf. Note 2)	206,565	-
Discount accruals from issuing business	103,079	99,281
Prepaid expenses from interest rate swaps, swaptions and options	53,336	62,534
Premium accruals from claims	20,386	14,919
Discount accruals from liabilities	10,722	12,436

34. Deferred tax assets

Deferred tax assets reported for the financial year result from the following balance sheet items:

€ k	31.12.2013	31.12.2012
Assets		
Loans and advances to customers	998,898	635,554
Debentures and other fixed-interest securities	33,064	33,771
Trading portfolio	-	76,556
Equity holdings in non-affiliated companies	1,815	16,683
Interests in affiliated companies	67	16
Intangible fixed assets	892	-
Tangible fixed assets	12,659	8,972
Other assets	1,067	133,555
Deferred income	2,628	3,252
Liabilities		
Other liabilities	477	619
Deferred income	3,272	7,598
Provisions	160,193	231,704
Losses carried forward	-	155,396
Total	**1,215,032**	**1,303,676**

35. Genuine repurchase agreements

As a borrower under genuine repurchase agreements, we have sold assets with a carrying amount of € 2,961 million (previous year: € 5,849 million) and simultaneously contracted to repurchase the same assets. The assets continue to be carried on our balance sheet; the consideration received in return for the assets is reported under the corresponding liability items.

36. Assets transferred as collateral

In addition to assets sold under repurchase agreements (cf. Note 35) and the receivables serving as the cover pool for bonds issued (cf. Note 71), we have transferred further assets as collateral. These are mainly securities lodged as collateral for participation in stock exchanges and clearing organisations and with central banks and Eurex as collateral for refinancing.

€ k	31.12.2013	31.12.2012
Assets transferred as collateral, thereof for:	10,471,261	14,330,546
Liabilities to banks	6,433,555	9,814,603
Liabilities to customers	344,205	169,632
Trading portfolio (liabilities)	3,541,315	4,311,278
Contingent liabilities	152,186	35,033

37. Statement of changes in fixed assets

€ k	Historical cost of acquisition 01.01.2013	Additions[1] 2013	Disposals[1] 2013	Transfers 2013	Accumulated depreciation[1] 31.12.2013	Writeups/ Depreciation 2013	**Carrying amount 31.12.2013**	Carrying amount 31.12.2012
Securities	10,522,486	112,243	2,118,655	-	220,698	-70,647	8,295,376	10,177,492
Equity holdings in non-affiliated companies	339,413	75,294	128,804	-51	122,451	919	163,401	169,483
Interests in affiliated companies	2,390,678	7,515	169,407	51	677,886	17,330	1,550,951	1,603,148
Land and buildings	85,864	-	1,704	-	3,643	1,633	80,517	83,233
Plant and equipment	64,844	8,712	5,787	302	53,490	4,021	14,581	12,879
Assets under construction	1,005	-	549	-302	-	-	154	1,005
Leasing assets	23,719	-	1,081	-	9,573	725	13,065	12,473
Intangible fixed assets	171,400	4,203	9,744	-	145,820	10,068	20,039	25,984
Total	**13,599,409**	**207,967**	**2,435,731**	**-**	**1,233,561**	**-35,951**	**10,138,084**	**12,085,697**

[1] Including exchange rate changes for assets denominated in foreign currencies.

Real estate includes land and buildings used for the Bank's own business activities at a carrying amount of € 80 million (previous year: € 81 million).

NOTES ON BALANCE SHEET LIABILITIES

38. Liabilities to associated savings banks

Liabilities to banks include liabilities to associated savings banks in the following amounts:

€ k	**31.12.2013**	31.12.2012
Liabilities to associated savings banks	255,167	539,290

39. Affiliated companies

Liabilities to affiliated companies are included in the following balance sheet items:

€ k	**31.12.2013**	31.12.2012
Liabilities to banks	919,353	1,608,823
Liabilities to customers	2,714,378	3,157,608

40. Non-affiliated companies

Liabilities to non-affiliated companies are included in the following balance sheet items:

€ k	31.12.2013	31.12.2012
Liabilities to banks	2,028	1,161
Liabilities to customers	158,437	148,543

41. Residual maturities

The balance sheet items listed below are classified by their residual maturities as follows:

€ k	31.12.2013	31.12.2012
Liabilities to banks		
with agreed maturity or notice period		
Up to 3 months	2,183,664	11,513,945
Between 3 months and 1 year	4,845,440	4,530,110
Between 1 year and 5 years	9,579,142	12,672,146
More than 5 years	1,560,704	1,832,801
Liabilities to customers		
Savings deposits with agreed notice period of more than 3 months		
Between 3 months and 1 year	683	1,081
Between 1 year and 5 years	980	1,169
Other liabilities with agreed maturity or notice period		
Up to 3 months	10,751,164	12,483,506
Between 3 months and 1 year	4,507,472	4,346,967
Between 1 year and 5 years	9,221,703	9,910,768
More than 5 years	7,732,975	8,071,020
Securitised liabilities		
Debentures issued		
Due in the following year	6,205,678	7,922,337
Other securitised liabilities		
Up to 3 months	2,172	491,007
Between 3 months and 1 year	99,606	30,320

42. Trading portfolio (liabilities)

The trading portfolio is comprised of the following:

€ k	31.12.2013	31.12.2012
Derivative financial instruments	6,902,669	10,872,018
Liabilities	64	1,484
Total	**6,902,733**	**10,873,502**

43. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

€ k	31.12.2013	31.12.2012
Liabilities to banks	1,190	1,288
Liabilities to customers	11,462	320,968
Total	**12,652**	322,256

44. Other liabilities

The major components of this balance sheet item are the following:

€ k	31.12.2013	31.12.2012
Security deposits for assumption of debt	839,732	974,096
Pro rata interest on subordinated debt, profit participation rights and silent participations	328,451	334,305
Principal repayments received in advance	176,706	176,706
Adjustment item for currency valuation	143,423	391,235
Outstanding payments for the second loss guarantee	102,222	71,555
Premiums received from options trading and interest limitation agreements	15,194	37,387
Liabilities from profit and loss transfer agreements and dividends	588	60,615

45. Deferred income

The major components of deferred income are the following:

€ k	31.12.2013	31.12.2012
Deferred income from interest rate swaps, swaptions and options	70,236	79,297
Deferrals from advance loan fees	79,531	70,482
Discount deferrals from receivables	14,029	23,578
Premium deferrals from issuing business	10,032	12,277

46. Deferred tax liabilities

Deferred tax liabilities reported for the financial year result from the following balance sheet items:

€ k	31.12.2013	31.12.2012
Assets		
Loans and advances to customers	336,889	473,190
Equity holdings in non-affiliated companies	669	13,789
Intangible fixed assets	1,318	-
Tangible fixed assets	9,224	1,085
Other assets	53	-
Liabilities		
Provisions	7	-
Total	**348,160**	**488,064**

47. Other provisions

Other provisions primarily relate to the following items:

€ k	31.12.2013	31.12.2012
Provisions in the lending business	168,288	449,065
Provisions for restructuring measures	122,053	132,672
Provisions for securities trading and financial derivatives	91,196	74,391
Provisions for personnel expenses	57,002	60,401
Provisions for litigation risks and costs	46,972	82,015
Provisions for invoices outstanding	43,038	28,750
Provisions for interest on corporate tax and trade tax	35,059	28,045
Assumption of costs of associated companies and discretionary benefits in the customer business	15,187	14,238
Provisions for archiving costs	5,500	5,500

€ 77 million (previous year: € 87 million) of the provisions for restructuring measures relate to personnel expenses and € 45 million (previous year: € 46 million) to operating expenses.

48. Subordinated debt

Subordinated debt was issued in the form of promissory notes, registered or bearer bonds and is denominated in EUR, JPY and USD. The original maturities range from under 3 years to 40 years and the interest rates from 0.42% p.a. to 6.51% p.a.

Individual items exceeding 10% of total subordinated debt:

€ m	Currency	Interest rate	Maturity	Cancellation possibilities
430	EUR	3M-Euribor + 0.84%	14.02.2017	Issuer cancellation right[1]
498	EUR	3M-Euribor + 0.3%	14.02.2017	Issuer cancellation right[1]

[1] Initially until the expiry of the third TARGET business day before 14 February 2012, thereafter quarterly on 14 May, 14 August, 14 November and 14 February with a notice period of 3 TARGET business days in each case.

The terms and conditions for subordinated debt meet the requirements of Section 10 (5a) German Banking Act (KWG) for recognition as liable capital. Subordinated debt in the amount of € 2,039 million (previous year: € 109 million) will mature in less than two years.

Interest expense on subordinated debt amounted to € 90 million for the 2013 financial year (previous year: € 116 million).

49. Profit participation capital

The claims of profit participation certificate holders to repayment of capital are subordinate to other claims. The other terms and conditions of the profit participation capital are also such as to meet the requirements of Section 10 (5) of the German Banking Act (KWG) for recognition as liable capital. Profit participation capital in the amount of € 16 million (previous year: € 18 million) will mature in less than two years.

Registered profit participation certificates with a total nominal value of € 54 million have original maturities between 13 and 17 years and bear interest between 6.55% p.a. and 7.35% p.a. Payment of interest on the profit participation capital is tied to the distributable profits of HSH Nordbank AG. No current interest was payable for the 2013 financial year due to the net loss.

The profit participation rights bear a loss of € 4 million for the 2013 financial year.

50. Fund for general banking risks

The amounts transferred in the previous year to the fund for general banking risks under the debt waiver by HSH Finanzfonds AöR (cf. Note 2) of the additional premium of € 652 million were released again in the reporting year in connection with the increase in the common equity Tier 1 capital ratio to above 10% (capital protection clause) and the obligation to pay the additional premium, which is disclosed in the compensation item, was increased accordingly.
In addition € 30 million from the net income of the trading portfolio were added to the fund for general banking risks.

51. Equity capital

Pursuant to Section 25 (1) of the German Bank Accounting Regulation (RechKredV), subscribed capital consists of the share capital of HSH Nordbank AG and silent participations.

The share capital of HSH Nordbank AG amounts to € 3,018 million and is divided into 301,822,453 registered shares with a notional par value of € 10 per share. All the issued shares have been fully paid up.

As at the reporting date, HSH Finanzfonds AöR, Hamburg, was the largest shareholder with 65.00% of the voting rights. The voting rights held by the Free and Hanseatic City of Hamburg including the indirect share held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH amounted to 10.80%. The Federal State of Schleswig-Holstein holds voting rights of 9.58%. The share of voting rights held by the Sparkassen- und Giroverband für Schleswig-Holstein (Savings Bank Association for Schleswig-Holstein) equals 5.31%. As at 31 December 2013, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31% of the voting rights. The ownership structure has not changed compared to the previous year.

HSH Finanzfonds AöR, with its registered offices in Hamburg, has notified us in accordance with Section 20

(1) of the German Stock Corporation Act (AktG) that it directly owns more than one-quarter of the shares of HSH Nordbank AG, and at the same time owns a majority interest in accordance with Section 20 (4) AktG. The shares of HSH Nordbank AG held by Finanzfonds AöR are apportioned to the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in accordance with Section 16 (4) AktG. Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG.
Neither HSH Nordbank AG itself nor any affiliated or majority-owned company hold treasury stock of HSH Nordbank AG. There are no cross-shareholdings as defined by Section 19 AktG.

The terms and conditions for silent participations are such that they meet the requirements of Section 10 (4) German Banking Act (KWG) for recognition as Tier 1 capital. Among other things, the terms and conditions provide for the repayment of the silent participations as subordinate to other liabilities.

If a net loss is incurred for the current financial year, no distributions related to the silent participations can be made. In addition, these equity instruments must participate in the net loss for the year. For the 2013 financial year, the silent participations shared in the Bank's loss to the amount of € 155 million (previous year: € 153 million). The silent participations have been placed on the international capital markets (€ 937 million) as well as with the Bank's domestic institutional investors (€ 361 million).

NOTES ON THE INCOME STATEMENT

52. Breakdown of income items by geographical markets

€ k	Germany 2013	Rest of Europe 2013	Asia 2013	America 2013	Germany 2012	Rest of Europe 2012	Asia 2012	America 2012
Interest income	5,335,939	262,945	68,374	78,547	6,998,627	527,163	80,920	107,939
Current income from shares and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	80,377	7,269	-	1,985	235,287	11,730	-	-
Income from profit pooling, profit transfer or partial profit transfer agreements	12,699	-	-	-	30,896	-	-	-
Commission income	151,999	6,928	1,286	6,718	170,719	12,689	1,714	3,917
Net income from the trading portfolio	249,109	-	4,035	12,538	-38,887	4,768	-3,167	16,465
Other operating income	179,430	34,753	789	6,481	633,910	35,792	2,073	4,519

53. Net interest income

Net interest income includes € 34 million (previous year: € 43 million) of net interest expenses from the discounting/compounding of provisions.

Net interest income also includes one-time expenses from the disposal of promissory notes in the amount of € 27 million (previous year: € 22 million).

54. Net commission income

Net commission income is comprised of the following:

€ k	**2013**	2012
Lending business	63,112	74,112
Payment transactions and foreign business, documentary business	18,051	18,910
Securities business	1,221	-682
Guarantee business	-402,132	-286,452
Other	-2,092	-3,610
Total	**-321,840**	**-197,722**

Net commission income for the year ended 31 December 2013 includes expenses for the guarantee from HSH Finanzfonds AöR in the amount of € 414 million (previous year: € 284 million). Expenses of the previous year include € 18 million for the guarantee facility from the Financial Market Stabilisation Fund (SoFFin). This was repaid as scheduled in 2012.

55. Other operating income

In principal the following items are recognised as Other operating income in the course of the financial year:

€ k	**2013**	2012
Income from the reversal of other provisions	42,911	66,303
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	40,967	140,588
Income from legal disputes	34,693	7,268
Cost allocations and reimbursement of expenses	33,948	57,706
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 12)	24,599	61,222
Gains on the redemption of subordinated issues	-	261,172
Proceeds from the migration of an equity holding	-	27,661

56. Fees for work by the statutory auditors

As parent company, HSH Nordbank AG is included in the consolidated financial statements of HSH Nordbank AG. Accordingly, in accordance with Section 285 No. 17 of the German Commercial Code (HGB), the total fee paid to the statutory auditor is not disclosed here. Please refer to the corresponding notes in the consolidated financial statements.

57. Other operating expenses

Other operating expenses primarily include the following items:

€ k	**2013**	2012
Expenses from the creation of provisions for contingent losses from valuation units (cf. Note 12)	44,670	37,774
Interest expenses pursuant to Section 233 AO	39,059	53,382
Expenses from additions to other provisions	34,675	7,436
Expenses from the creation of provisions for litigation costs	21,096	14,688
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	13,878	167,146
Expenses for payment of damages	13,396	13,563
Expenses incurred in connection with the acquisition of buildings	-	34,377

58. Extraordinary result

The Extraordinary result includes restructuring expenses connected to the strategic realignment of the Bank in the amount of € 72 million (previous year: € 53 million). These were offset by income arising from the reversal of restructuring provisions. Please refer to Note 21 for information concerning the accounting treatment applied to the restructuring.

Income arising from the recognition of deferred tax assets of € 6 million is attributable to the restructuring provisions recorded in extraordinary expense in the reporting year and the related increase in the assessment basis for deferred tax assets.

59. Income taxes

Income tax expense comprises the following:

€ k	2013	2012
Deferred income taxes	-51,546	262,282
Deferred income taxes on temporary differences	-206,942	148,295
Deferred income taxes on loss carryforwards	155,396	113,987
Current income taxes	193,961	100,987
Total	**142,415**	**363,269**

The current income tax expense results primarily from the additions to provisions with regard to taxable loan loss provisions. Furthermore, deferred income tax assets on loss carryforwards were written down based on the Bank's performance.
The increase in current income tax expense for the 2013 financial year is offset by the recognition of deferred tax assets on temporary differences.

60. Income from the assumption of losses

Income from the assumption of losses resulted from participation in losses attributable to profit participation capital (€ 4 million, previous year: € 4 million) as well as from participation in losses attributable to Silent participations (€ 155 million, previous year: € 153 million).

61. Non-distributable amounts

A total of € 871 million (previous year: € 819 million) of the reserves available for distribution are barred from being distributed. Of this amount, € 3 million (previous year: € 2 million) relates to the recognition of internally generated intangible fixed assets less the deferred tax liabilities created in relation thereto. € 868 million (previous year: € 817 million) represents the amount by which the deferred tax assets recognised on the balance sheet exceed the other deferred tax liabilities.

OTHER NOTES

62. Leasing business

Assets relating to the leasing business include € 107 million (previous year: € 121 million) shown under Loans and advances to customers and € 13 million (previous year: € 12 million) shown under Tangible fixed assets. Liabilities from the leasing business amount to € 43 million (previous year: € 51 million) and are disclosed under Liabilities to customers.

63. Contingent liabilities and other commitments

Contractually agreed obligations the realisation of which is unlikely as at the reporting date constitute contingent liabilities. This item mainly contains financial guarantees provided in the course of our lending business which contain a legally possible call right and it is unlikely that they will be drawn upon. Irrevocable loan commitments are reported under Other commitments. Credit guarantees and irrevocable loan commitments are subject to the Bank's loan loss provisions process (cf. Note 6). As part of this process, the relevant commitments are continually monitored on the basis of certain criteria with respect to exposure to any acute default risk. In the event there are indications that the borrower's financial situation makes the full repayment of the loan unlikely and there is a threat of a call on the guarantee, the default risk is covered by the recognition of a provision. Provisions are additionally recognised for irrevocable credit commitments where a drawdown is likely and the borrower is not expected to repay the agreed loan amount, in full or in part, due to financial difficulties. Provisions are disclosed on the liability side of the balance sheet. Contingent liabilities or other commitments are reduced accordingly. To this extent, there is no acute credit risk for the Bank with regard to the contingent liabilities and other commitments disclosed on the balance sheet as at the reporting date. Based on the borrowers' credit rating, a drawdown of the contingent liabilities and other commitments disclosed is not likely as at the reporting date.

As was the case in the previous year, there are no placement or underwriting commitments as at 31 December 2013.

Please refer to Note 2 for more details.

64. Letters of comfort

Except in the case of political risk, HSH Nordbank AG ensures that its affiliated company HSH Nordbank Securities S.A., Luxembourg, is able to meet its obligations.

In addition, HSH Nordbank AG has undertaken – except in the case of political risk – to provide HSH N Residual Value Ltd., Hamilton, with sufficient funds to allow it to meet when due the obligations it entered into during the period when HSH Nordbank AG held an equity interest in HSH N Residual Value Ltd.

In connection with the transfer of employment contracts and the possible obligation to make severance payments in this regard to HSH Debt Advisory ApS and HSH Restructuring Advisory ApS, subsidiaries of HSH Nordbank AG located in Copenhagen, HSH Nordbank AG has stated that it will provide the companies with adequate funding to meet their assumed present and future obligations under the severance agreements at all times. This could result in a total maximum obligation of € 1 million.

65. Other financial obligations

The transactions listed below include payment obligations under pending contracts or on-going debts cthat cannot be recognised in the balance sheet as well as other financial obligations that could have a material effect on the future financial position of HSH Nordbank AG.

There are shareholder liabilities of € 15 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 20 million). These liabilities are due to affiliated companies.

There is an additional funding obligation not exceeding € 17 million (previous year: € 17 million) with respect to the equity interest held in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main.

The maximum funding obligation that would result from membership of the Haftungsverbund (joint liability scheme) of the Sparkassen-Finanzgruppe, if a case occurs where support is needed, is € 139 million (previous year: € 83 million). If the resources of the savings bank guarantee fund are insufficient for the financial rescue, the additional funding can be claimed immediately.

Further obligations in the amount of € 78 million (previous year € 87 million) result from long-term leases for land and buildings used for business purposes. Additional obligations amounting to € 212 million (previous year: € 74 million) result from leasing agreements for IT services.

Long-term rental agreements for office space result in annual obligations of approximately € 8 million (previous year: € 7 million).

Under a sale of an equity holding the Bank has undertaken to purchase fund units at the market price up to a nominal amount of € 44 million and to provide indemnities up to a maximum amount of € 62 million.

As part of its former guarantor function the Bank also has a general liability towards Deka Bank Deutsche Girozentrale together with other former shareholders.

There are no material other financial obligations apart from those listed above.

66. Other financial obligations due to the bank levy (Bankenabgabe)

The German Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung) provides for retrospective charges with respect to the so-called bank levy (Bankenabgabe). Here the difference between the actual bank levy (minimum amount) and the standard amount calculated for the contribution years 2011 through to 2019 can be charged subsequently within a period of two years. The obligation to pay the amount charged subsequently only comes into effect once profits in subsequent financial years are generated up to a level stipulated as reasonable in the Restructuring Fund Regulation. The obligation to pay and the amount of the additional charge is therefore dependent on generating profits in subsequent years.

67. Other transactions necessary for an assessment of the Bank's financial situation

As a supplemental measure to provide protection against risks, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee in the amount of € 10 billion via HSH Finanzfonds AöR. The guarantee takes effect as soon as risks in defined portfolios exceed the Bank's agreed first loss piece of € 3.2 billion (cf. Note 2).

68. Notes on shareholdings

The following list contains information on the companies in which HSH Nordbank AG holds at least a 20% interest either directly or indirectly:

AFFILIATED COMPANIES - FOREIGN BANKS

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
1	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	163,692,771.81	10,054,425.22

AFFILIATED COMPANIES - OTHER DOMESTIC COMPANIES

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
2	Arbutus GmbH, Hamburg	100.00	100.00	EUR	32,224.21	636.54
3	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	2,686,645.36	99,760.46
4	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	15,464.88	-940.20
5	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	6,735.19	-5,060.74
6	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	6,682.35	-5,067.09
7	Capcellence Private Equity Beteiligungen GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	120,682,090.35	103,047,453.21
8	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.91	EUR	1,200.00	71,989,283.52
9	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.99	EUR	-76,610.33	9,114,964.40
10	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.90	EUR	4,515.68	1,186,242.30
11	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.97	EUR	4,546.76	1,095,564.49
12	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.99	EUR	15,947,205.34	2,058,595.39
13	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.95	EUR	19,793.45	-736,291.82
14	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH, Hamburg [1)]	100.00	100.00	EUR	17,261.77	-7,738.23
15	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.47	EUR	[6)]	[6)]
16	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	6,757.84	-5,061.24
17	CHIOS GmbH, Hamburg	100.00	100.00	EUR	25,554.73	-14,144.89
18	DMS Beteiligungs GmbH, Radolfzell [1)]	100.00	100.00	EUR	-2,107,647.63	-5,454,469.70
19	DMS Dynamic Micro Systems Semiconductor Equipment GmbH, Radolfzell [1) 3)]	100.00	100.00	EUR	1,135,632.70	-4,199,863.55
20	Feronia GmbH, Hamburg	100.00	100.00	EUR	4,186,021.88	1,356,651.36
21	GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg	100.00	100.00	EUR	85,466.63	-20,997.10
22	GODAN GmbH, Hamburg	100.00	100.00	EUR	-923,548.78	-27,882.52
23	Grundstücksentwicklungsgesellschaft Gartenstadt Wismar mbH & Co. KG, Hamburg	100.00	100.00	EUR	738,918.85	40,796.27
24	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	-2,051,051.57	-103,529.67
25	Hamburgische Betriebsverwaltungs-Gesellschaft am Gerhart-Hauptmann-Platz m.b.H., Hamburg	100.00	100.00	EUR	307,385.36	-6,958.31

AFFILIATED COMPANIES - OTHER DOMESTIC COMPANIES (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Cur-rency Code	Equity capital in respective currency	Income/loss in respective currency
26	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekt London St. Georges House i L., Hamburg [1]	62.42	61.22	EUR	239,710.17	5,442.63
27	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	7,977,038.85	-541,740.72
28	HSH Care+Clean GmbH, Hamburg [1) 4)]	51.00	51.00	EUR	25,000.00	71,289.72
29	HSH Corporate Finance GmbH, Hamburg [2)]	100.00	100.00	EUR	8,337,269.85	-2,595,664.81
30	HSH Facility Management GmbH, Hamburg [2)]	100.00	100.00	EUR	205,600.00	-2,060,791.95
31	HSH Gastro+Event GmbH, Hamburg [1) 4)]	100.00	100.00	EUR	25,000.00	-686,189.90
32	HSH Kunden- und Kontenservice GmbH, Hamburg [2)]	100.00	100.00	EUR	25,000.00	3,065.86
33	HSH Move+More GmbH, Kiel [1) 4)]	51.00	51.00	EUR	25,000.00	72,579.84
34	HSH Private Equity GmbH, Hamburg [2)]	100.00	100.00	EUR	550,000.00	30,850,738.53
35	HSH Security GmbH, Kiel [2)]	100.00	100.00	EUR	50,000.00	-631,613.46
36	Kontora Family Office GmbH, Hamburg	75.02	75.02	EUR	936,632.06	111,747.76
37	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart [1) 11)]	80.00	0.00	EUR	-401,442.03	-39,589.53
38	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	15,386.45	1,648.95
39	PLUTON Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	94.00	50.00	EUR	-6,257,831.06	237,401.35
40	RELAT Beteiligungs GmbH & Co. Vermietungs-KG, Pullach i. Isartal	94.00	55.29	EUR	-463,879.38	201,838.18
41	Teukros GmbH, Hamburg	100.00	100.00	EUR	-2,618,200.56	-845,626.67
42	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	1,387,057.65	35,326.66
43	Verwaltungsgesellschaft Gartenstadt Wismar mbH, Hamburg	100.00	100.00	EUR	41,248.06	2,177.20

AFFILIATED COMPANIES - OTHER FOREIGN COMPANIES

Serial No.	Name/Place	Share	Voting rights	Cur-rency Code	Equity capital in respective currency	Income/loss in respective currency
44	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	31,063,641.00	-2,733,514.00
45	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland	99.60	99.60	USD	38,416,201.00	1,861,684.00
46	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong [1)]	51.00	51.00	USD	115.00	-13.00
47	Avia Management S.à.r.l. (former: Amentum Lux S.à.r.l), Luxembourg, Luxembourg	100.00	100.00	EUR	-57,909.50	21,395.78
48	Aviation Leasing OpCo France III, Paris, France [1)]	100.00	100.00	EUR	-27,426.00	-34,205.00
49	Aviation Leasing OpCo France IV, Paris, France [1)]	100.00	100.00	EUR	21,848.00	13,446.00
50	Bach Holdings LLC, Wilmington, USA	100.00	100.00	USD	439,272.00	0.00
51	DEERS Green Power Development Company, S.L., Zaragoza, Spain [1)]	99.00	99.00	EUR	-33,037,134.00	-5,281,007.00
52	DMS DYNAMIC MICRO SYSTEMS USA CORP., Wilmington, USA [1)]	100.00	100.00	USD	[8)]	[8)]
53	Dynamic Micro Systems (Shanghai) Trading Co., Ltd., Shanghai, China [1)]	100.00	100.00	CNY	-352,555.05	-818,168.31

AFFILIATED COMPANIES - OTHER FOREIGN COMPANIES (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
54	DYNAMIC MICRO SYSTEMS (SINGAPORE) PTE. LTD., Singapore, Singapore [1]	100.00	100.00	SGD	-22,008.82	-102,008.82
55	Dynamic Microsystems LLC, Phoenix, USA [1]	100.00	100.00	USD	34,698.00	-63,384.00
56	European Capital Investment Opportunities Limited, St. Helier, Jersey [1]	51.00	51.00	EUR	84.00	2.00
57	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	88,676.00	-1,170.00
58	HSH Debt Advisory ApS, Copenhagen, Denmark	100.00	100.00	DKK	4,760,385.00	2,468,376.00
59	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	448,811.00	-16,199.00
60	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	3,806,438.92	-367,055.17
61	HSH N Funding I, George Town, Cayman Islands	66.32	100.00	EUR	1,003,617,222.00	37,081,131.00
62	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	654,305,988.00	36,311,782.00
63	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,900,495.63	-126,540.98
64	HSH N Structured Situations Limited, St. Helier, Jersey [10]	100.00	100.00	USD	351,241.00	10,805.00
65	HSH Restructuring Advisory ApS, Copenhagen, Denmark	100.00	100.00	DKK	2,531,819.00	1,724,443.00
66	ISM Agency LLC, New York, USA	100.00	100.00		[8]	[8]
67	ISP Angered Development 1 AB, Stockholm, Sweden	100.00	100.00	SEK	-6,707.00	-99,107.00
68	ISP Angered Development 2 AB, Stockholm, Sweden	100.00	100.00	SEK	[8]	[8]
69	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	13,311.83	0.00
70	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	0,00
71	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s., Luxembourg, Luxembourg [5]	100.00	100.00	USD	-71,831,477.33	-16,627,548.72
72	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	0.00
73	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg [1]	49.00	49.00	EUR	-1,893,923.00	-1,047,608.00
74	Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg [1]	49.00	49.00	EUR	-1,829,224.00	-1,428,333.00
75	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[8]	[8]
76	Solar Holdings S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-8,616,874.04	-690,551.08
77	Sotis S.à.r.l., Luxembourg, Luxembourg [1]	100.00	100.00	EUR	61,868.16	22,231.96

SHARE OF 20% OR MORE

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
78	4Wheels Management GmbH, Dusseldorf [1]	68.75	40.00	EUR	14,156,425.84	13,784.43
79	Aeolis Wind Power Corporation, Sidney BC, Canada [1]	31.64	31.64	CAD	27,949,746.00	-1,814,531.00
80	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland [1]	49.00	49.00	USD	-4,269,606.00	-111,884.00
81	Amentum Aircraft Leasing No. Eleven Limited, Dublin, Ireland [1]	49.00	49.00	USD	2,145,748.00	830,350.00
82	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland [1]	49.00	49.00	USD	-10,053,596.00	-857,718.00
83	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland [1]	49.00	49.00	USD	367,419.00	1,125,765.00
84	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland [1]	49.00	49.00	USD	-9,668,807.00	-309,693.00

SHARE OF 20% OR MORE (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
85	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland [1]	49.00	49.00	USD	-2,471,294.00	-1,237,171.00
86	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland [1]	49.00	49.00	USD	-13,491,207.00	-320,127.00
87	Amentum Aircraft Leasing No. Two Limited, Dublin, Ireland [1]	49.00	49.00	USD	-1,755,369.00	-1,872,366.00
88	BC Wind Power Corporation, Sidney BC, Canada [1]	20.92	20.92	CAD	-123,753.00	-6,714.00
89	Belgravia Shipping Ltd., London, Great Britain [1]	33.33	33.33	USD	54,275,000.00	-49,000.00
90	BRINKHOF Holding Deutschland GmbH, Erfurt [1]	100.00	0.00	EUR	[7]	[7]
91	CAPCELLENCE Mittelstandspartner GmbH, Hamburg	25.00	25.00	EUR	1,724,258.44	4,487,936.51
92	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	33.33	EUR	1,200.00	32,563,512.58
93	Fosse Way Shipping Limited, London, Great Britain [9] [13]	58.85	58.85	EUR	-20,157,791.00	-7,378,507.00
94	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,285,959.98	194,812.23
95	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden [1]	50.00	50.00	EUR	-1,124,152.76	41,546.06
96	KAIACA LLC, New York, USA [1] [13]	55.30	55.30	EUR	[8]	[8]
97	LAGAN Viking Limited, Hong Kong, Hong Kong [9] [13]	58.85	58.85	EUR	-16,703,329.00	-5,450,042.00
98	Mersey Viking Limited, Hong Kong, Hong Kong [9] [13]	58.85	58.85	EUR	-16,064,914.00	-5,491,872.00
99	NOBIS Asset Management S.A., Luxembourg, Luxembourg [1]	41.24	41.24	EUR	10,555,214.12	4,348,499.46
100	PRIME 2006-1 Funding Limited Partnership, St. Helier, Jersey	47.50	0.00	EUR	-12,122,209.00	-12,214,599.00
101	Railpool GmbH, Munich	50.00	50.00	EUR	2,021,309.04	548,336.65
102	Railpool Holding GmbH & Co. KG, Munich	50.00	50.00	EUR	43,620,600.03	492,381.55
103	Regional Jet Leasing 3 C.V., KJ's-Gravenhage, Netherlands [12]	53.33	53.60	USD	-581,309.00	19,728.00
104	Relacom Management AB, Stockholm, Sweden	21.17	21.17	SEK	1,040,924,000.00	-1,669,869,000.00
105	SITUS NORDIC SERVICES ApS, Copenhagen, Denmark	40.00	40.00	DKK	1,788,516.00	-1,236,806.00
106	SLK GmbH für Immobilien-Leasing & Co. KG Objekt Berlin Pohlstraße, Pöcking	94.00	40.00	EUR	-1,311,517.87	766,893.51
107	Watling Street Shipping Limited, London, Great Britain [9] [13]	58.85	58.85	EUR	-35,500,396.00	-9,944,435.00
108	Wohn- und Gewerbefonds "Joseph Haydn Residenz" Dresden-Striesen GbR, Munich [1]	20.37	20.37	EUR	0.00	25,462.12

[1] Indirect holding.
[2] A profit transfer agreement with the company is in place.
[3] There is a profit transfer agreement with DMS Beteiligungs GmbH.
[4] There is a profit transfer agreement with HSH Facility Management GmbH.
[5] Both direct and indirect holdings.
[6] No information available due to newly established company.
[7] No information available due to insolvency of the company.
[8] No data available.
[9] The data are based on the 2011 annual financial statements. The 2012 annual financial statements are not available yet. However, it may be assumed that the figures will be significantly reduced as a result of the sale in 2012 of the only appreciable asset.
[10] Only data as at 31 December 2010 is available.
[11] Only data as at 31 December 2011 is available.
[12] Joint control was explicitly agreed by contract, therefore the company is not an affiliated company despite a majority of voting rights.
[13] This is not an affiliated company due to the requirement for a qualified majority of voting rights for important decisions.

Foreign exchange rates for € 1 as at 31 December 2013

China	CNY	8.3491
Denmark	DKK	7.4593
Canada	CAD	1.4671
Sweden	SEK	8.8591
Singapore	SGD	1.7414
USA	USD	1.3791

HSH Nordbank AG is a partner with unlimited liability in the following companies:

Name and registered office
GLB GmbH & Co. OHG, Frankfurt am Main
Gesellschaft bürgerlichen Rechts der Altgesellschafter der Deutschen Leasing AG, Bad Homburg v.d.H
AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland

There are no equity holdings exceeding five per cent of the voting rights in large corporations.

69. Notes on foreign currencies

The amounts of assets and liabilities denominated in foreign currencies as at the reporting date are as follows:

€ k	**31.12.2013**	31.12.2012
Assets	40,974,832	50,466,050
Liabilities	14,773,969	21,972,834

70. Derivatives business

The following section presents the business conducted by HSH Nordbank AG in the area of derivative financial instruments (forward transactions within the meaning of Section 36 RechKredV) as at the reporting date.

Transactions held in the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following overview of the non-trading portfolio does not include derivatives that are components of accounting valuation units.

The following tables show, in addition to the nominal amounts of the contracts with counterparties outside of HSH Nordbank AG, the term structure and counterparty classification, broken down into interest rate risk, interest rate and foreign exchange risks, foreign exchange risks and other price risks. In addition, the following tables contain information on non-concluded foreign currency related, interest-dependent and other forward transactions as defined under Section 36 RechKredV.

Presentation of volumes and market values

Trading portfolio

€ m	Nominal values 31.12.2013	Nominal values 31.12.2012	Positive market values 31.12.2013	Positive market values 31.12.2012	Negative market values 31.12.2013	Negative market values 31.12.2012
Interest rate swaps	211,435	232,982	5,593	9,498	5,065	8,381
FRA	881	2,088	-	-	-	-
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	2,882	1,175	81	113	4	2
Short positions	3,716	2,001	9	5	152	240
Caps, floors	9,007	10,313	104	151	75	111
Exchange-traded contracts	1,504	384	-	-	-	-
Other forward interest rate transactions	397	411	22	18	32	29
Interest rate risks	**229,822**	**249,354**	**5,809**	**9,785**	**5,328**	**8,763**
Interest rate/currency swaps	25,661	27,285	330	613	62	85
Interest rate and foreign exchange risks	**25,661**	**27,285**	**330**	**613**	**62**	**85**
Forward exchange transactions	2,545	3,619	57	67	44	41
Currency options						
Long positions	647	515	20	12	-	-
Short positions	620	677	-	-	35	43
Foreign exchange risks	**3,812**	**4,811**	**77**	**79**	**79**	**84**
Equity options						
Long positions	88	163	78	32	-	1
Short positions	91	153	-	-	78	32
Forward equity transactions	-	-	-	-	-	-
Exchange-traded contracts	-	2	-	-	-	-
Equity/index-based swaps	-	-	-	-	-	-
Commodity-based transactions	743	1,139	34	32	50	29
Equity and other price risks	**922**	**1,457**	**112**	**64**	**128**	**62**
Collateral provider	23	41	-	-	-	-
Collateral taker	143	173	18	17	-	-
Credit derivatives	**166**	**214**	**18**	**17**	**-**	**-**
Structured products	**3,492**	**3,690**	**174**	**288**	**131**	**164**
Total	**263,875**	**286,811**	**6,520**	**10,846**	**5,728**	**9,158**

Presentation of volumes and market values

Non-trading portfolio

€ m	Nominal values 31.12.2013	Nominal values 31.12.2012	Positive market values 31.12.2013	Positive market values 31.12.2012	Negative market values 31.12.2013	Negative market values 31.12.2012
Interest rate swaps	8,179	12,835	361	636	878	1,741
FRA	-	-	-	-	-	-
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	-	-	-	-	-	-
Short positions	-	-	-	-	-	-
Caps, floors	121	274	2	3	-	-
Exchange-traded contracts	-	-	-	-	-	-
Other forward interest rate transactions	26	2,890	-	-	-	-
Interest rate risks	**8,326**	**15,999**	**363**	**639**	**878**	**1,741**
Interest rate/currency swaps	1,475	1,779	126	133	126	220
Interest rate and foreign exchange risks	**1,475**	**1,779**	**126**	**133**	**126**	**220**
Forward exchange transactions	7,695	8,027	46	121	15	13
Currency options						
Long positions	74	137	19	32	-	-
Short positions	113	188	-	-	28	58
Foreign exchange risks	**7,882**	**8,352**	**65**	**153**	**43**	**71**
Equity options						
Long positions	5	11	1	-	-	-
Short positions	-	1	-	-	-	-
Equity/index-based swaps	-	-	-	-	-	-
Commodity-based transactions	27	-	-	-	-	-
Equity and other price risks	**32**	**12**	**1**	-	-	-
Collateral provider	50	50	-	-	1	1
Collateral taker	443	435	2	9	-	-
Credit derivatives	**493**	**485**	**2**	**9**	**1**	**1**
Structured products	**1,177**	**1,239**	**40**	**67**	**156**	**202**
Total	**19,385**	**27,866**	**597**	**1,001**	**1,204**	**2,235**

Breakdown by maturity

Trading and non-trading portfolio Nominal values as at 31.12.

€ m	Interest rate risks 2013	Interest rate risks 2012	Credit risks 2013	Credit risks 2012	Foreign exchange risks 2013	Foreign exchange risks 2012	Equity and other price risks 2013	Equity and other price risks 2012	Structured products 2013	Structured products 2012
Residual maturity										
Up to 3 months	26,126	19,209	-	26	9,457	10,466	280	225	190	107
Up to 1 year	33,860	39,005	-	10	1,521	1,782	421	720	300	275
Up to 5 years	147,718	156,751	395	396	642	842	248	503	1,560	1,969
Over 5 years	57,580	79,452	264	267	74	73	5	21	2,619	2,578
Total	**265,284**	**294,417**	**659**	**699**	**11,694**	**13,163**	**954**	**1,469**	**4,669**	**4,929**

Breakdown by counterparty

Trading and non-trading portfolio

€ m	Nominal values 31.12.2013	Nominal values 31.12.2012	Positive market values 31.12.2013	Positive market values 31.12.2012	Negative market values 31.12.2013	Negative market values 31.12.2012
OECD banks	210,828	245,793	4,130	7,056	5,942	9,907
Non-OECD banks	201	341	9	27	-	-
Non-banks (incl. stock exchanges)	65,129	62,655	2,835	4,546	677	1,072
Public authorities	7,102	5,888	143	218	313	414
Total	**283,260**	**314,677**	**7,117**	**11,847**	**6,932**	**11,393**

Carrying amounts of derivative financial instruments held in the non-trading portfolio

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where HSH Nordbank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the creation of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As of 31 December 2013, the net amount of reconciliation items shown under Other assets amounted to € 219 million (previous year: € 279 million) and the reconciliation items shown under Other liabilities amounted to € 143 million (previous year: € 391 million).

€ m	Option premiums paid 31.12.2013	31.12.2012	Option premiums received 31.12.2013	31.12.2012
Interest rate contracts	2	3	2	3
Currency contracts	11	12	13	34
Equity and other contracts	4	7	-	-
Total	17	**22**	**15**	**37**

We have created provisions for contingent losses in the amount of € 19 million (previous year: € 6 million) for derivative financial instruments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown.

71. Information in accordance with Section 28 of the Mortgage Bond Act (Pfandbriefgesetz)

The total amount of mortgage bonds, public-sector bonds and ship mortgage bonds in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV [1] are as follows:

[1] Statutory Order on the Provision of Collateral for the Current Coverage of Mortgage Bonds, Public-sector Mortgage Bonds and Ship Mortgage Bonds according to Net Present Value and its Calculation at Mortgage Credit Banks dated 14 July 2005.

€ m	Nominal value 31.12.2013	31.12.2012	Net present value 31.12.2013	31.12.2012	Risk-adjusted net present value 31.12.2013	31.12.2012
Mortgage bonds	4,586	4,244	4,837	4,581	4,964	4,672
Cover funds	5,260	5,189	5,606	5,576	5,629	5,585
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**674**	**945**	**769**	**995**	**665**	**913**

€ m	Nominal value 31.12.2013	31.12.2012	Net present value 31.12.2013	31.12.2012	Risk-adjusted net present value 31.12.2013	31.12.2012
Public-sector mortgage bonds	5,527	5,237	6,499	6,570	6,048	6,043
Cover funds	6,446	7,042	7,263	8,221	6,704	7,559
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**919**	**1,805**	**764**	**1,651**	**656**	**1,516**

€ m	Nominal value 31.12.2013	31.12.2012	Net present value 31.12.2013	31.12.2012	Risk-adjusted net present value 31.12.2013	31.12.2012
Ship mortgage bonds	2,041	2,528	2,061	2,550	2,070	2,539
Cover funds	2,810	3,379	2,968	3,592	2,683	3,188
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**769**	**851**	**907**	**1,042**	**613**	**649**

Additional cover funds

€ m	Nominal value 31.12.2013	31.12.2012
Mortgage bonds	508	368
Public-sector mortgage bonds	42	50
Ship mortgage bonds	-	-

The mortgage bonds, public-sector mortgage bonds and ship mortgage bonds in circulation, and the corresponding cover assets, have the following maturity structure:

Nominal value in € m	Mortgage bonds 31.12.2013	31.12.2012	Cover funds 31.12.2013	31.12.2012
Up to 1 year	1,227	605	981	819
Between 1 year and 2 years	404	1,155	1,135	830
Between 2 years and 3 years	829	249	547	1,036
Between 3 years and 4 years	692	704	787	519
Between 4 years and 5 years	573	692	473	649
Between 5 years and 10 years	851	824	1,250	1,214
Over 10 years	10	15	87	122
Total	**4,586**	**4,244**	**5,260**	**5,189**

Nominal value in € m	Public-sector mortgage bonds 31.12.2013	31.12.2012	Cover funds 31.12.2013	31.12.2012
Up to 1 year	144	704	801	814
Between 1 year and 2 years	468	139	698	620
Between 2 years and 3 years	984	244	619	1,065
Between 3 years and 4 years	465	234	465	536
Between 4 years and 5 years	707	465	323	318
Between 5 years and 10 years	977	1,667	869	965
Over 10 years	1,782	1,784	2,671	2,724
Total	**5,527**	**5,237**	**6,446**	**7,042**

Nominal value in € m	Ship mortgage bonds 31.12.2013	31.12.2012	Cover funds 31.12.2013	31.12.2012
Up to 1 year	905	715	1,015	894
Between 1 year and 2 years	510	905	488	636
Between 2 years and 3 years	500	510	381	505
Between 3 years and 4 years	28	300	302	373
Between 4 years and 5 years	35	28	236	287
Between 5 years and 10 years	63	70	358	600
Over 10 years	0	0	30	84
Total	**2,041**	**2,528**	**2,810**	**3,379**

The loans and advances used to cover mortgage bonds and ship mortgage bonds are broken down by size as follows:

(a) Mortgage bond register

Nominal value in € m	Covering mortgages 31.12.2013	31.12.2012
Up to € 300,000	33	35
Between € 300,000 and € 5 million	1,110	1,194
Over € 5 million	3,355	3,377
Total	**4,498**	**4,606**

(b) Ship register

Nominal value in € m	Covering mortgages 31.12.2013	31.12.2012
Up to € 500,000	7	6
Between € 500,000 and € 5 million	540	717
Over € 5 million	2,173	2,576
Total	**2,720**	**3,299**

The breakdown of loans and advances used to provide ordinary cover for mortgage bonds by the country in which the mortgaged property is located, as well as the use to which the property is put, is as follows:

€ m	**31.12.2013**	31.12.2012
Used for residential purposes	1,252	1,173
Used for commercial purposes	3,246	3,433

€ m	Apart-ments	Single dwell-ings	Multiple dwellings	Office buildings	Retail proper-ties	Industrial premises	Other commer-cial properties	Unfinished newbuild-ings and building plots	thereof building plots	**Total 31.12.2013**
Germany	1	7	1,105	607	383	7	736	37	14	2,897
Finland	-	-	-	39	-	-	16	-	-	55
France	-	-	-	650	5	-	-	-	-	655
Great Britain/ Northern Ire-land/ Brit. Channel Islands	-	-	-	86	-	-	-	-	-	86
Netherlands	-	-	38	305	51	-	77	-	-	471
Poland	-	-	-	52	-	-	-	-	-	52
Sweden	-	-	100	-	39	5	6	-	-	150
USA	-	-	-	121	-	-	-	-	-	121
Austria	-	-	-	11	-	-	-	-	-	11
Total	**1**	**7**	**1,243**	**1,871**	**478**	**12**	**835**	**37**	**14**	**4,498**

€ m	Apart-ments	Single dwell-ings	Multiple dwellings	Office buildings	Retail proper-ties	Industrial premises	Other commer-cial properties	Unfinished newbuild-ings and building plots	thereof building plots	**Total 31.12.2012**
Germany	1	8	954	665	415	6	680	17	-	2,746
Finland	-	-	-	72	-	-	21	-	-	93
France	-	-	-	686	5	-	-	-	-	691
Great Britain/ Northern Ire-land/ Brit. Channel Islands	-	-	-	87	-	-	-	-	-	87
Netherlands	-	-	40	361	52	-	92	-	-	545
Poland	-	-	-	52	-	-	-	-	-	52
Sweden	-	-	170	8	44	12	19	-	-	253
USA	-	-	-	127	-	-	-	-	-	127
Austria	-	-	-	12	-	-	-	-	-	12
Total	**1**	**8**	**1,164**	**2,070**	**516**	**18**	**812**	**17**	**-**	**4,606**

€ m	**31.12.2013**	31.12.2012
Total of payments at least 90 days in arrears	**-**	-

The following table shows the breakdown of the total amount of loans and advances used to cover public sector mortgage bonds based on borrowers and the countries in which the borrowers are domiciled. The total amount of payments in arrears for at least 90 days is shown under Arrears.

31.12.2013

€ m		Country	Regional public authority	Local public authority	Other	**Total**
Germany	Nominal value	338	2,941	257	1,447	4,983
	Arrears	-	-	-	-	-
Belgium	Nominal value	250	16	-	-	266
	Arrears	-	-	-	-	-
Great Britain/Northern Ireland/ Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Italy	Nominal value	-	25	-	-	25
	Arrears	-	-	-	-	-
Japan	Nominal value	-	-	50	-	50
	Arrears	-	-	-	-	-
Luxembourg	Nominal value	-	-	-	13	13
	Arrears	-	-	-	-	-
Poland	Nominal value	21	-	-	-	21
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	208	-	-	208
	Arrears	-	-	-	-	-
Slovenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Austria	Nominal value	449	20	29	282	780
	Arrears	-	-	-	-	-
Total	**Nominal value**	**1,148**	**3,210**	**336**	**1,752**	**6,446**
	Arrears	**-**	**-**	**-**	**-**	**-**

31.12.2012

€ m		Country	Regional public authority	Local public authority	Other	**Total**
Germany	Nominal value	330	3,274	247	1,931	5,782
	Arrears	-	-	-	-	-
Belgium	Nominal value	250	17	-	-	267
	Arrears	-	-	-	-	-
Great Britain/Northern Ireland/ Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Italy	Nominal value	-	28	-	-	28
	Arrears	-	-	-	-	-
Japan	Nominal value	-	-	50	-	50
	Arrears	-	-	-	-	-
Canada	Nominal value	-	26	-	-	26
	Arrears	-	-	-	-	-
Luxembourg	Nominal value	-	-	-	13	13
	Arrears	-	-	-	-	-
Poland	Nominal value	26	-	-	-	26
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	211	-	-	211
	Arrears	-	-	-	-	-
Slovenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Austria	Nominal value	449	20	1	69	539
	Arrears	-	-	-	-	-
Total	**Nominal value**	**1,145**	**3,576**	**298**	**2,023**	**7,042**
	Arrears	**-**	**-**	**-**	**-**	**-**

The following table shows the breakdown of loans and advances used to cover ship mortgage bonds by the country in which the ships pledged are registered:

	31.12.2013		31.12.2012	
€ m	**Ocean-going vessels**	**Inland water vessels**	Ocean-going vessels	Inland water vessels
Bahamas	15	-	7	-
Germany	1,436	-	2,234	-
Greece	61	-	71	-
Hongkong	140	-	37	-
Liberia	301	-	240	-
Malta	202	-	146	-
Marshall Islands	300	-	255	-
Norway	16	-	24	-
Panama	61	-	101	-
Singapore	109	-	15	-
Turkey	8	-	50	-
Cyprus	71	-	119	-
Total	**2,720**	**-**	**3,299**	**-**

The following table shows the number of foreclosures, judicially enforced receiverships and land and ships acquired to prevent losses in relation to the loans and advances used for coverage:

Number	**Commer-cial**	**Residential**	**Ocean-going vessels**	**Inland water vessels**	**2013 Total**
Pending foreclosures and judicially-enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

Number	**Commer-cial**	**Residential**	**Ocean-going vessels**	**Inland water vessels**	2012 Total
Pending foreclosures and judicially-enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

The following table shows total arrears on the interest due from mortgage debtors and repayments made during the financial year:

€ m	**Commercial**	**Residential**	**Ocean-going vessels**	**Inland water vessels**	**2013 Total**
Total amount of arrears on interest to be paid	-	-	-	-	-

€ m	Commercial	Residential	Ocean-going vessels	Inland water vessels	2012 Total
Total amount of arrears on interest to be paid	-	-	-	-	-

Of loans and advances to banks, the amount of € 1,021 million (previous year: 1,815 million), and € 16,635 million of loans and advances to customers (previous year: € 18,539 million) are used to cover debentures issued.

72. Financial transactions entered into with selected European states

The following overviews show our exposures to European states for which an increased economic risk is assumed. They present the risk directly attributable to the listed European countries. The income statement effects are only shown for the original positions, i.e. without taking the measurement results of the hedging derivatives into account.

€ m	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	Fair value of assets
				31.12.2013
Portugal	**331**	**5**	**326**	**266**
Country	281	-	281	225
Banks	5	-	5	3
Corporates/Other	45	5	40	38
Ireland	**330**	**44**	**286**	**285**
Banks	57	-	57	57
Corporates/Other	273	44	229	228
Italy	**1,286**	**17**	**1,269**	**1,309**
Country	488	-	488	579
Banks	137	-	137	138
Corporates/Other	661	17	644	592
Greece	**1,029**	**186**	**843**	**841**
Country	6	2	4	5
Corporates/Other	1,023	184	839	836
Spain	**2,306**	**53**	**2,253**	**2,274**
Country	174	-	174	142
Banks	513	1	512	541
Corporates/Other	1,619	52	1,567	1,591
Slovenia	**108**	**-**	**108**	**102**
Country	90	-	90	85
Corporates/Other	18	-	18	17
Hungary	**95**	**-**	**95**	**94**
Country	17	-	17	18
Banks	1	-	1	1
Corporates/Other	77	-	77	75
Cyprus	**1,705**	**409**	**1,296**	**1,292**
Corporates/Other	1,705	409	1,296	1,292
Total	**7,190**	**714**	**6,476**	**6,463**

€ m	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	31.12.2012 Fair value of assets
Portugal	**340**	**3**	**337**	**263**
Country	281	0	281	210
Banks	5	0	5	3
Corporates/Other	54	3	51	50
Ireland	**480**	**7**	**473**	**489**
Banks	155	0	155	157
Corporates/Other	325	7	318	332
Italy	**1,391**	**4**	**1,387**	**1,449**
Country	523	0	523	597
Banks	124	0	124	125
Corporates/Other	744	4	740	727
Greece	**1,531**	**207**	**1,324**	**1,292**
Country	7	5	2	3
Corporates/Other	1,524	202	1,322	1,289
Spain	**2,865**	**39**	**2,826**	**2,748**
Country	180	3	177	122
Banks	1,348	15	1,333	1,332
Corporates/Other	1,337	21	1,316	1,294
Slovenia	**111**	**0**	**111**	**98**
Country	90	0	90	78
Corporates/Other	21	0	21	20
Hungary	**124**	**1**	**123**	**121**
Country	38	1	37	38
Banks	5	0	5	5
Corporates/Other	81	0	81	78
Cyprus	**1,588**	**129**	**1,459**	**1,415**
Corporates/Other	1,588	129	1,459	1,415
Total	**8,430**	**390**	**8,040**	**7,875**

73. Average number of employees

The average number of employees as of the reporting date is calculated based on quarterly levels and on a per capita basis:

			2013			2012
	Male	**Female**	**Total**	Male	Female	Total
Full-time employees	1,386	618	2,004	1,570	769	2,339
Part-time employees	113	459	572	92	490	582
Total	**1,499**	**1,077**	**2,576**	1,662	1,259	2,921
Apprentices/trainees	32	11	43	36	14	50

74. Corporate Governance

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have given a declaration of conformity pursuant to Section 161 AktG and have made it available to the shareholders. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2013 Annual Report.

75. Remuneration paid to members of the Management Board and Supervisory Board

In accordance with the decision of the EU Commission of 20 September 2011 concerning state aid the remuneration of the members of the Management Board of HSH Nordbank AG is limited for each board member to a maximum of € 500,000 per year (total fixed remuneration). Remuneration payable for secondary employment undertaken at the request of the Supervisory Board is set off against the remuneration entitlement set out in the employment contract. Each board member continues to receive pension benefits in the amount of 20% of the annual fixed income, as well as reasonable benefits in kind.

It is planned to add a variable remuneration component to the Management Board's remuneration system as soon as the Bank is able to pay dividends again and the reorganisation phase pursuant to the decision of the EU Commission of 20 September 2011 regarding the state aid provided to HSH Nordbank AG has been successfully completed. The Bank does not offer additional long-term incentives such as share option schemes.

Remuneration of executive bodies

€ k	**2013**	2012
Total remuneration of all members of executive bodies		
Management Board	3,261	2.364
Supervisory Board	453	471
Total	**3,714**	**2.835**
Total remuneration of former members of executive bodies and their surviving dependents		
Management Board	**2.868**	**6.738**

As at 31 December 2013, a total of €k 41,939 (previous year: €k 42,183) was added to provisions for pension obligations relating to former members of the Management Board and their surviving dependents.

76. Seats on supervisory bodies

On the reporting date, the following seats were held on statutorily required supervisory bodies of large corporations or financial institutions:

(a) Members of the Management Board

No seats were held as at the reporting date.

(b) Employees

Dr Thorsten Ahrens	HSH Nordbank Securities S.A., Luxembourg	Member of the Administrative Board
Peter Axmann	Sprinkenhof AG, Hamburg	Member of the Supervisory Board
Torsten Heick	Nobis Asset Management S.A., Luxembourg	Deputy Chairman of the Administrative Board
Siegward Knuth	BTG Beteiligungsgesellschaft Hamburg mbH, Hamburg	Member of the Administrative Board
Boris Matuszcak	GEWOBAG Wohnungsbau-AG, Berlin	Member of the Supervisory Board
Dr David Mbonimana	Hamborner Reit AG, Duisburg	Member of the Supervisory Board
	HSH Nordbank Securities S.A., Luxembourg	Member of the Administrative Board
Patrick Miljes	Bürgschaftsbank Schleswig-Holstein, Kiel	Member of the Supervisory Board
	Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH, Kiel	Member of the Supervisory Board
	Germanischer Lloyd SE, Hamburg	Member of the Advisory Board
Michael Otten	SAC Leasing A/S, Koge, Denmark and its subsidiaries	Member of the Supervisory Board
Markus Pfaffenholz	Dynamic Micro Systems GmbH, Radolfzell	Member of the Advisory Board
Gunther Plohr	HSH Nordbank Securities S.A., Luxembourg	Member of the Administrative Board
Michael Rothehüser	Bürgschaftsbank Schleswig-Holstein,Kiel	Deputy Member of the Supervisory Board
Wolfgang Topp	HSH Nordbank Securities S.A., Luxembourg	Chairman of the Administrative Board

77. The Supervisory Board of HSH Nordbank AG

Dr Thomas Mirow, Hamburg Chairman (from 28 February 2013)	Former President of the European Bank for Reconstruction and Development, London
Hilmar Kopper, Rothenbach (until 28 February 2013) Chairman	Former spokesperson of the Management Board of Deutsche Bank AG
Olaf Behm, Tangstedt Deputy Chairman	Employee of HSH Nordbank AG
Stefanie Arp, Norderstedt	Employee of HSH Nordbank AG
Sabine-Almut Auerbach, Neumünster	District secretary, ver.di Southern Holstein district
Hans-Werner Blöcker, Helmstorf	Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG
Berthold Bose, Hamburg	Regional financial services representative, ver.di Hamburg district
Detlev Bremkamp, Munich (until 28 February 2013)	Former member of the Management Board, Allianz AG Holding
Oliver Dircks, Kiel (from 1 July 2013)	Employee of HSH Nordbank AG
Jürgen Friedland, Kiel (until 30 June 2013)	Employee of HSH Nordbank AG
Torsten Heick, Rellingen	Employee of HSH Nordbank AG
Oke Heuer, Kiel	Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein
Stefan Jütte, Bonn	Former Chairman of the Management Board of Deutsche Postbank AG
Sabine Kittner-Schürmann, Kiel	Employee of HSH Nordbank AG
Dr Rainer Klemmt-Nissen, Hamburg	Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH
Lutz Koopmann, Altenholz	Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein
Dr Joachim Lemppenau, Korschenbroich	Former Chairman of the Management Board, Volksfürsorge Versicherung AG
Manfred Lener, Kiel	Employee of HSH Nordbank AG
Thomas Losse-Müller, Kiel (from 28 February 2013)	Secretary of State at the Schleswig-Holstein Ministry of Finance
Rieka Meetz-Schawaller, Kiel	Employee of HSH Nordbank AG
Dr David Morgan, London	Managing Director, J.C. Flowers & Co UK LLC
Edda Redeker, Kiel	ver.di Northern district
Bernd Wrede, Hamburg	Former Head of the Executive Board of Hapag Lloyd AG

(a) Members of the Risk Committee

Stefan Jütte Chairman
Dr David Morgan Deputy Chairman
Olaf Behm
Jürgen Friedland (until 30 June 2013)
Torsten Heick
Sabine Kittner-Schürmann (from 29 August 2013)
Dr Rainer Klemmt-Nissen
Hilmar Kopper (until 28 February 2013)
Manfred Lener
Rieka Meetz-Schawaller
Dr Thomas Mirow (from 28 February 2013)
Bernd Wrede

(b) Members of the Audit Committee

Dr Joachim Lemppenau Chairman
Lutz Koopmann (until 28 February 2013) Deputy Chairman
Thomas Losse-Müller (from 28 February 2013) Deputy Chairman
Stefanie Arp
Olaf Behm
Oliver Dircks (from 29 August 2013)
Jürgen Friedland (until 30 June 2013)
Oke Heuer
Hilmar Kopper (until 28 February 2013)
Rieka Meetz-Schawaller
Dr Thomas Mirow (from 28 February 2013)

(c) Members of the Executive Committee
Dr Thomas Mirow Chairman (from 28 February 2013)
Hilmar Kopper (until 28 February 2013) Chairman
Olaf Behm
Oke Heuer
Dr Rainer Klemmt-Nissen
Lutz Koopmann (until 28 February 2013)
Rieka Meetz-Schawaller
Thomas Losse-Müller (from 28 February 2013)
Dr David Morgan

(d) Members of the Remuneration Monitoring Committee (from 6 February 2014)
Dr Thomas Mirow Chairman
Olaf Behm
Oke Heuer
Dr Rainer Klemmt-Nissen
Rieka Meetz-Schawaller
Thomas Losse-Müller

(d) Members of the Mediation Committee
Dr Thomas Mirow Chairman (from 28 February 2013)
Hilmar Kopper (until 28 February 2013) Chairman
Olaf Behm
Dr Rainer Klemmt-Nissen
Manfred Lener

78. The Management Board of HSH Nordbank AG

Constantin von Oesterreich Born in 1953 Chairman	
Stefan Ermisch Born in 1966 Chief Financial Officer	
Torsten Temp Born in 1960 Shipping, Project & Real Estate Financing	
Edwin Wartenweiler Born in 1959 Chief Risk Officer	
Matthias Wittenburg Born in 1968 Corporates & Markets	

Hamburg/Kiel, 25 March 2014

von Oesterreich

Ermisch

Temp

Wartenweiler

Wittenburg

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of HSH Nordbank AG for the business year from 1 January to 31 December 2013. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we wish to point out to the comments in the group management report in the section "Going-concern". It is stated there that the going concern assumption is based on the presumed final approval by the EU commission of the renewal of capital relief guarantee and amendment of the guarantee agreement following successful preliminary approval in June 2013, and the assumption that approval is only connected to requirements which can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of the business model of HSH Nordbank AG by market participants and other relevant stakeholders be maintained.

Hamburg, 25 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen	König
Wirtschaftsprüfer	Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

We hereby affirm that to the best of our knowledge the annual financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of HSH Nordbank AG and that the management report presents the course of business, including the results of the business and the HSH Nordbank AG's situation, in such a manner that it gives a true and fair view and describes the main opportunities and risks for the HSH Nordbank AG's likely performance.

Hamburg/Kiel, 25 March 2014

von Oesterreich

Ermisch

Temp

Wartenweiler

Wittenburg

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