INTERIM REPORT

AS AT 30 JUNE 2014

HSH NORDBANK

KEY FIGURES

INCOME STATEMENT
(€ m)

	January–June 2014	January–June 2013[1]
Net income before restructuring	699	288
Net income before taxes	432	137
Group net result	301	130

BALANCE SHEET
(€ bn)

	30.06.2014	31.12.2013[1]
Equity	4.8	4.6
Total assets	112.6	109.1
Business volume	121.3	118.7

CAPITAL RATIOS[2]
(%)

	30.06.2014	31.12.2013 (pro forma)
Common equity Tier 1 capital ratio	10.0[3]	10.0[3]
Tier 1 capital ratio	14.4	14.3
Regulatory capital ratio	18.9	19.7

EMPLOYEES
(computed on full-time equivalent basis)

	30.06.2014	31.12.2013
Total	2,676	2,834
Germany	2,489	2,627
Abroad	187	207

LONG-TERM RATINGS

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

[1] Following adjustment.
[2] According to the same period calculation under the CRR rules.
[3] Additionally, there is a buffer of 3.0 (31.12.2013) resp. 2.8 (30.06.2014) percentage points resulting from the effect of the guarantee structure.
[4] Liabilities covered by guarantor's liability (Gewährträgerhaftung).

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

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INTERIM MANAGEMENT REPORT OF HSH NORDBANK AS AT 30 JUNE 2014

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

MODERATE GLOBAL ECONOMIC GROWTH

The global economy continued to grow at a moderate pace in the first half of 2014, whereas the economy dynamics in some countries remained below the forecasts of international organisations. Developments in the USA were particularly striking, where the gross domestic product contracted – probably because of the severe winter – by about 2% in the first quarter of the year compared to the previous quarter. However, the US economy grew strongly again in the second quarter. Growth in China stabilised at the beginning of the year at a slightly lower level than in the previous years following the introduction of some stimulation measures by the government.

The slight upturn in the eurozone that has been ongoing since the middle of 2013 is likely to have continued in the first half of 2014, which is indicated by a strong start to the year made by the German and Spanish economies. However, economic growth in France and Italy was unexpectedly weak.

In Germany it were mainly domestic economic effects that injected some impetus. Besides a robust consumer demand the economy was supported by an increase in corporate investment. In the second quarter, the economic recovery in Germany weakened noticeably. The geopolitical tensions concerning the Ukraine and the Middle East seemed to have dented the mood in the economy and thereby slowed down developments.

FURTHER REDUCTION IN INTEREST RATES IN GERMANY

The mood in the financial markets has improved further in the first half of the year, which was reflected in substantial increases in share prices on the equity markets and a decrease in risk premiums for bonds issued by euro periphery countries. However, renowned market observers such as the International Monetary Fund (IMF) point to the danger of asset price bubbles and increased stability risks.

After the end of the reporting period several negative influencing factors caused increasing unease among market participants, such as the above-mentioned geopolitical conflicts and the economic sanctions adopted against Russia as well as problems at the major Portuguese bank, Banco Espirito Santo, and the partial payment default of Argentina. Against this backdrop share prices on international equity markets declined sharply.

The general level of interest rates still remained low due to the very expansive monetary policy of the large central banks. Long-term yields continued to fall over recent months. The decrease was particularly marked in the case of German government bonds, which was mainly attributable to the further reduction in interest rates and additional monetary measures taken by the European Central Bank. German debt instruments as a "safe haven" may also have benefited from the increased geopolitical risks. The US Federal Reserve continued as announced the reduction in its bond purchase programme, which is expected to come to an end in the second half of the year. The euro fluctuated against the US dollar in the first half of the year in a range between 1.33 and 1.39 and stood at EUR/USD 1.37 as at 30 June 2014.

HETEROGENEOUS TRENDS IN MARKETS IMPORTANT FOR HSH NORDBANK

In the shipping industry the trend towards stabilisation continued at a low level in the first half of the year. This was reflected in ship prices, which increased as a result of scarcer shipyard capacity and a high level of market liquidity. Demand in the container ship market has gained momentum over recent months, while growth in the fleet was dampened by the high volume of scrapping.

As expected, the recovery in the bulk carrier market petered out in the second quarter, although demand for transport capacity of large bulk cargo in particular continued to grow. However, on the supply side, the market reacted to the improved environment with a significantly lower level of scrapping. In addition, the number of ships delivered, which remained constant, acted as a constraint on an ongoing recovery. In contrast, the growth in the fleet fell markedly in the oil tanker market due to a decrease in deliveries resulting in a rise in charter rates and ship values.

Overall, the financial situation of many German companies in the shipping industry remained strained in view of the low level of charter revenues.

German real estate markets remained overall on an upward trend. The markets for residential properties benefited from a sustained high level of demand for apartments in large cities. Construction activity is now increasing noticeably in these locations. Vacancy rates hardly decreased in the office markets, as office completions are increasing in the meantime on a stable demand for space. The retail sector benefited from strong private consumption. However, stationary retail stores are feeling increasing pressure from e-commerce. Nevertheless, modern retail space in prime locations of the large cities was still in demand. The growth in office, retail and residential rents slowed slightly in the first half of the year. The noticeable rise in prices for apartments in metropolitan areas hardly slowed, while the increase in commercial property prices was moderate.

There was no common trend in the European real estate markets. Whereas the recovery in Great Britain is already well advanced, other markets, such as the Netherlands, still remain weak. In the USA the upward trend continued in both office and residential real estate markets.

The development of renewable energies made further progress. In Germany new installations in the wind energy sector were 55% above the previous year's level in the first half of 2014, so that it can be expected that the country will set a new installation record for 2014. However, the expansion of capacity slightly decreased across Europe. Growth in the photovoltaic market continued to decrease – this was particularly significant in Germany. This decrease was more pronounced for large-scale facilities, as the subsidy programme for these was discontinued.

The transport infrastructure market in Europe remained below expectations in terms of the new transactions concluded in the first half of the year. In contrast, liquid funds among others from institutional investors, such as pension funds and insurance companies, continued to flow into this sector, as appropriate investments are increasingly being regarded as an alternative to low yielding government securities.

The industry sectors relevant for the corporate client business of HSH Nordbank showed a generally stable trend in the first half of the year. In view of the good financial position of many medium-sized companies the demand for loan financing remained generally restrained despite the increase in investment.

FOCUS ON EU-WIDE STRESS TEST AND ASSET QUALITY REVIEW

In the second quarter 2014 the European Banking Authority (EBA) in cooperation with the European Central Bank (ECB) and national supervisory authorities commenced the EU-wide bank stress test, by means of which the resilience of the largest banks to adverse economic developments is to be assessed. The stress test as part of the Comprehensive Assessment started in the fourth quarter 2013 is a component of the preparations for the common European banking supervision that will be concentrated in the ECB in November 2014. The stress test is linked to the comprehensive balance sheet audit (Asset Quality Review, AQR), the purpose of which is to create transparency regarding the quality of risk-bearing assets held by the banks included in the review.

The aim of the stress test is to analyse how the common equity Tier 1 capital ratio (CET1 capital ratio) of the banks reviewed develops over a period from 2014 to 2016 under certain assumptions. This stress test is in principle based on the reporting date of 31 December 2013, whereby more current developments can be taken into account. A distinction is made between two scenarios. Firstly, the so-called baseline scenario is assumed, which reflects the expected developments in the overall economy. On the other hand, the adverse scenario assumes a significantly weaker environment that involves larger risks for the banking sector of the European Union.

The banks must achieve a CET1 capital ratio of at least 8% in the baseline scenario and in the AQR. In the adverse scenario of the stress test the minimum threshold is 5.5%. In the event that capital shortfalls are identified in the test, these are to be remedied by the institutions within six months (baseline scenario) or nine months (adverse scenario) by means of appropriate measures, for instance by raising additional capital or reducing risk assets. The banks must submit possible options for addressing any capital shortfall to the supervisory authorities. The results of the comprehensive assessment are to be published in the second half of October 2014. The banks will only be fully informed of their respective results immediately before the publication date.

In addition to the common supervision including a Single Supervisory Mechanism (SSM) a common rulebook for the restructuring of troubled banks forms another cornerstone of the European Union banking union. In April 2014 the European Parliament adopted the Single Resolution Mechanism (SRM) as well as the Bank Recovery and Resolution Directive (BRRD).

The SRM consists of two institutional elements: a Single Resolution Board (SRB) that, under the supervision of the ECB, is to decide in future on the resolution of banks and a Single Resolution Fund (SRF) that is to be built up over a period of eight years from 2016 to 2024 through bank levies. Financial burdens are only to be borne by the SRF if the contributions from the shareholders and certain classes of creditors, who are in future more strongly involved under the BRRD in covering the restructuring or resolution costs (bail-in), are not sufficient. There are indications that Germany will transpose this directive into German law already with effect from 1 January 2015.

HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

The business performance of HSH Nordbank in the first half of 2014 was impacted by the trend in the general economic and banking-specific underlying conditions. HSH Nordbank was able to increase its new business overall as planned and on a risk-conscious basis in a banking environment characterised by very diverse trends. One focus was on real estate financing. In addition, more business than in the previous year was concluded in the core areas of Energy & Infrastructure and Shipping International, whereas in the classical corporate client business restrained demand for bank financing was noticeable due to the solid financial resources of many corporate clients.

The decrease in the spreads on high-risk debt instruments, such as government securities issued by European periphery countries, had a positive effect on the measurement of the securities portfolios as at 30 June 2014. This was particularly beneficial for the Restructuring Unit. In view of the ongoing crisis in the shipping industry HSH Nordbank increased again the loan loss provisions for restructuring commitments after having recognised significant provisions in the previous year, thereby taking account of the increased risk. At the same time, the portfolio of troubled assets was also successfully wound down further.

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

EARNINGS, NET ASSETS AND FINANCIAL POSITION

OVERVIEW OF BUSINESS DEVELOPMENTS AND EARNINGS, NET ASSETS AND FINANCIAL POSITION

Good business performance in the first six months of the year

HSH Nordbank recorded a positive result for the first half of 2014 and at the same time has made good progress in implementing the strategy in the Core Bank and Restructuring Unit.

Net income before taxes amounted to € 432 million as at 30 June 2014, representing an increase of € 295 million compared to the result for the first six months of the previous year (€ 137 million). At the same time, net income after taxes (Group net income) of HSH Nordbank improved to € 301 million (previous year: € 130 million).

Operating earnings in the core areas, a decrease in the loan loss provision expense and a further reduction in administrative expenses had a positive impact on the half-year results of HSH Nordbank. The results benefited substantially from the capital protection clause within the framework of the guarantee agreement, which resulted as expected in the reversal through profit or loss of the guarantee premiums recognised as an expense in previous periods which had resulted in high charges in the 2013 financial statements. The still high level of the current base premium expense is unaffected by the reversal.

The Core Bank, in which the future-oriented divisions of HSH Nordbank are combined, generated net income before taxes in the amount of € 185 million (previous year: € 131 million). It has therefore continued its sequence of positive quarterly results since the third quarter 2012, which was only interrupted once in the fourth quarter 2013 due to a significant increase in loan loss provisions for restructuring commitments in the Shipping division. A negative special effect of € –96 million relating to the adjustment of the interest rate applied to certain hybrid instruments as scheduled was recognised in the half-year results of the Core Bank, which will be fully offset by 2017 according to our current plan. The Restructuring Unit, which focuses on the winding down of the legacy portfolios, greatly benefited with net income before taxes of € 247 million (previous year: € 6 million) from the effect of the capital protection clause as well as reversals of impairment losses in the credit investment portfolio.

New business increased on plan

New lending business with customers continued to develop very pleasingly within the business and risk strategy. The Bank's new business volume of € 4.5 billion increased by just over two-thirds compared to the same period in the previous year (€ 2.7 billion). It was therefore almost at the pro rata target level for 2014, which had again been increased compared to 2013. By the end of June almost half of the committed loans had been disbursed to customers – also a marked increase compared to the previous year. The planned interest margins were also achieved despite intense competition.

Total assets of the Core Bank increased as at 30 June 2014 to € 76 billion (31 December 2013: € 69 billion). This increase in total assets was attributable to higher cash reserves and the increase in new business partly offset by sales of securities and loan principal repayments. The focus placed on lower risk commitments including a balanced regional distribution of the new business had a positive impact on the portfolio quality of the Core Bank.

The Real Estate Clients division as a sought-after financing partner across Germany was able to record particularly strong growth in its new business. The Energy & Infrastructure and Shipping International divisions also concluded more business than in the same period of the previous year. New business in the Corporate Clients division increased in the second quarter, but remained below the previous year's level for the first six months as a whole due to the continued restrained loan demand on the part of medium-sized customers. As in previous years, it is expected that corporate clients business will increase in the second half of the year.

Overall, the new business figures confirm the strong roots of the Core Bank in its target markets. Given the well-filled deal pipeline we expect to be able to continue to expand as planned our overall new business with customers during the course of the remainder of the year. We are thereby strengthening the basis for increasing the earnings of the Core Bank and can gradually further improve the quality of the Core Bank portfolio through entering into lower risk transactions.

Winding down of legacy portfolios is making progress

The reduction of risk in the Restructuring Unit was continued during the first half of 2014. The total amount of troubled assets in the Restructuring Unit decreased to € 34 billion as at the end of the first half of the year compared to € 37 billion as at 31 December 2013. The largest reductions were achieved during the course of the year to date in respect of problem shipping and real estate loans. The Bank is continuing to pursue alternative portfolio solutions involving strategic investors in order to further reduce the loan volume in the Shipping division of the Restructuring Unit. The extent of the portfolio reduction in the Restructuring Unit as agreed with the EU Commission will be clearly exceeded by the end of 2014. This is supporting the focus on Core Bank activities.

Total income influenced by risk reductions and measurement effects

Total income amounted to € 646 million (previous year: € 809 million). The increased asset reduction (by just under a quarter compared to the previous year) of the Restructuring Unit was the main factor behind the significant decrease in net interest income in the Restructuring Unit, whereas the trend of net interest income in the customer divisions of the Core Bank was stable. Furthermore, special effects recognised in net interest income contributed substantially to the reduction in total income.

These comprise a negative special effect of € –96 million relating to the adjustment of the interest rate applied to certain hybrid instruments as scheduled, which will be fully offset by 2017 according to our current plan. In addition, a negative interest effect of € –21 million was recognised on adjusting the interest rate curve for the present value calculation of the liabilities related to expected future guarantee premiums. Measurement effects relating to the credit investment portfolio, profits arising on the disposal of securities and equity holdings recognised in net trading income and net income from financial investments, which, however, were partially offset by the effects recognised in net interest income by the reversal of hedge positions and the recognition of the guarantee effect in loan loss provisions, had a significantly positive impact on total income. The improvement in cross-selling income is also pleasing.

Loan loss provision expense reduced

After substantial loan loss provisions for risks arising in the context of the shipping crisis in the financial year 2013, we were able to reduce additions to total loan loss provisions as expected in the first half of 2014. Net loan loss provision expense decreased to € –237 million compared to € –463 million in the same period of the previous year before taking into account the compensation effect of the second loss guarantee issued by the federal states of Hamburg and Schleswig-Holstein. The legacy amounts in the Shipping portfolio again accounted for the major portion of this expense, whereas the development of the other asset classes was comparatively unremarkable due to the very positive risk cycle of the German industry.

The capital protection clause pursuant to the guarantee agreement with the federal states had a marked positive impact on the loan loss provision line item. In the first half of the year additional guarantee premiums of € 573 million, which had been recognised as an expense in previous periods, were reversed through profit or loss. The basis for this is the temporary waiver by the guarantors of their claim to the additional premium in order to ensure a common equity Tier I capital ratio of at least 10% against the backdrop of the first-time application of the more stringent requirements for calculating the capital ratios (conversion to Basel III and from HGB to IFRS for determining regulatory capital). In total, the compensation effect of the guarantee amounted to € 574 million taking this relieving effect into account. After compensation HSH Nordbank reported a positive amount in loan loss provisions of € 337 million (previous year: € –192 million).

Increasing cost pressure offset by cost-saving measures

Administrative expenses were further reduced in the first half of 2014 to € – 338 million (previous year: € – 382 million). This was mainly attributable to reduced personnel expenses due to the further reduction in the number of employees to 2,676 (31 December 2013: 2,834) as part of the headcount reduction plan from 2011 that has almost been completed in the meantime and to additional redundancies as part of the cost-saving programme set up at the end of 2013.

A large part of the additional cost-saving measures, for example in the operating cost areas of IT, projects and buildings, was already being implemented in the middle of 2014. In addition, changes to the organisational structure were driven forward in order to simplify the structures and to further increase the effectiveness of cooperation within the Bank. The focus is being placed on the merging of areas that were previously represented at both headquarters of the Bank and on the reduction in the number of staff in management positions.

The savings already achieved in various cost types counteracted the significantly higher expenses for new regulatory requirements, for instance in connection with the Comprehensive Assessment of the ECB. Furthermore, the first-time application of IFRS 10 resulted in the consolidation of additional companies, whereby administrative expenses in the first half of 2014 as well as those of the previous year were adversely impacted by about € 12 million mainly relating to depreciation of property, plant and equipment. An overview of the effects of IFRS 10 on the half-year financial statements as a whole is set out at the end of this section.

Higher costs also resulted from the replenishment of the second loss guarantee that was agreed in the middle of 2013. As a result, the Bank has to cope with a higher expense for government guarantees relating to the base premium. The expense increased to € – 259 million compared to € – 143 million in the first half of 2013 and takes an agreed subsequent payment for the period of the reduced guarantee facility from 2011 to the middle of 2013 into account on a pro rata basis. With the continuous winding down of the high-risk troubled assets we should create the conditions for the first possible reduction of the guarantee facility over the next few years, which would result in a decrease in guarantee expenses.

Solid capital base also under Basel III

The regulatory capital ratios of HSH Nordbank were at a solid level in the middle of 2014 under the Basel III transition rules applicable since the beginning of 2014. The classical Tier 1 capital ratio reached 14.4% as at 30 June 2014. As at the reporting date the common equity Tier 1 capital ratio (CET1 capital ratio) amounted to 10.0% plus a buffer of 2.8 percentage points, which results from the structure of the second loss guarantee issued by the federal states.

Even under the assumption of the full implementation of the Basel III rules the CET1 ratio of HSH Nordbank at the end of the first half of 2014 is at a solid level at 10% (plus a buffer of 0.9 percentage points). The ratios disclosed for the first half of 2014 provide HSH Nordbank with a resilient regulatory capital base, with which it is prepared for the challenges of the current Comprehensive Assessment of the ECB, including the AQR and stress test.

Expanded scope of consolidation as a result of the initial application of IFRS 10

The scope of consolidation for the consolidated financial statements as at 30 June 2014 was determined for the first time in accordance with the requirements of IFRS 10 (“Consolidated Financial Statements”). This resulted in an additional 15 companies being included in the scope of consolidation, for which full consolidation is required due to the economic and legal relationships as defined in IFRS 10. The entities newly included in the consolidated financial statements are borrowers from the Aviation and Real Estate business areas, whose main business purpose is to hold aircraft or properties. These objects were accounted for in the consolidated statement of financial position under property, plant and equipment or as investment property.

The inclusion of the additional companies in the half-year financial statements result in the recognition of various effects in the Group income statement that are recorded under administrative expenses and other operating income/expenses. Furthermore, loans and advances to customers decrease due to the consolidation and as a consequence loan loss provisions and interest income. The total impact of the changes in the scope of consolidation on the half-yearly net income before taxes is low at about € + 2 million. The IFRS 10 impact on net income for the same period in the previous year – also adjusted in accordance with the requirements – was about € + 34 million. Further details on the initial application of IFRS 10 are set out in the Notes to the condensed interim financial statements for the first six months of the year (Note 3: “Adjustments to previous year comparitive figures”, Note 4: “Scope of consolidation”).

With the exception of the changes to the scope of consolidation the “Basis of the Group” described in the 2013 Group management report continue to apply.

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

EARNINGS SITUATION

INCOME STATEMENT

(€ m)	January–June 2014	Following adjustment (see Note 3) 2013	Change in %
Interest income	2,647	2,983	–11
Interest expense	–2,256	–2,427	–7
Net income from hybrid financial instruments	–160	–76	>–100
Net interest income	**231**	**480**	**–52**
Net commission income	73	52	40
Result from hedging	–12	10	>–100
Net trading income	112	114	–2
Net income from financial investments	240	167	44
Net income from financial investments accounted for under the equity method	2	–14	>100
Total income	**646**	**809**	**–20**
Loan loss provisions	337	–192	>–100
Administrative expenses	–338	–382	–12
Other operating income	54	53	2
Net income before restructuring	**699**	**288**	**>100**
Result from restructuring	–8	–8	0
Expenses for government guarantees	–259	–143	81
Net income before taxes	**432**	**137**	**>100**
Income taxes	–131	–7	>–100
Group net income	**301**	**130**	**>100**
Group net income attributable to non-controlling interests	1	–1	>100
Group net income attributable to HSH Nordbank shareholders	300	131	>100

Income characterised by measurement effects and risk reductions

In addition to the impact of the further reduction in the balance sheet of the Restructuring Unit (by more than one-quarter compared to the previous year) net interest income of € 231 million (previous year: € 480 million) included negative special effects, which in the first half of the year, as expected, more than offset the positive impact of the new business disbursed, which resulted in stable net interest income in the customer divisions.

One special effect relates to the calculation of net income from hybrid financial instruments. The effective interest rate applied to hybrid instruments was adjusted as scheduled. This had a negative effect of € – 96 million in the first half of the year, as a result of which net income from hybrid financial instruments of € – 160 million remained significantly below the previous year level (€ – 76 million). According to our current plan this effect will be fully offset in subsequent periods by lower interest expense.

A further exceptional charge of € – 44 million resulted from the derecognition of hedge adjustments in connection with the sale of securities held in financial investments. The offsetting positive effect arising on the securities sale (€ 102 million) is disclosed under net income from financial investments.

A negative effect of € – 21 million arising on adjusting the interest rate curve to be used in the present value calculation of the liabilities related to expected future premiums for the second loss guarantee also had to be recognised in net interest income.

Adjusted for the above-mentioned special effects totalling € – 161 million, net interest income would have been € 392 million (previous year: € 480 million). The reduction compared to the previous year was mainly attributable to the decrease in loans and advances in the Restructuring Unit, whereas the trend in operating net interest result of the customer divisions in the Core Bank was in line with the plan.

Net commission income increased to € 73 million compared to € 52 million in the same period of the previous year. This was mainly attributable to the improvement in the income generated by the cross-selling business in connection with the increase in new business. The positive development was reflected primarily in higher loan fees, whereas business with capital markets products was subdued due to the low level of interest rates, among other things.

Net trading income amounted to € 112 million (previous year: € 114 million). Whereas the measurement of interest rate/currency derivatives (EUR/USD basis swaps) as well as own liabilities measured at fair value had some negative impact, reduced counterparty risk in the derivatives business amongst other things made a positive contribution. We also recorded slight increases in value in the trading positions held in the credit investment portfolio (CIP) as well as an increased valuation of hedging derivatives due to the current trend in interest rates.

Net income from financial investments increased clearly to € 240 million compared to € 167 million in the previous year. Further sales of European government bonds and other securities as well as reversals of impairment losses on debt instruments relating to the US residential real estate market held in the credit investment portfolio made a positive contribution to earnings. In addition, individual equity holdings were successfully sold (in particular Railpool GmbH and Railpool Holding GmbH & Co. KG as well as DMS Semiconductor Equipment GmbH). Thereby, the Bank's equity holding portfolio was reduced further in conformity with the strategy.

Measurement gains in the CIP in net trading income and net income from financial investments totalled a gross amount of € 65 million in the first half of the year and were offset by charges of € – 45 million arising on the corresponding reduction in the hedging effect of the second loss guarantee. This left net income for the CIP of a total of € 20 million (allocated to the Restructuring Unit). The compensation effect under the guarantee is disclosed in loan loss provision expense and relates to hedged securities positions for which impairment losses had been recognised in previous periods.

The sale of government bonds and other debt instruments had a positive gross effect of € 102 million on net income from financial investments. In this connection hedge adjustments had to be derecognised, which had an offsetting negative impact of € – 44 million on net interest income, resulting in a positive net effect of € 58 million from the sale of these securities.

Total income amounted to € 646 million for the first half of 2014 (previous year: € 809 million) against the backdrop of reduced risk positions and special effects.

Other operating income of € 54 million remained at about the previous year's level (€ 53 million). Income from newly consolidated companies following the initial application of IFRS 10 had a positive effect of € + 19 million in the first half of 2014 as well as the first half of 2013.

Loan loss provisions reduced by lower provision expense and capital protection clause

We report an amount of € 337 million in the loan loss provisions item for the first half of 2014, compared to € – 192 million for the same period of the previous year.

Net loan loss provisions before the compensation effect amounted to € – 237 million in the first half of the year and were significantly below the previous year's level (€ – 463 million), which was marked by an exceptionally high loan loss provision expense for shipping loans. Additions relate primarily to troubled assets held in the shipping portfolios of the Core Bank and Restructuring Unit to account for the market environment that continues to be difficult. However, the successful restructuring of a shipping commitment allowed higher reversals to be recognised and thereby reduced the net loan loss provision expense for shipping loans in the Restructuring Unit. Furthermore, moderate additions were recognised for European real estate loans in the Restructuring Unit and for individual cases in the core area of Energy & Infrastructure. Loan loss provisions for domestic real estate financing and corporate clients loans developed comparatively unremarkably, due to the very positive risk cycle of the German industry.

The foreign currency conversion of the loan loss provisions resulted in an expense of € – 42 million against the backdrop of a slight depreciation in the euro/dollar exchange rate in the first half of the year (previous year: € + 23 million). The loan loss provision expense was offset by payments received on loans previously written-down in the amount of € 71 million (previous year: € 64 million).

LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

(€ m)	**January–June 2014**	January–June 2013
Loan loss provisions before guarantee (net), of which:	**–237**	**–463**
Core Bank	**–140**	**–157**
Shipping	–124	–158
Real Estate Clients	–2	4
Energy & Infrastructure	–26	–
Corporate Clients	9	–6
Other	3	3
Restructuring Unit	**–97**	**–306**
Shipping loans	–62	–216
Real Estate loans	–33	9
Corporate loans	–1	–72
Other	–1	–27
Loan loss provisions after guarantee (net), of which:	**337**	**–192**
Core Bank	43	–107
Restructuring Unit	294	–85

The compensation effect of the guarantee amounted to € 574 million as at 30 June 2014 and is composed of income of € 573 million arising on the reversal of guarantee expense recognised in previous periods, additional premiums of € – 99 million for the first half of the year and gross positive compensation of € 100 million, which includes an offsetting amount of € – 45 million relating to reversals of impairment losses in the CIP. In total the loan loss provisions disclosed amounted to a positive amount of € 337 million (previous year: € – 192 million).

The compensation effect of the guarantee still did not result in a cash drawdown as at 30 June 2014. The first loss piece of the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 1.0 billion as at the end of the first half (losses submitted for invoicing).

Administrative expenses reduced further

The measures taken to reduce the cost base showed effect in the first half of the year. Administrative expenses decreased further to € – 338 million (previous year: € – 382 million). Personnel expenses, which the Bank was able to reduce from € – 166 million to € – 146 million, were mainly affected by the number of employees which was reduced further as a result of the redundancies.

Operating expenses (excluding depreciation/amortisation) increased slightly from € – 155 million to € – 161 million. Savings achieved by the measures being implemented were offset amongst other things by the substantial costs incurred in connection with regulatory requirements. About € 10 million has been recognised to date solely for the special audit as part of the ECB's AQR. Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € – 31 million (previous year: € – 61 million).

About € 12 million had to be recognised as additional administrative expenses in both the first half of 2014 and the first half of 2013 as a result of the inclusion of additional companies in the Group financial statements as part of the initial application of IFRS 10.

Increase in the guarantee expense for the base premium

Expenses for government guarantees (base premium for past periods) increased in the first half of 2014 to € – 259 million compared to € – 143 million in the previous year. The reasons underlying the increase are the higher ongoing base premium payable resulting from the replenishment of the guarantee facility from € 7 to € 10 billion in the year 2013 and the portion of about € – 57 million of the subsequent payment agreed for the base premium attributable to the first half of 2014 due to the replenishment of the guarantee. The subsequent payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. The remaining expense of the subsequent payment totalling about € – 149 million is spread across the second half of the current year as well as the years 2015 and 2016 according to plan.

Since 2009 HSH Nordbank has recognised in its income statement a total premium expense of € 2.9 billion up to 30 June 2014, which includes base and additional premiums disclosed in the compensation line item in loan loss provisions (excluding € 0.5 billion relating to a one-off payment required by the EU Commission, which was then subsequently returned to the Bank as part of a capital increase). The reduction of € – 0.2 billion compared to the premium expense accrued as at the 2013 year end (€ 3.1 billion) results from the reversal through profit or loss under the capital protection clause of premiums recognised in loan loss provisions (€ – 0.6 billion), the additional premium for the previous period (€ + 0.1 billion) and the base premium for the first half of the year including the subsequent payment (€ + 0.3 billion).

The premiums paid by HSH Nordbank to date increased to € 2.0 billion in the first half of the year (31 December 2013: € 1.7 billion), of which € 1.7 billion is attributable to the recurring base premium and € 0.3 billion to the subsequent payment. With the premiums paid to the guarantors as at the reporting date, HSH Nordbank is already making a substantial contribution to compensating for the aid granted by the federal states of Hamburg and Schleswig-Holstein.

Net income before taxes increases to € 432 million

The developments described resulted in net income before taxes of € 432 million for the first half of the year compared to € 137 million for the same period in the previous year. After taking into account income taxes in the amount of € – 131 million (previous year: € – 7 million), Group net income of € 301 million (previous year: € 130 million) remains.

The Bank recognised in the income taxes line item a provision of € 55 million for potential additional tax payments resulting from the ongoing tax audit of previous years. Provision expense was offset by tax refunds of € 50 million The associated interest effects are disclosed under other operating income. Furthermore, deferred tax expense of € –113 million had to be recognised primarily as a result of the positive half-year results. Total income tax expense thus amounted to € –131 million including current income taxes. The effective tax rate was therefore 30% as at 30 June 2014.

Further information on existing tax risk is set out in the Risk report of this Interim management report.

The return on equity for the Group calculated on the basis of the net income before taxes is 18% (previous year: 5%). The cost-income ratio at the Group level was 52% (previous year: 47%).

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS IN THE STATEMENT OF FINANCIAL POSITION

(€ m)	30.06.2014	Following adjustment (see Note 3) 31.12.2013	Change in %
Assets			
Cash reserve	10,083	4,851	>100
Loans and advances to banks	5,637	5,158	9
Loans and advances to customers	66,629	68,469	–3
Loan loss provisions	–2,666	–3,583	–26
Trading assets	9,112	9,045	1
Financial investments	19,810	21,256	–7
Other assets	3,966	3,915	1
Total assets	**112,571**	**109,111**	**3**
Liabilities			
Liabilities to banks	16,276	18,212	–11
Liabilities to customers	45,398	40,662	12
Securitised liabilities	27,846	28,561	–3
Trading liabilities	7,918	7,103	11
Subordinated capital	5,467	5,288	3
Equity	4,824	4,579	5
Other liabilities	4,842	4,706	3
Total equity and liabilities	**112,571**	**109,111**	**3**

Increase in total assets

Following significant reductions in previous quarters, total assets increased in the first half of 2014 to € 112,571 million (31 December 2013: € 109,111 million). Besides the expansion of new business this was mainly attributable to an increase in the cash reserve.

Loans and advances to banks increased slightly compared to the 2013 year-end and amounted to € 5,637 million (31 December 2013: € 5,158 million). This was mainly caused by higher deposits at other banks. The cash reserve increased significantly compared to 31 December 2013, from € 4,851 million to € 10,083 million. This is attributable inter alia to the increase in deposits placed at the Deutsche Bundesbank as part of the targeted strengthening of the Bank's liquidity position.

Loans and advances to customers continued the trend of previous quarters and decreased slightly to € 66,629 million (31 December 2013: € 68,469 million). The impact of planned loan reductions and active winding down efforts in loan portfolios of the Restructuring Unit was greater than the increase in new business in the Core Bank.

Total loan loss provisions including compensation items decreased clearly to € – 2,666 million (31 December 2013: € – 3,583 million). Two effects were responsible for this: a higher compensation item due to the capital protection clause and the fact that loan loss provisions for loans and advances to customers and banks have also decreased significantly to € – 5,934 million (31 December 2013: € – 6,297 million) before taking the compensation items into account. This was caused in particular by the utilisation of loan loss provisions.

Trading assets increased slightly to € 9,112 million (31 December 2013: € 9,045 million). While the trading portfolio decreased mainly as a result of the reduction in fixed-interest-bearing securities, there was a slight increase in derivatives.

Financial assets decreased slightly to € 19,810 million (31 December 2013: € 21,256 million). This decrease was primarily attributable to the further reduction of the securities portfolio through sales.

Liabilities to banks recorded a decrease to € 16,276 million (31 December 2013: € 18,212 million) in the first six months of the year due to a lower level of bank deposits. In contrast, liabilities to customers increased from € 40,662 million as at 31 December 2013 to € 45,398 million. This is attributable, amongst others, to higher call and term deposits placed by corporate and private clients of the Bank and reflects the positive funding measures taken. Trading liabilities, which mainly comprise negative market values of derivatives, increased slightly.

Subordinated capital increased slightly compared to the previous year end and amounted to € 5,467 million (31 December 2013: € 5,288 million). This increase results from the measurement of silent participations in accordance with IAS 39.A8. Equity increased to € 4,824 million (31 December 2013: € 4,579 million). Besides the Group net income generated in the first half of the year this is also attributable to the positive impact of the change in the revaluation reserve, which was offset by retained earnings that were reduced by the net loss for 2013 and by increased pension obligations caused by lower market interest rates.

Increase in business volume

Compared to the end of the previous year, business volume increased to € 121,272 million due to higher total assets (31 December 2013: € 118,729 million). In contrast, off-balance sheet transactions decreased. Irrevocable loan commitments decreased to € 6,154 million (31 December 2013. € 6,911 million) and sureties and guarantees to € 2,547 million (31 December 2013: € 2,707 million).

Solid capital ratios in the first half of 2014

REGULATORY CAPITAL RATIOS
(TAKING THE HALF-YEAR RESULTS INTO ACCOUNT)

(%)	**30.06.2014[1]**	31.12.2013 pro forma[1]	31.12.2013 Basel II
Total ratio/ regulatory capital ratio	18.9	19.7	23.8
Tier 1 capital ratio (including market risk positions)	14.4	14.3	15.3
Common equity Tier 1 capital ratio (CET1 ratio) plus buffer from additional premium	10.0 +2.8 pp	10.0 +3.0 pp	11.7 +5.2 pp
Common equity Tier 1 capital ratio (CET1 ratio) plus buffer from additional premium, in the case of full implementation of Basel III	10.0 +0.9 pp	10.0 +1.7 pp	–
Leverage ratio	4.6	4.6	–

ELIGIBLE CAPITAL
(NOT TAKING THE HALF-YEAR RESULTS INTO ACCOUNT)

(€ bn)	**30.06.2014[1]**	31.12.2013 pro forma[1]	31.12.2013 Basel II[2]
Eligible capital	7.4	7.5	8.6
of which: Tier 1 capital (core capital)	5.6	5.4	5.6
Risk assets	38.9	37.9	35.6
of which: Risk assets counterparty default risk	31.4	31.1	28.4

[1] According to the same period calculation under the Capital Requirements Regulation (CRR).
[2] Report pursuant to the German Solvency Regulation (SolvV).

HSH Nordbank is reporting solid regulatory capital ratios also under the Basel III rules applicable since the beginning of 2014. The CET1 capital ratio was 10.0% as at 30 June 2014. In addition, there is a buffer of 2.8 percentage points resulting from a possible further deferral of the guarantors' claim to the additional premium, which arises under the capital protection clause within the guarantee structure. The CET1 capital ratio was significantly above the minimum requirements of the banking supervisory authorities as at 30 June 2014.

The CET1 capital ratio decreased slightly by 0.2 percentage points compared to the pro forma figure as at the 2013 year end (including buffer). The reduction is attributable to the change in risk-weighted assets (RWA), which increased slightly to € 38.9 billion as at 30 June 2014 after taking the guarantee into account (31 December 2013: € 37.9 billion). The background to this is the continuing increase in new business in the Core Bank, which as scheduled had a greater impact on the RWA despite the better risk parameters than the further winding down of the legacy portfolios in the Restructuring Unit. In the legacy portfolios the guarantee coverage reduced the RWA.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. Mathematically, the risk weight as at 30 June 2014 continues to be below 1% resulting in a substantial additional risk buffer. Details on the effect of the second loss guarantee are set out in Note 2 in the interim financial statements.

The leverage ratio (pro forma) of HSH Nordbank was a solid 4.6% as at 30 June 2014 (31 December 2013: 4.6%). The leverage ratio is a key ratio that is not risk-weighted and compares the Tier 1 capital to a regulatory adjusted business volume. Disclosure of this ratio will presumably be mandatory from 2015 onwards.

Refinancing in the first six months of the year

In the first half of the year we pressed ahead as planned with the implementation of our funding strategy and further strengthened the liquidity. The focus was the sales and distribution of bond products for the client business of savings banks. The trend of sales of bonds to institutional investors and other financial institutions was particularly pleasing. This enabled the placement of debt instruments to be further diversified. Total volume of uncovered bonds (senior unsecured) issued during the first half of the year increased compared to the previous year and amounted to just over € 2 billion.

In July the Bank placed a mortgage Pfandbrief in the amount of € 500 million on the international capital markets and thereby successfully continued its issuing strategy of placing Pfandbriefe in a benchmark format. There was a wide demand for the issue among both domestic and foreign institutional investors and savings banks, which was reflected in the order book being oversubscribed by more than double at about € 1 billion. In addition, HSH Nordbank was able to privately place a ship Pfandbrief of € 250 million in July.

A further key element of our funding strategy is secured funding as part of asset-based funding (ABF) transactions in order to further increase the refinancing of US dollar transactions by primary transactions. During the current year further ABF transactions based on loans in different asset classes will be executed or are planned. In addition, we also use repo transactions related to securities for long-term US dollar refinancing purposes. In the first half of 2014 the US dollar refinancing of the Core Bank was mainly executed using primary transactions. The remaining portion still had to be refinanced – as usual in the banking market – using derivatives.

Besides the issuing activities an increase in the level of deposits contributed to the refinancing of the business. Furthermore, the Bank holds liquidity reserves in the form of collateral eligible for refinancing at central banks and credit balances at central banks, with a total volume of around € 25 billion, which it can access at any time.

HSH Nordbank's solid liquidity position at the end of the first half-year of 2014 was also reflected in the key liquidity ratios. The liquidity ratio of the German Liquidity Regulation (LiqV) used as the central regulatory indicator for liquidity risk was 2.0 as at the end of the first half-year and was therefore significantly above the regulatory minimum.

Against the backdrop of the adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) by the European Parliament in April 2014 the rating agencies, Fitch (end of March) and Moody's (end of May), downgraded the long-term rating of numerous banks in Europe – irrespective of their financial strength – to a negative outlook as part of Europe-wide actions, which had been expected by the market for quite some time. As part of this action the outlook for the rating of HSH Nordbank was changed to Baa3 negative (Moody's) and A- negative (Fitch). The reviews of the ratings by the rating agencies are not likely to be completed before the end of 2014. These rating actions have not had any material impact to date on the refinancing options and position of the Bank. In July Fitch confirmed our rating of A- with negative outlook during its annual review.

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

Final assessment of the position of the Bank in the first half of 2014

The results and operating successes reflect the overall favourable business performance in the first half of the year and show that HSH Nordbank is well on the way to achieving its goal for the year of disclosing a profit again in the 2014 Group financial statements. The overall stable earnings trend in the customer business which develops according to plan is due to the overall pleasing new business successes. It was offset as expected by the reduction in earnings from portfolio reductions in the Restructuring Unit and by the adverse impact of individual special effects. Reversals of impairment losses and profits on sales had a positive effect on total income. Further progress is being made in reducing administrative expenses. Cost-saving measures are being implemented in the current year to offset the increasing pressure on costs resulting from, amongst other things, banking supervisory requirements. Additions to loan loss provisions were reduced compared to the previous year in line with the plan. The focus of the loan loss provision measures in the first half of 2014 was on certain commitments in the shipping loan area in light of the ongoing crisis, whereas the other asset classes were comparatively unaffected due to the risk cycle of German industry which is to be regarded as positive.

From today's perspective, we are well positioned with our regulatory capital base for the challenging environment, the planned business expansion and current regulatory requirements. Through the consistent reduction of risk we have created the conditions for first reductions of the guarantee over the next few years, which, following the increase in the current year, would be accompanied by a decrease of the guarantee fees in the future. The short- and medium-term liquidity position of the Bank was stable as at half year end. We were also able to make further structural progress in the liquidity position through the funding measures taken in the past months with regard to the longer-term challenges posed by the expiry of the guarantor liability in order to take into account the substantial funding requirements in the coming years.

Overall, we have further strengthened in the first half of the year the foundations for a sustainable successful future of HSH Nordbank through the market successes achieved in the Core Bank, continued reduction in the troubled assets held in the Restructuring Unit, cost-saving measures currently being implemented and the developments on the capital and funding side.

Opportunities and risks of the Group for the remaining months of the current year are described in the Forecast, opportunities and risks report.

SEGMENT REPORTING

SEGMENT OVERVIEW JANUARY–JUNE 2014

(€ m)		Shipping, Project & Real Estate Financing	Corporates & Markets	Corporate Center	Consolidation Core Bank	**Total Core Bank**	Restructuring Unit	Consolidation Restructuring Unit	**Total Restructuring Unit**
Total income	**H1 2014**	**332**	**171**	**-73**	**12**	**442**	**222**	**-18**	**204**
	H1 2013	347	198	–28	–53	464	360	–15	345
Loan loss provisions	**H1 2014**	**-152**	**9**	**5**	**181**	**43**	**-97**	**391**	**294**
	H1 2013	–154	–6	4	49	–107	–306	221	–85
Net income before restructuring	**H1 2014**	**84**	**48**	**-45**	**192**	**279**	**47**	**373**	**420**
	H1 2013	72	78	28	–2	176	–94	206	112
Net income before taxes	**H1 2014**	**84**	**48**	**-45**	**98**	**185**	**47**	**200**	**247**
	H1 2013	72	78	28	–47	131	–94	100	6
Segment assets (€ bn)	**30.06.2014**	**29**	**28**	**18**	**1**	**76**	**34**	**3**	**37**
	31.12.2013	28	24	16	1	69	37	3	40

Core Bank strengthened by good new business

The Core Bank generated net income before taxes of € 185 million as at 30 June 2014 (previous year: € 131 million). It has therefore continued its sequence of positive quarterly results since the third quarter 2012, which was only interrupted once in the fourth quarter 2013 due to a significant increase in loan loss provisions for restructuring commitments in the Shipping division. The increase in the amount disbursed relating to profitable new transactions had a positive effect. New business concluded in the first half of the year increased significantly to a volume of € 4.5 billion (previous year: € 2.7 billion). In addition, just over € 0.3 billion of the new business acquired was syndicated to other banks. The positive earnings effect of the new business was partially offset by the reduction in interest-bearing loans and advances due to loan repayments and the increase in impaired receivables in the restructuring portfolio of the Shipping division.

Net income of the Core Bank was also bolstered by the positive effect from the capital protection clause, which is included in the loan loss provision line item in the consolidation column. However, an exceptional item relating to the measurement of hybrid financial instruments had a negative effect (Corporate Center segment). Net income before taxes was also adversely impacted by higher expenses for the second loss guarantee replenished in the previous year.

Adjusted for the effect of the capital protection clause and the special effect relating to the measurement of hybrid financial instruments net income of the Core Bank amounted to € 98 million.

The Restructuring Unit, which generated net income before taxes of € 247 million (previous year: € 6 million), benefited more strongly from the capital protection clause than the Core Bank.

We explain the trends in the individual segments of the Bank below.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

The Shipping, Project & Real Estate Financing segment covered the business conducted with shipping clients, real estate clients and clients in the energy and infrastructure industry as at 30 June 2014.

SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

(€ m)		Shipping, Project & Real Estate Financing	Shipping	Energy & Infrastructure	Real Estate Clients
	H1 2014	**332**	**148**	**80**	**104**
Total income	H1 2013	347	191	71	85
	H1 2014	**–152**	**–124**	**–26**	**–2**
Loan loss provisions (before compensation)	H1 2013	–154	–158	–	4
	H1 2014	**–101**	**–55**	**–21**	**–25**
Administrative expenses	H1 2013	–126	–59	–34	–33
	H1 2014	**5**	**1**	**3**	**1**
Other operating income	H1 2013	5	2	4	–1
	H1 2014	**84**	**–30**	**36**	**78**
Net income before restructuring	H1 2013	72	–24	41	55
	30.06.2014	**29**	**13**	**5**	**10**
Segment assets (€ bn)	31.12.2013	28	14	5	9

It was possible to increase net income of the Shipping, Project & Real Estate Financing segment to € 84 million (previous year: € 72 million). The Real Estate Clients division made the most significant contribution to this, while the ongoing crisis in the shipping industry continued to be felt by the Shipping division.

Income of the Shipping, Project and Real Estate Financing segment of € 332 million (previous year: € 347 million) included offsetting effects. New business in this segment, which was successfully increased during the first half of 2014 at planned margins, had a positive effect and amounted to a total of € 3.6 billion. The increase in new business resulted in higher cross-selling business, which was mainly reflected in higher loan fees, whereas customers held back from entering into derivative hedging transactions against the backdrop of the low level of interest rates. Furthermore, the reduction in interest-bearing loans as a result of loan repayments and an increase in the amount of impaired loans in the restructuring portfolio of the Shipping division had a negative impact.

The Real Estate Clients division, which as the sought-after financing partner across Germany made the largest contribution to new business volume with € 2.3 billion, recorded the greatest increase in income in this segment. The focus was placed on transactions in German metropolitan areas and the core market of North Germany. Transactions concluded with new customers made a significant contribution to the growth in this division.

Energy & Infrastructure (new business: € 0.6 billion) also reported higher income as at 30 June 2014. The conclusion of transactions relating to wind energy projects in Germany and wind and solar energy projects in France had a positive effect. The main focus was placed on structured project financing for completed wind and solar farms as well as for projects under construction.

Infrastructure also contributed to a diversified growth in business in the division through financing projects in the rail vehicle, airports and tank storage sectors amongst others in Germany and the rest of Europe. Energy & Infrastructure was also successful in selling a joint venture (Railpool) previously jointly held with KfW IPEX.

Income in the Shipping business was particularly affected by the ongoing crisis in the shipping industry. The increase in loans placed on a non-accrual basis as a result of the recognition of impairment losses in the restructuring area of the Shipping division had a particularly adverse impact. New business concluded in the first half of the year amounted to € 0.7 billion. New business was concentrated in commitments to international customers in different shipping segments (primarily bulkers, product and chemical tankers), which contribute to the further diversification of the portfolio.

The focus on lower risk business in forward-looking market segments continued to have a positive impact on the quality of the Core Bank portfolio. The Bank was able to reduce net additions to loan loss provisions slightly to € – 152 million (previous year: € – 154 million). The crisis in the shipping industry was reflected in further additions in the restructuring area of the Shipping division. The loan loss provisions required for the core Real Estate Clients division was low in light of the generally positive developments in the German real estate markets. The loan loss provision expense was moderately increased in the first half of the year in the Energy & Infrastructure division due to non-performing individual commitments, primarily to one commitment in the Infrastructure division.

CORPORATES & MARKETS SEGMENT

In the Corporates & Markets segment we combine, on the one hand, business transacted with corporates and wealth management with a focus on entrepreneurs, foundations and non-profit organisations. On the other hand the development, sales and distribution and trading of financial products (Capital Markets), special financing and advisory solutions including transaction banking services (Corporate Finance) as well as the servicing of savings banks, banks and insurance companies are allocated to this segment.

CORPORATES & MARKETS SEGMENT

(€ m)		**Corporates & Markets**	Capital Markets, Corporate Finance, Savings Banks & Institutional Clients	Corporate and Private Clients
	H1 2014	**171**	**54**	**117**
Total income	H1 2013	198	70	128
	H1 2014	**9**	**–**	**9**
Loan loss provisions	H1 2013	–6	–	–6
	H1 2014	**–135**	**–74**	**–61**
Administrative expenses	H1 2013	–118	–53	–65
	H1 2014	**3**	**1**	**2**
Other operating income	H1 2013	4	1	3
	H1 2014	**48**	**–19**	**67**
Net income before restructuring	H1 2013	78	18	60
	30.06.2014	**28**	**20**	**8**
Segment assets (€ bn)	31.12.2013	24	16	8

Net income for the Corporates & Markets segment amounted to € 48 million for the first half of the year (previous year: € 78 million). The increase in the net income of the Corporates and Wealth Management divisions was offset in particular by the decrease in net earnings of the Capital Markets division. Segment total income of € 171 million (previous year: € 198 million) continued to be adversely affected by the very low level of market interest rates in addition to a subdued loan demand. Net reversals were recognised in loan loss provisions given the solid business situation of many corporates.

The Corporates division made the largest contribution to segment total income; however, this was lower than in the previous year. This was caused by subdued loan demand, which can be attributed to the solid internal financing power of many customers along with the strong focus of domestic and foreign competitors on upper medium-sized German companies. Nevertheless, business transacted with corporates picked up slightly in the second quarter. Overall, in the first half of the year new business totalling about € 0.9 billion was generated.

The margin trend was pleasing as was the net reversal of loan loss provisions, which reflects the high quality of the corporates portfolio and resulted in the increase in net income for the division. It is expected that new business will increase further over the remainder of the year in view of the seasonal trend in previous years and the expansion of our market presence. Furthermore, the Corporates division was able to reinforce its good position in this area through its successful involvement in several corporate finance transactions.

Following the transfer of the classical private client business to partner banks Wealth Management continued to focus on entrepreneurs, foundations and non-profit organisations. Additional clients were acquired in the first half of 2014 with a mandate to provide advice and support in respect of business and personal financial affairs. The extremely low level of interest rates continued to represent a significant challenge.

Total income of the Capital Markets division was affected in the first instance by the low level of interest rates. This had a negative impact on the sale of interest rate derivatives and the income generated by the liquidity position and fixed-interest securities portfolios. The division continued to focus on the sales and distribution of the capital-markets-oriented product range, primarily interest rate, currency and commodity hedging as well as investment products. Thanks to this strategy, the Bank was able to strengthen its position as the preferred partner for risk management, although there was overall a subdued customer demand. Slightly lower income from trading transactions executed on behalf of customers also had an adverse impact.

The Corporate Finance division, which was established with economic effect from 1 April 2014 on the merger of the former Products division with the subsidiary, HSH Corporate Finance GmbH, continued to support the customer divisions in the first half of the year by providing high-quality financing solutions and made a significant contribution to the further development of customer relationships. For example, the division was involved in several transactions for companies in the areas of leveraged finance and capital structuring and pressed ahead with its syndication activities. Furthermore, it was possible to contribute to the development of existing customer relationships and the acquisition of new customers within the framework of transaction banking, in particular by means of payment transaction products and foreign trade finance.

The Savings Banks & Institutional Clients division focused on securing and developing the cooperation of the Bank further within the Savings Banks Association as well as with insurance companies and public-sector clients. Appropriate solutions are still the focus for the proprietary investments of the clients and their private and corporate client business. The placement of bonds, structured issues and Pfandbriefe once again made an important contribution to the Bank's funding.

The substantial increase in segment assets to € 28 billion (31 December 2013: € 24 billion) is primarily attributable to a higher cash reserve maintained for liquidity management purposes.

CORPORATE CENTER SEGMENT

Net income of the Corporate Center segment, which includes the positions of the Overall Bank as well as the administration and service divisions, declined in the first half of 2014 to € – 45 million compared to net income of € 28 million for the same period of the previous year. This was mainly attributable to a negative special effect arising on the calculation of net income from hybrid financial instruments. However, the continued sale of European government securities had a positive impact.

Net income for the Core Bank takes consolidation effects into account

Net income before restructuring of the consolidation position of the Core Bank increased significantly due to the positive compensation effect from the second loss guarantee including the impact of the capital protection clause. The net income before restructuring of the Core Bank, including consolidation effects, increased to € 279 million (previous year: € 176 million). Following deduction of restructuring expenses and expenses for government guarantees a net income before taxes of € 185 million was achieved (previous year: € 131 million). This gives a return on equity of 19% for the Core Bank (previous year: 13%). The cost-income ratio of the Core Bank was 49% (previous year: 46%).

RESTRUCTURING UNIT SEGMENT

Portfolio reduced further

The Restructuring Unit bundles legacy portfolios from the lending and capital market transactions that are not continued as core business of HSH Nordbank.

RESTRUCTURING UNIT SEGMENT

(€ m)		
Total income	**H1 2014**	**222**
	H1 2013	360
Loan loss provisions	**H1 2014**	**–97**
	H1 2013	–306
Administrative expenses	**H1 2014**	**–120**
	H1 2013	–170
Other operating income	**H1 2014**	**42**
	H1 2013	22
Net income before restructuring	**H1 2014**	**47**
	H1 2013	–94
Segment assets (€ bn)	**30.06.2014**	**34**
	31.12.2013	37

The reduction in the high-risk legacy portfolios was continued in the first half of the year in line with the plan. Following the significant portfolio reduction of € 13 billion in 2013 segment assets of the Restructuring Unit were reduced in the first half of 2014 by a further € 3 billion to € 34 billion (excluding consolidation items of € 3 billion). The largest reductions in the year to date were achieved in the shipping and international real estate loan portfolios.

Total income for the segment decreased to € 222 million compared to € 360 million in the previous year as a result of the ongoing winding down of interest-bearing positions. Reversals of impairment losses and sales of securities held in the CIP as well as the disposal of an equity holding (DMS Semiconductor Equipment GmbH) had a positive impact. Additions to loan loss provisions decreased to € –97 million on a net basis (previous year: € –306 million) and related primarily to loans in the shipping and European real estate portfolios. However, reversals could be recognised as a result of the successful restructuring of a shipping commitment as part of the sector consolidation, which markedly reduced the loan loss provisions. After taking the reduction in administrative expenses and an increase in other operating income into account, segment net income for the Restructuring Unit improved to € 47 million (previous year: € –94 million).

Net income before restructuring for the Restructuring Unit, including the consolidation effects amounted to € 420 million (previous year: € 112 million) in particular as a result of the positive effect from the capital protection clause compensation which had a particularly strong effect in the Restructuring Unit. After taking restructuring expenses and expenses for government guarantees into account a net income before taxes of € 247 million remained (previous year: € 6 million).

Total loan loss provisions still at a high level

The following developments were key for the material loan portfolios of the Restructuring Unit (real estate, ships, corporates/LBOs):

Additional loan loss provisions were recognised to a moderate extent for European real estate loans on account of the risks prevailing in individual regional markets and criteria specific to the property, whereas loan loss provision expense for US real estate loans was reduced due to the sustained market recovery.

Developments in the shipping portfolio continue to be determined by the difficult situation in the shipping industry. The emphasis is still being placed on finding alternative portfolio solutions involving strategic investors in order to reduce the high-risk shipping portfolios even further. Several ship financings had already been transferred to investors in the past year, thereby reducing the loan volume in the Restructuring Unit. HSH Nordbank is still also actively involved in the ongoing consolidation of shipping companies in order to further improve the Bank's risk position.

The situation in most sectors improved further with regard to the foreign corporate clients / leveraged buy-out business (LBO) involving structured financing. Against this backdrop it was possible to further reduce the loan volume – primarily by means of early termination by other lenders.

Positive fair value trend in capital market portfolios

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

The overall positive mood of the financial markets led to a decline in the risk premiums on high-risk debt instruments held in portfolio. The credit investment portfolio in particular benefited from this and was further reduced to € 5.5 billion (2008: € 22 billion). The recovery of the US residential housing market and other asset classes with a US link resulted in further increases in value of positions held in the ABS portfolio. This positive earnings effect was partially offset by the corresponding reduction in the hedging effect of the second loss guarantee.

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

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the reporting period.

FORECAST, OPPORTUNITIES AND RISKS REPORT

FORECAST REPORT INCLUDING OPPORTUNITIES AND RISKS

The following section should be read in conjunction with the other sections in this Interim management report and the Group management report 2013 of HSH Nordbank. 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 originally 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. In this Interim management report we are concentrating on an abridged update of the content of the Group management report for 2013 applying to the rest of the year. 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, risks are defined as possible future developments or events that may give rise to a negative divergence from the forecast or an objective for HSH Nordbank. The bank-specific risk types are then separately explained in the Risk report section.

ANTICIPATED UNDERLYING CONDITIONS

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

Expectations of slightly faster growth

Global economic growth is expected to accelerate slightly during the remainder of 2014. This is most likely to be the result of stimuli in the industrialised countries. For example, we are expecting for the USA stronger growth during the second half of the year following an unexpectedly weak start to the year. The eurozone is also expected to continue its slight expansion. For Germany we expect there to be one of the fastest growth rates in Europe throughout 2014. The development in Germany is likely to be borne by demand from the eurozone, stable consumption and rising levels of investment.

General economic risks result in particular from the geopolitical conflicts in the Middle East and Ukraine as well as the greatly increased sanctions imposed on Russia following the end of the reporting period, through which the climate among companies has already been noticeably dampened.

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 expect to see the first rise in interest rates during 2015. In the case of the ECB we do not currently expect any further relaxation of monetary policy after the measures already introduced, although the likelihood of this has already increased in view of the latest developments.

Yields on long-term German government bonds and US treasuries should increase moderately in the second half of 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.

Slight brightening of the shipping markets

The surplus capacity in the container shipping segment is likely only to be reduced slightly during the current year. However, this should be sufficient to give support to charter rates and ship values at a low level. The failure of an alliance between the three largest shipping lines in June 2014 could have a positive short-term impact on the market. Bulk carriers will probably benefit from a low volume of deliveries and high demand in the second half of the year, so that rates and ship values should at least remain at the improved levels. Oil tankers by contrast should experience relatively low rise in demand and increasing deliveries which will counteract a seasonable rise in prices. The bulk carrier and oil tanker segments will continue to be adversely impacted by a large number of orders for new ships, which are placed primarily by international investors despite the difficult market situation. In contrast, the new orders in the container shipping segment declined noticeably.

The performance of the real estate markets in Germany should be largely positive until the end of 2014. The excess demand in residential markets in large cities will continue thanks to the continued high influx of migrants and despite the increased construction activity. The retail sector will continue to benefit from the positive consumer sentiment. On the office property markets slightly higher vacancies are to be expected with a noticeable rise in completions and hardly any growth in demand. This should noticeably dampen the rise of rentals for office premises. Rents for residential property are also likely to rise at a slower rate in the medium term.

The outlook for the expansion of renewable energies in Europe is generally cautious for 2014. The growth of photovoltaic installations is expected to decline throughout Europe this year. Current projects in Spain may be burdened by a retroactive cut in the public feed-in tariff. In the wind energy sector completions in 2014 are expected to be slightly below the previous year's level in Europe. Conversely the good level of the previous year in Germany is likely to be surpassed once again. Anticipatory effects are also likely to have an impact because of a future reduction in the payments for wind energy. In transport infrastructure the growth in demand and rising maintenance requirements are still generating positive stimulus for investment. Institutional investors will become still more important.

Focus on completion of the Comprehensive Assessment

For the rest of the year the banks will be focusing on completing the EU-wide Comprehensive Assessment of the ECB with an AQR and stress test, before the European banking regulatory authority is transferred to the ECB this November. Public announcement of the test results of the banks which are involved has been scheduled for the second half of October. If institutions are identified as requiring capital, this has to be covered within six months for the baseline scenario and by nine months at the latest in the adverse stress test scenario, either by using additional capital or reducing the risk assets. To close any gaps in capital the banks must submit plans to the supervisory authorities with possible action alternatives.

ANTICIPATED BUSINESS SITUATION

Focus on new business, risk reduction and rise in efficiency

The positive business development of HSH Nordbank in the first half of the year shows that there is good progress in implementing the strategy. In the second half of the year we will consistently continue the restructuring measures. Special attention will continue to be devoted to a risk-conscious exploitation of growth and earnings potential from new business, reduction of risk positions, particularly those in the shipping portfolio, and on continuing the process of organisational restructuring and the measures introduced to cut costs.

Earnings forecast

Considering the successful client business during the first half-year in terms of developing margins and volumes as well as the well-filled new business pipeline, we are confident of continuing the strong expansion of our new business with customers throughout the year in the context of our business and risk strategy compared with the previous year and being able to continue developing sales of the whole range of products. By focusing on attractive transactions with a favourable risk/return profile we are creating the basis for increasing profitability and the continuous improvement of portfolio quality in the Core Bank. The positive impact of new business on earnings is partially balanced out by the repayment of loans. The negative special effect arising on the calculation of the net income from hybrid financial instruments will also burden net interest income during 2014, but will be balanced out in later years. Total income in 2014 is likely to be positively affected by profits from the sale of securities and equity holdings.

At the same time we shall continue rapidly cutting the risk-bearing legacy portfolios. This will lead to a further clear fall in total assets and earnings of the Restructuring Unit. The forced portfolio downsizing also results in an obvious scheduled decrease in total income for 2014 at Group level.

Opportunities and risks in the earnings forecast

A higher earnings trend than forecasted may arise where the Bank concludes more profitable new business with customers 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. At the same time the demand for loan financing may be worse than assumed due to, for example, a worsening of the economic environment. The intense competition in the German banking sector and good self-funding power of many corporate clients also bring higher risks for goal achievement in business with corporates. It can also not be excluded that higher losses in value will arise for debt instruments held in the portfolio as a result of higher tensions on the financial markets, as a result, for example, of lasting geopolitical conflicts. This would be reflected in the trading and financial investment results and would reduce total income.

Forecast for administrative expenses

Concerning administrative expenses we are assuming that for the entire 2014 year there will be a slightly lower decrease compared with the previous year than forecasted in the Group management report for 2013. The reasons lie in higher operating expenses than expected up to now for regulatory requirements – including the costs of the Comprehensive Assessment which are being charged to the banks. A major proportion of these costs cannot be influenced.

Administrative expenditure will be reduced by a moderate further cut in the number of employees as a result of the cut in jobs from the year 2011 which has almost been completed, and measures in the current cost reduction programme such as not recruiting for some unfilled posts.

In order to achieve further cost reductions and counteract the rising pressure of costs, we are consistently carrying on with the programme of measures introduced at the end of 2013 to compensate rising pressure of costs. The focus is on various types of operating expense and organisation adjustments (details can be seen in the section "Overview of business developments and earnings, net assets and financial position"). The consolidation of additional companies will also lead as part of the initial application of IFRS 10 in 2014 to additional expenses which have not so far been included in the planning. This additional expense is compensated by positive effects in other positions of the income statement.

Opportunities and risks in the forecast for administrative expenses

Development during the first half of the year has shown that we are well on the way to reaching our goal of reducing administrative expenses, although burdened by extra expenditure. It is possible that as part of the programme of cost reductions further savings possibilities will be identified and result in a greater decrease of individual cost types. On the other hand, it still cannot be ruled out that some costs cannot be reduced to the extent desired or not as quickly as planned. Cost reductions achieved in some areas could be offset by unexpected cost increases in other areas, for example as a result of a greater need for consultancy services relating to regulatory requirements and the ongoing EU proceedings. In mid-year it has also not yet been possible to make a definitive estimate of the external costs for the Comprehensive Assessment. This results in additional 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. It cannot be ruled out that the composition of the ongoing measures may change which in turn could have an impact on the planned cost reductions.

Forecast for loan loss provisions

Following the reduced loan loss provision expense during the first half-year we continue to expect increased reductions compared with the previous year which was marked by very high loan loss provisions for ship loans, which are likely to affect the Restructuring Unit to a greater extent.

We also expect a high positive compensation effect from the capital protection clause for the entire year 2014 resulting, as in the first half-year, from the reversal in the income statement of additional premiums (previously recognised as expenses) as a result of temporary debt waivers of the federal states. This is effected in order to secure a CET1 capital ratio of at least 10% in the context of the initial application of the more stringent regulatory targets for the calculation of the capital ratios in 2014.

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 plan these will total € 1.6 billion up to 2025 after deducting the first loss piece of the Bank. This value takes account of the adjustment made to our market forecast on shipping in 2013 in which we assume a slower recovery than previously. Details on the loan loss provision plan and expected payment defaults are set out in the Group management report 2013.

Risks and opportunities in the forecast for loan loss provisions

A lower need for loan loss provisions than planned for 2014 could be expected if the relevant market parameters and the macroeconomic environment developed less favourably than assumed. It is conceivable that the economy could grow less strongly in 2014 than forecasted, which in turn could slow down a gradual recovery of the shipping markets. Furthermore, it cannot be ruled out that the euro sovereign debt crisis in Europe will flare up again, which could lead to a weakening of the markets and the euro. The geopolitical risks, such as those related to the crisis concerning the Ukraine, could have a negative impact on overall economic development. This means that it is not possible to rule out an additional requirement for valuation allowances. Furthermore, a lower than planned reduction in the loan loss provisions would result if the capital protection clause does apply to a lesser extent than expected.

This forecast report comments separately on risks which might arise through the ECB's Comprehensive Assessment in the section "Risks and opportunities resulting from regulatory proceedings at EU level".

Loan loss provisions could be reduced more than 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 lower requirement for loan loss provisions would also be possible, for example, if the legacy portfolios in the Restructuring Unit were wound down more quickly than planned.

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 cargo and charter rates, which are key factors for determining the loan loss provisions. 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.

Capital and RWA forecast

With the capital ratios stated at mid-year 2014 HSH Nordbank is on a robust footing in a demanding regulatory and economic environment. After we closed 2013 with a common equity Tier 1 capital ratio of 11.7% (plus a buffer of 5.2%) calculated in accordance with the former Basel II framework, we continue to be optimistic to be able to disclose a Basel III common equity Tier 1 capital ratio of at least 10% for 2014 after taking the capital protection clause into account. We expect that for the whole year 2014 the increase in new business will be reflected a bit 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 this year.

The provisional approval of the replenishment of the guarantee facility taken into account in the ratios and the RWA is valid until a final decision is issued by the EU Commission, which we expect in late 2014 or early 2015 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 progressed during the first half-year as planned. Last but not least, we are confident due to the 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 the RWA result on the one hand from the future development of the portfolio performance, growth of new business and the market and risk parameters.

On the other hand, the final decision by the EU Commission on the replenishment of the guarantee and developments in the regulatory environment are significant (e.g. questions of interpretation regarding Basel III, supervisory consolidation under IFRS 10 with respect to the upper limits for large loan exposures). The forecast of the common equity Tier 1 capital ratio for the medium term is also based on the assumption that the operation of the guarantee structure remains unchanged under the regulations currently applicable to securitisations.

This forecast report comments separately on risks which might arise through the ECB's Comprehensive Assessment in the section "Risks and opportunities resulting from regulatory proceedings at EU level".

With the continuous winding down of high-risk troubled assets we are creating the requirements for the first repayments of the guarantee facility in coming years which would entail a reduction in the guarantee costs. The repayments planned for the period until 2016 could be made at a later date if this is necessitated by the risk situation.

Risks and opportunities resulting from regulatory proceedings at EU level

Despite the sound regulatory capital base under Basel III, the extensive hedging of troubled assets through the second loss guarantee and the loan loss provisions set aside, additional risks could arise for HSH Nordbank through the completion of the EU-wide Comprehensive Assessment of the ECB with the Asset Quality Review and stress test expected in October.

Together with its main shareholders, as a precautionary measure the Bank undertook a replenishment of the second loss guarantee from € 7 billion to € 10 billion in June 2013 due to imminent regulatory requirements, including the Comprehensive Assessment of the ECB. With this capital measure approved provisionally by the EU Commission the Tier 1 capital ratio relevant under supervisory law was significantly increased.

However, it still cannot in principle be ruled out purely theoretically that the results of the AQR will lead to an adjustment of the CET1 capital ratio which is lower than the ratio of 8% required in the AQR. On the one hand this could be based on purely accounting-based determinations by the ECB and on the other hand on adjustments going beyond this which come as a result of the particularly conservative regulatory approach prescribed by the ECB which exceed the demands of the accounting framework.

Possible effects could arise in this situation, particularly in the area of assessing the credit risk of loans and derivatives – also when taking account of the Challenger Model applied by the ECB.

It could also turn out, as a result of the stress test in connection with the AQR, that the prescribed regulatory CET1 minimum capital ratios of 8% in the baseline stress test scenario and 5.5% in the adverse scenario might not be reached because of existing portfolio risks.

At present, HSH Nordbank is not yet fully appraised of the actual results and material procedural steps of the Comprehensive Assessment, including all the details of the practical merging and implementation of AQR and the stress test. The notification of the Bank and publication of the results shortly afterwards are expected during the second half of October 2014.

A recapitalisation requirement identified by the Comprehensive Assessment, which is not expected but at the same time cannot be entirely ruled out by the Bank, would have to be covered in agreement with the shareholders in accordance within the deadlines set in the context of the Comprehensive Assessment. A potential recapitalisation with public funds could in turn involve requirements under the law on state aid.

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

If, as expected, the Comprehensive Assessment does not reveal a recapitalisation requirement for HSH Nordbank, the Bank will continue on its present path of strategic realignment based on the good development of the first half-year.

Funding plan

As part of our diversified funding strategy, the provision of bond products for savings banks, other financial institutions and institutional investors and deposit business with corporate customers of the Bank is driven forward. An additional form of potential funding is asset-based transactions, to which we attach great importance especially for the refinancing of the US dollar asset business. An additional focus during the latter half of the year is on the issuing of additional Pfandbriefe and unsecured benchmark bonds, provided the market environment permits it.

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 as well as offset by the further asset reduction of the Restructuring Unit on the other.

Based on a high level we expect the regulatory liquidity ratio as defined in the Liquidity Regulation (LiqV) to decrease moderately in the full year 2014 as part of the liquidity management process. At the same time we expect the ratio at all times to be well above the required minimum values.

Opportunities and risks in the funding plan

A positive capital market environment should support the issuing strategy during the second half of the year. Should tensions again grow on the financial markets, this could make funding more difficult. 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. Despite the progress made, access to the capital markets is still not unrestricted so that future refinancing continues to represent a major challenge.

Furthermore, changes in the rating of the Bank also have a decisive influence on access to the capital markets. Continued confirmed investment grade ratings would significantly underpin the implementation of the funding targets. Conversely rating downgrades, which cannot be ruled out in view of the review by Moody's and Fitch due to regulatory changes of numerous banks in Europe, including HSH Nordbank, as well as a requirement for recapitalisation arising as a result of the Comprehensive Assessment which in principle cannot be ruled out, would make it much more difficult to take up funding through the capital markets and also would trigger substantial outflows of funds and would increase the costs of funding. Against this backdrop stable access to the Sparkassenverbund (Savings Banks Association) as well as to collateralised refinancing sources such as Pfandbriefe and asset-based funding, also for refinancing US dollar business, is very important.

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 to be provided and therefore in pressure on the liquidity situation, whereas cash collateral decreases on a depreciation in the US dollar resulting in an improvement in the liquidity situation.

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

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 until 2015. 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.

FORECAST OF THE RESULT AND OVERALL APPRAISAL

The results for the first half of 2014 demonstrate that HSH Nordbank is well on the way to achieving its main annual targets. We therefore still expect that we will be able to disclose positive net income before and after taxes in the 2014 Group financial statements. This assumption is based on perceptible decreases in the need for loan loss provisions compared with the previous year including the positive impact on the capital protection clause. In addition, we expect an increase in earnings from new business with clients and – despite foreseeable additional burdens connected to banking supervisory requirements – lower administrative expenses.

Based on these planned earnings before taxes, return on equity will be positive for the Group, showing a great improvement over the negative return on equity disclosed for 2013. For 2014 we expect the cost-income ratio to increase moderately compared to the ratio that decreased in 2013.

Significant challenges still come particularly from the continuing shipping crisis, the Comprehensive Assessment by the ECB, potential rating actions, the expected final approval of the replenishment of the guarantee facility within the EU state aid proceedings and structural challenges in the funding area.

Material opportunities in the further course of the year are associated in particular with a positive outcome for the Bank of the ECB's Comprehensive Assessment and a final approval of the replenishment of the guarantee facility in the EU state aid proceedings. These would provide substantial assistance for the further implementation of the Bank's strategy. In addition, the basis for sustained future success of HSH Nordbank has been strengthened further with the market success of the Core Bank, the progressive winding down of troubled assets in the Restructuring Unit and the measures currently being implemented to reduce costs.

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

RISK REPORT

Among the material risks of the Bank are default risks, market risks, operational risks, liquidity risks, strategic risks and reputation risks. The methods, instruments and processes used in the risk management are explained in detail in the Risk report contained in our 2013 Annual Report. In addition, the "Forecast report including opportunities and risks" contained in this Interim Report provides information on the anticipated business situation with a current assessment of material risks and opportunities for HSH Nordbank for the remainder of the year.

RISK-BEARING CAPACITY

As part of the monitoring of our risk-bearing capacity we regularly compare the total economic capital required to cover all major quantifiable types of risk (overall risk) to the available amount of economic risk coverage potential. The main basis for our calculation of risk-bearing capacity is a liquidation approach which focuses on protection of creditors (a so-called "gone concern" approach). The risk coverage potential, which is determined based on IFRS since the first quarter of 2014, takes into account equity capital modified for economic purposes, unrealised gains and losses arising on securities, equity holdings and loans in the IFRS categories LaR, AfS and LIA as well as effects from the second loss guarantee provided by the states of Hamburg and Schleswig-Holstein, amongst other things. The risk coverage potential has been reduced by the second loss guarantee by the amount retained by HSH Nordbank of € 3.2 billion.

As at 30 June 2014, risk coverage potential amounted to € 9.3 billion (31 December 2013: € 8.7 billion). This increase is mainly attributable to the change of the calculation of the risk-bearing capacity from HGB to IFRS.

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 a measure of unexpected losses is determined monthly for default, liquidity and market risks in a methodical consistent manner with a confidence level of 99.9% and a risk horizon of one year. The economic capital requirements for the individual risk types are aggregated to an overall economic risk. In doing so, no risk-reducing correlations are utilised.

Institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the risk of valuation adjustments of OTC derivatives caused by credit considerations (Credit Valuation Adjustments) are taken into account in determining the economic capital required for default risk. The economic capital required for default risk as at the reporting date, taking account of the easing effect of the second loss guarantee, amounted to € 1.5 billion (31 December 2013: € 1.5 billion).

As part of the risk-bearing capacity concept, market risk (value-at-risk, VaR), which is determined on a daily basis at the confidence level chosen by the Bank and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk as at the reporting date of 30 June 2014 amounted to € 0.7 billion (31 December 2013: € 0.7 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 position. As at 30 June 2014, the liquidity value-at-risk (LVaR) as a measurement of this risk amounted to € 0.4 billion (31 December 2013: € 0.5 billion), representing a slight decline. 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 30 June 2014 (31 December 2013: € 0.2 billion).

The overall economic risk as at the reporting date remained at € 2.9 billion. The utilisation of the risk coverage potential amounted to 31%. 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)	**30.06.2014**	31.12.2013
Economic risk coverage potential[1]	**9.3**	**8.7**
Economic capital required	**2.9**	**2.9**
of which for default risks[2]	1.5	1.5
for market risks	0.7	0.7
for liquidity risks	0.4	0.5
for operational risks	0.2	0.2
Risk coverage potential buffer	**6.4**	**5.9**
Utilisation of risk coverage potential (%)	**31**	**33**

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

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. We calculate both general macroeconomic scenarios such as a severe economic downturn as well as actual historical scenarios. The results are incorporated into the Bank's quarterly internal reporting and are analysed by the Management Board as part of a management dialogue concerning the measures to be taken. In addition to examining the adequacy of the risk coverage potential buffer maintained to compensate stress effects, this analysis is used to examine the necessity for various actions so as to enhance the institution's financial stability.

The regulations implemented by the Bank in connection with the restructuring plan in accordance with the Minimum Requirements for the Design of Recovery Plans (MaSan) have a similar purpose. These serve the early detection of resource shortages by relying on suitable indicators as well as their removal by means of predefined options for action in actual crisis situations. HSH Nordbank submitted a revised version of its restructuring plan according to MaSan to the supervisory authority in April 2014. The Management Board has set up the MaSan Committee in order to monitor the indicators and propose suitable measures. The committee is meeting on a monthly basis or ad hoc, if required.

The particular purpose of both processes is to ensure that the Bank is able to comply with the regulatory minimum requirements even under stress conditions. In addition, inverse stress tests are carried out at least once a year to identify scenarios which could endanger the Bank's ability to survive. This information is also used by the Management Board of HSH Nordbank to consider and decide upon any actions required to ensure the risk-bearing capacity of the Bank.

DEFAULT RISK

Default risk exposure

The following representations concerning the default risk exposure were changed from the loan amount outstanding to the exposure at default (EaD) as at the reporting date. Amounts for the reference reporting date as at 31 December 2013 were adjusted accordingly in order to allow comparisons. The EaD represents the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance sheet transactions (taking credit conversion factors into account) that are at risk. The EaD was € 115,164 million as at 30 June 2014.

The EaD broken down by internal rating categories is presented in the following table. The EaD with an investment grade rating (rating category 1 [AAAA] to 5) accounts for 57% of the overall exposure at Group level (31 December 2013: 55%). For the Core Bank the investment grade exposure accounts for 67% (31 December 2013: 66%) and for the Restructuring Unit 40% (31 December 2013: 38%). 49% of the overall Bank portfolio is covered by the second loss guarantee (31 December 2013: 54%). For the Core Bank, the exposure covered by the second loss guarantee accounts for 29% (31 December 2013: 34%) and for the Restructuring Unit it accounts for 85% (31 December 2013: 86%). The guarantee coverage is particularly high in the worse rating categories.

DEFAULT RISK STRUCTURE BY RATING CATEGORIES[1)]

(€ m)	30.06.2014				31.12.2013			
	Core Bank	Restructuring Unit	**Total**	Of which guaranteed (in %)	Core Bank	Restructuring Unit	Total	Of which guaranteed (in %)
1 (AAAA) to 1 (AA+)	23,975	7,566	31,541	24	18,930	7,842	26,772	31
1 (AA) to 1 (A–)	11,533	2,713	14,246	27	12,588	3,289	15,877	32
2 to 5	14,729	5,591	20,320	45	15,284	5,529	20,813	47
6 to 9	13,894	5,064	18,958	53	12,923	5,264	18,187	60
10 to 12	2,615	1,348	3,963	81	2,369	2,001	4,370	79
13 to 15	1,976	3,505	5,481	81	2,314	5,418	7,732	87
16 to 18 (default categories)	5,987	13,860	19,847	91	5,783	13,836	19,619	91
Other[2)]	390	418	808	–	603	670	1,273	–
Total	**75,099**	**40,065**	**115,164**	**49**	**70,794**	**43,849**	**114,643**	**54**

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

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

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

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	30.06.2014			31.12.2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Industry	7,974	1,778	9,752	7,558	2,293	9,851
Shipping	14,545	8,441	22,986	14,563	9,237	23,800
Trade and transportation	4,372	2,238	6,610	4,422	2,571	6,993
Credit institutions	9,851	2,260	12,111	9,716	2,486	12,202
Other financial institutions	2,348	7,294	9,642	2,948	7,720	10,668
Land and buildings	8,669	7,302	15,971	7,815	8,374	16,189
Other services	5,921	2,636	8,557	5,997	3,377	9,374
Public sector	20,210	7,237	27,447	16,181	6,825	23,006
Private households	1,209	879	2,088	1,593	966	2,559
Other	–	–	–	1	–	1
Total	**75,099**	**40,065**	**115,164**	**70,794**	**43,849**	**114,643**

The EaD under the position "Public sector" rose at Group level by € 4,441 million during the first half of 2014. This change results mainly from the increase in our deposits at the German Central Bank (Deutsche Bundesbank).

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

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES

(€ m)	30.06.2014			31.12.2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Up to 3 months	15,770	3,126	18,896	9,843	3,588	13,431
>3 months to 6 months	2,189	1,184	3,373	2,714	1,439	4,153
>6 months to 1 year	3,798	2,822	6,620	4,200	2,603	6,803
>1 year to 5 years	30,658	16,337	46,995	31,089	18,945	50,034
>5 years to 10 years	16,800	7,609	24,409	16,661	8,047	24,708
>10 years	5,884	8,987	14,871	6,287	9,227	15,514
Total	**75,099**	**40,065**	**115,164**	**70,794**	**43,849**	**114,643**

Country risk

The following table provides an overview of the breakdown of foreign exposure by region, which reached € 53,362 million (31 December 2013: € 57,495 million) as at 30 June 2014.

FOREIGN EXPOSURE BY REGION

EaD (€ m)	30.06.2014			31.12.2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Western Europe	15,323	15,677	31,000	15,906	17,338	33,244
of which eurozone countries	9,828	9,421	19,249	10,492	10,051	20,543
Central and Eastern Europe	1,027	464	1,491	1,098	543	1,641
of which eurozone countries	54	128	182	61	128	189
Africa	818	200	1,018	804	338	1,142
North America	6,018	5,526	11,544	6,675	6,323	12,998
Latin America	700	626	1,326	652	713	1,365
Middle East	46	1,007	1,053	64	868	932
Asia-Pacific region	2,864	2,109	4,973	2,772	2,411	5,183
International organisations	927	30	957	960	30	990
Total	**27,723**	**25,639**	**53,362**	**28,931**	**28,564**	**57,495**

The basis for the allocation of the transactions to the regions is the country relevant for transfer risk taking account of any collateral relevant for the transfer risk. The country relevant for transfer risk is the country from where HSH Nordbank receives the cash flows. If the cash flow goes via several countries, the country with the poorest transfer rating is taken.

Due to their development in the European sovereign debt crisis and in part unfavourable fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular Portugal, Ireland, Italy, Greece, Spain, Cyprus, Hungary and Slovenia. As a result of the crisis concerning Ukraine the exposure to Russia is also subject to increased scrutiny.

The following table shows the EaD of the exposures in the individual European countries mentioned above. The Bank's overall exposure to these countries declined slightly during the first half of 2014 and amounted to € 7,454 million as at 30 June 2014.

EAD IN SELECTED EUROPEAN COUNTRIES

(€ m)	Country		Banks		Corporates/Other		Total	
	30.06.2014	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013
Cyprus	–	–	19	–	1,724	1,711	1,743	1,711
Greece	7	7	–	–	1,138	1,118	1,145	1,125
Hungary	18	17	–	1	77	78	95	96
Ireland	–	–	22	22	224	299	246	321
Italy	675	635	69	126	691	708	1,435	1,469
Portugal	271	266	3	3	52	58	326	327
Russia	–	–	–	–	117	110	117	110
Slovenia	90	90	–	–	16	18	106	108
Spain	211	216	452	534	1,578	1,660	2,241	2,410
Total	**1,272**	**1,231**	**565**	**686**	**5,617**	**5,760**	**7,454**	**7,677**

Note 43 includes more information on the selected European countries.

There is no significant exposure to Ukraine and Argentina, which has come into the focus of public interest because of the current sovereign debt crisis.

Loan loss provisions

Loan loss provisions in the first half of 2014 amounted to € 337 million compared to € – 192 million in the first half of the previous year.

Net additions to loan loss provisions before compensation through the second loss guarantee were € – 237 million during the first half of 2014, and well below the previous year's figure of € – 463 million which had been marked by unusually high provisions for ship loans.

The additions apply in particular to legacy shipping portfolios of the Core Bank and the Restructuring Unit in order to take account of the continuing difficult market conditions. In contrast, the successful restructuring of a shipping exposure permitted higher reversals and thus reduced the net loan loss provisions for ship loans in the Restructuring Unit. In addition, we recorded moderate additions to loan loss provisions for European real estate loans in the Restructuring Unit and for individual cases in the core area of Energy & Infrastructure.

If valuation allowances had to be recognised in legacy portfolios covered by the second loss guarantee, the loan loss provision expense was reduced by the balance sheet hedging effect of the guarantee (compensation item). The compensation item for the first half of 2014 also includes the easing effect of the guarantor's temporary debt waiver on the additional premium.

The following table provides an overview by segments.

CHANGES IN LOAN LOSS PROVISIONS

(€ m)	01.01.–30.06.2014				
	Individual valuation allowances/ provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Shipping, Project & Real Estate Financing	–131	–9	–12	–	–152
Corporates & Markets	10	–1	–	–	9
Corporate Center	–	–	5	–	5
Consolidation Core Bank	–2	5	–5	183	181
Total Core Bank	**–123**	**–5**	**–12**	**183**	**43**
Restructuring Unit	–93	26	–30	–	–97
Consolidation Restructuring Unit	–	–	–	391	391
Total Restructuring Unit	**–93**	**26**	**–30**	**391**	**294**
Group	**–216**	**21**	**–42**	**574**	**337**

CHANGES IN LOAN LOSS PROVISIONS

(€ m)	01.01.–30.06.2013				
	Individual valuation allowances/ provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	Total
Shipping, Project & Real Estate Financing	–81	–78	5	–	–154
Corporates & Markets	–3	–3	–	–	–6
Corporate Center	–	–	4	–	4
Consolidation Core Bank	3	–	–4	50	49
Total Core Bank	**–81**	**–81**	**5**	**50**	**–107**
Restructuring Unit	–374	50	18	–	–306
Consolidation Restructuring Unit	–	–	–	221	221
Total Restructuring Unit	**–374**	**50**	**18**	**221**	**–85**
Group	**–455**	**–31**	**23**	**271**	**–192**

Detailed information on the development of the individual divisions is set out in the “Segment reporting” section. Details regarding the total loan loss provisions in the lending business are presented in Notes 11 and 20.

MARKET RISK

For purposes of measuring and managing market risk, HSH Nordbank employs a VaR-approach (99.0% confidence level, holding period of one day, historical observation period of 250 days). As at 30 June 2014, the market risk related to our trading book positions amounted to € 0.7 million and that to our banking book positions amounted to € 20.8 million. The aggregated market risk, which cannot be derived from adding the total VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 20.9 million of which € 15.3 million relates to the Core Bank and € 18.6 million to the Restructuring Unit. Due to risk-mitigating correlation effects the VaR for the Core Bank and Restructuring Unit do not add together to give the aggregated market risk. As part of managing risk-bearing capacity, the VaR of € 20.9 million is scaled up to the amount of € 0.7 billion in the framework of aggregating the individual risk types to the overall risk. Developments with respect to the individual risk types during the first six months of 2014 are presented in the table set out below.

DAILY VALUE-AT-RISK OF THE GROUP

(€ m)	Interest rate risk[1]		Credit spread risk[1]		Foreign exchange risk		Equity risk		Commodity risk		Total[2]	
	Jan–June 2014	Jan–Dec 2013	**Jan–June 2014**	Jan–Dec 2013	**Jan–June 2014**	Jan–Dec 2013	**Jan–June 2014**	Jan–Dec 2013	**Jan–June 2014**	Jan–Dec 2013	**Jan–June 2014**	Jan–Dec 2013
Average	8.5	30.6	20.4	31.5	12.3	7.2	3.4	3.2	0.2	0.2	23.0	28.8
Maximum	11.1	47.3	25.3	45.4	16.1	16.0	5.7	5.4	0.5	0.6	25.6	40.8
Minimum	6.2	7.4	17.7	19.0	8.2	2.2	1.8	1.3	0.1	0.1	20.7	19.9
Period end amount	9.0	7.4	17.7	19.2	8.3	12.2	1.9	4.3	0.2	0.2	20.9	26.0
of which Core Bank	12.1	16.0	4.4	5.3	9.0	13.8	0.3	0.3	0.2	0.2	15.3	17.5
of which Restructuring Unit	4.1	6.8	16.1	20.0	0.8	1.4	1.8	4.5	–	–	18.6	19.3

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

The overall VaR decreased compared to the end of 2013 from € 26.0 million to € 20.9 million. This decline could be observed primarily in relation to foreign exchange and equity risk. The principal reasons for this are the normal elimination of volatile trading days of 2013 from the historical simulation and the sale of equity portfolios.

LIQUIDITY RISK

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

The transactions of the Bank impacting liquidity are presented as cash flows and the resultant inflows and outflows are allocated to time buckets (liquidity development report) for the purposes of measuring the risk of insolvency and funding requirements. The difference between inflows and outflows serves as a measure for the insolvency risk. These so-called gaps are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the respective limit for insolvency risk. Utilisation of the limits is monitored on a daily basis.

In addition to the normal case liquidity development report, which is compiled on the assumption of business developments in a normal market environment with due consideration of risk aspects, 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 following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity development report as at 30 June 2014 as well as 31 December 2013. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes the liquidity buffer required under supervisory law.

LIMIT ON CUMULATIVE LIQUIDITY GAPS

Utilisation of liquidity potential (%)	Normal case		Stress case	
	30.06.2014	31.12.2013	**30.06.2014**	31.12.2013
1st day	30	12	37	16
7th day	36	26	45	36
14th day	37	30	43	40
3rd week	40	35	49	47
4th week	45	36	55	50
2nd month	49	51	62	71
3rd month	53	55	69	79
6th month	59	63	82	95
9th month	66	71	96	110
12th month	72	78	110	126

The Bank's risk tolerance 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 as at the reporting date has a peak utilisation of 72% in the 12th month. All limits within the defined survival period of 12 months were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking the Minimum Requirements for Risk Management (MaRisk) into account. In fact, the liquidity potential as at the reporting date is even maintained for a period of nine months. Compared to the 2013 year-end the utilisation level has decreased from the third month, which is especially relevant for risk of insolvency, on account of the short- and long-term funding activities carried out. Critical limit utilisation levels were recorded neither in the normal case nor in the stress case liquidity development report in the course of the period under review.

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.90 and 2.07 it was well above the regulatory minimum value of 1.0 at all times during the reporting period. The average value for the first six months of 2014 was 1.98 (2013: 2.06).

Overall, the liquidity profile of HSH Nordbank was improved further during the first half of 2014. Various funding measures have contributed to this development and are described in detail in the "Net assets and financial position" section. Despite this success, access to unsecured long-term capital markets remains limited so that the future funding and rating continue to represent some of the significant challenges facing the Bank.

OTHER MATERIAL RISKS

In the 2013 reporting year HSH Nordbank had analysed and proactively made adjustments to material tax risks of the past. These included the analysis of so-called cum-/ex transactions and other complex tax transactions for which substantial provisions had already been recognised in the 2013 annual financial statements. HSH Nordbank is currently being audited by the tax authorities for the years 2003 to 2011, for which further tax charges cannot be excluded. This applies both to the German business sites as well as to the foreign branch in New York. Adequate provisions were made as at 30 June 2014 for risks which have already been sufficiently specified during the current company audits. The 2013 Annual Report contains further information on the subject of tax risks.

The additional risks faced by the Group presented in detail in the 2013 Annual Report have largely remained unchanged during the course of the year to date.

Hamburg/Kiel, 19 August 2014

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

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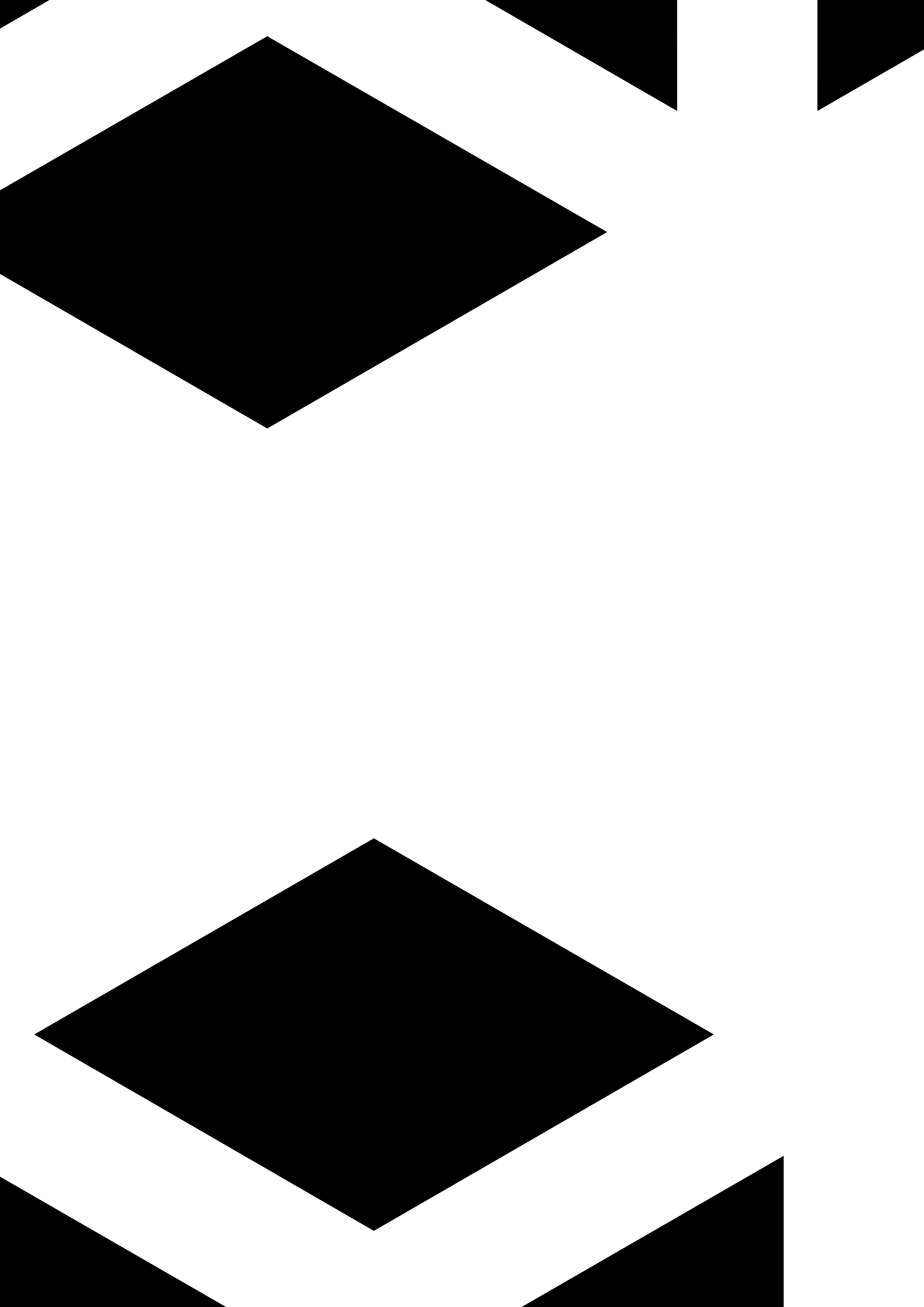

INTERIM GROUP FINANCIAL STATEMENTS

GROUP STATEMENT OF INCOME
FOR THE PERIOD 1 JANUARY TO 30 JUNE 2014

GROUP INCOME STATEMENT

(€ m)	Note	January–June 2014	Following adjustment (see Note 3) January–June 2013	Change in %
Interest income		2,647	2,983	–11
Interest expenses		–2,256	–2,427	–7
Net income from hybrid financial instruments		–160	–76	> –100
Net interest income	(5)	**231**	**480**	**–52**
Net commission income	(6)	73	52	40
Result from hedging	(7)	–12	10	> –100
Net trading income	(8)	112	114	–2
Net income from financial investments	(9)	240	167	44
Net income from financial investments accounted for under the equity method	(10)	2	–14	> 100
Total income		**646**	**809**	**–20**
Loan loss provisions	(11)	337	–192	> –100
Administrative expenses	(12)	–338	–382	–12
Other operating income	(13)	54	53	2
Net income before restructuring		**699**	**288**	**> 100**
Result from restructuring	(14)	–8	–8	–
Expenses for government guarantees	(15)	–259	–143	81
Net income before taxes		**432**	**137**	**> 100**
Income taxes		–131	–7	> –100
Group net income		**301**	**130**	**> 100**
Group net result attributable to non-controlling interests		1	–1	> 100
Group net income attributable to HSH Nordbank shareholders		300	131	> 100

EARNINGS PER SHARE

(€)	Note	January–June 2014	Following adjustment (see Note 3) January–June 2013
Undiluted	(16)	0.99	0.43
Diluted	(16)	0.99	0.43
Number of shares (millions)		**302**	**302**

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 1 JANUARY TO 30 JUNE 2014

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	**January–June 2014**	Following adjustment (see Note 3) January–June 2013
Group net income	**301**	**130**
Income and expense that will be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	112	64
of which: from exchange rate effects	–	–1
Income taxes not recognised in the income statement	–28	–7
of which: from exchange rate effects	–	1
	84	**57**
Currency conversion reserve	6	5
	6	**5**
Changes in other net income from financial investments accounted for under the equity method	–2	2
	–2	**2**
Changes in other net income from non-current assets held for sale as well as disposal groups	–3	–
	–3	**–**
Income and expense that will not be reclassified to the income statement at a later date		
Changes in:		
Revaluation reserve (before taxes)	–93	–33
Income taxes not recognised in the income statement	29	11
	–64	**–22**
Revaluation effects under IAS 19 (before taxes)	–114	–15
Income taxes not recognised in the income statement	36	5
	–78	**–10**
Other comprehensive income for the period	**–57**	**32**
Total comprehensive income	**244**	**162**
Total comprehensive income attributable to non-controlling interests	1	–1
Total comprehensive income attributable to HSH Nordbank shareholders	243	163

GROUP STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

ASSETS

(€ m)	Note	**30.06.2014**	Following adjustment (see Note 3) 31.12.2013	Change in %
Cash reserve	(17)	10,083	4,851	> 100
Loans and advances to banks	(18)	5,637	5,158	9
Loans and advances to customers	(19)	66,629	68,469	–3
Loan loss provisions	(20)	–2,666	–3,583	–26
Positive fair values of hedging derivatives	(21)	1,297	1,287	1
Positive adjustment item from portfolio fair value hedges		365	151	> 100
Trading assets	(22)	9,112	9,045	1
Financial investments	(23)	19,810	21,256	–7
Financial investments accounted for under the equity method	(24)	–	–	–
Intangible assets	(25)	36	45	–20
Property, plant and equipment	(26)	405	480	–16
Investment property	(26)	254	267	–5
Non-current assets held for sale and disposal groups	(27)	48	25	92
Current tax assets		116	59	97
Deferred tax assets	(28)	1,153	1,226	–6
Other assets	(29)	292	375	–22
Total assets		**112,571**	**109,111**	**3**

LIABILITIES

(€ m)	Note	30.06.2014	Following adjustment (see Note 3) 31.12.2013	Change in %
Liabilities to banks	(30)	16,276	18,212	–11
Liabilities to customers	(31)	45,398	40,662	12
Securitised liabilities	(32)	27,846	28,561	–3
Negative fair values of hedging derivatives	(33)	925	934	–1
Negative adjustment item from portfolio fair value hedge		1,104	961	15
Trading liabilities	(34)	7,918	7,103	11
Provisions	(35)	1,457	1,394	5
Current tax liabilities		146	203	–28
Deferred tax liabilities		43	39	10
Other liabilities	(36)	1,167	1,175	–1
Subordinated capital	(37)	5,467	5,288	3
Equity	(38)	4,824	4,579	5
Share capital		3,018	3,018	–
Capital reserve		594	594	–
Retained earnings		930	1,775	–48
Revaluation reserve		46	27	70
Currency conversion reserve		–55	–61	–10
Other net income from financial investments accounted for under the equity method		1	3	–67
Other net income from non-current assets held for sale and disposal groups		–	3	–100
Group net profit/loss		300	–767	> 100
Total before non-controlling interests		4,834	4,592	5
Non-controlling interests		–10	–13	–23
Total equity and liabilities		**112,571**	**109,111**	**3**

GROUP STATEMENT OF CHANGES IN EQUITY

GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

	Note	Share capital	Capital reserve	Retained earnings	of which actuarial gains/losses acc. to IAS 19
As at 1 January 2013		**3,018**	**594**	**1,876**	**–1**
Changes due to restatements	3	–	–	14	–
Changes in the scope of consolidation	4	–	–	–16	–
Adjusted as at 1 January 2013		**3,018**	**594**	**1,874**	**–1**
Group net income		–	–	–	–
Changes due to restatements	3	–	–	–	–
Changes not recognised in the income statement		–	–	–10	–10
Changes recognised in the income statement		–	–	–	–
Exchange rate changes		–	–	–	–
Changes in the scope of consolidation	4	–	–	–	–
Comprehensive income as at 30 June 2013		**–**	**–**	**–10**	**–10**
Changes in retained earnings		–	–	9	–
Transfer of Group net loss for the previous year		–	–	–114	–
As at 30 June 2013		**3,018**	**594**	**1,759**	**–11**
As at 1 January 2014		**3,018**	**594**	**1,768**	**10**
Changes due to restatements	3	–	–	19	–
Changes in the scope of consolidation	4	–	–	–12	–
Adjusted as at 1 January 2014		**3,018**	**594**	**1,775**	**10**
Group net income		–	–	–	–
Changes not recognised in the income statement		–	–	–78	–78
Changes recognised in the income statement		–	–	–	–
Exchange rate changes		–	–	–	–
Changes in the scope of consolidation	4	–	–	–	–
Comprehensive income as at 30 June 2014		**–**	**–**	**–78**	**–78**
Changes in retained earnings		–	–	–	–
Transfer of Group net loss for the previous year		–	–	–767	–
As at 30 June 2014	38	**3,018**	**594**	**930**	**–68**

Currency conversion reserve	Revaluation reserve	Financial investments accounted for under the equity method	From non-current assets held for sale and disposal groups	Accumulated other comprehensive income	Group net profit/loss	Total before non-controlling interests	Non-controlling interests	**Total**
–59	**–31**	**–**	**–**	**–91**	**–120**	**5,278**	**–6**	**5,272**
–	–	–	–	–	6	20	–	20
–	–	–	–	–	–	–16	–	–16
–59	**–31**	**–**	**–**	**–91**	**–114**	**5,282**	**–6**	**5,276**
–	–	–	–	–	91	91	–1	90
–	–	–	–	–	4	4	–	4
–	60	2	–	52	–	52	–	52
–	–26	–	–	–26	–	–26	–	–26
6	–	–	–	6	–	6	–	6
–1	–	–	–	–1	36	35	–	35
5	**34**	**2**	**–**	**31**	**131**	**162**	**–1**	**161**
–	–	–	–	–	–	9	–	9
–	–	–	–	–	114	–	–	–
–54	**3**	**2**	**–**	**–60**	**131**	**5,453**	**–7**	**5,446**
–64	**27**	**3**	**3**	**–21**	**–812**	**4,537**	**–13**	**4,524**
–	–	–	–	–	8	27	–	27
3	–	–	–	3	37	28	–	28
–61	**27**	**3**	**3**	**–18**	**–767**	**4,592**	**–13**	**4,579**
–	–	–	–	–	300	300	1	301
–	109	–2	–	29	–	29	–	29
–	–90	–	–	–90	–	–90	–	–90
6	–	–	–	6	–	6	–	6
–	–	–	–3	–3	–	–3	–	–3
6	**19**	**–2**	**–3**	**–58**	**300**	**242**	**1**	**243**
–	–	–	–	–	–	–	2	2
–	–	–	–	–	767	–	–	–
–55	**46**	**1**	**–**	**–76**	**300**	**4,834**	**–10**	**4,824**

GROUP CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT

(€ m)	**January–June 2014**	Following adjustment January–June 2013
Cash and cash equivalents as at 1 January	**4,851**	**6,745**
Cash flow from operating activities	4,018	1,332
Cash flow from investing activities	1,239	802
Cash flow from financing activities	3	–135
Changes in cash and cash equivalents due to exchange rate fluctuations	–28	–2
Cash and cash equivalents as at 30 June	**10,083**	**8,742**

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

The cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss for the year is adjusted for non-cash expenses (increased) and non-cash income (reduced) and for cash changes in assets and liabilities used in operating activities.

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

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Nordbank has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (5) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 in conjunction with Section 315a (1) of the German Commercial Code (HGB), to draw up its consolidated financial statements in accordance with International Accounting Standards (IFRS/IAS). International accounting standards, hereafter IFRS or standards, refer to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

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

The Interim Group financial statements as at 30 June 2014 are prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). In doing so, particular attention has been paid to IAS 34 (Interim financial reporting).

In the Interim Group financial statements, the same accounting policies have basically been applied as in the consolidated financial statements of HSH Nordbank AG as at 31 December 2013.

In accordance with IAS 34.C4, HSH Nordbank AG does not prepare any pension obligation reviews in the course of the current fiscal year and bases its figures on the data from the last expert opinion made as at 31 December 2013. Each quarter it is assessed whether essential parameters related to pension provisions have changed. If this is the case, these are adjusted accordingly and are taken into account in accounting (in particular changes in the discount factor).

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

IFRS 10 – Consolidated Financial Statements

This standard includes a new, comprehensive definition of the term "control". If an entity controls another entity, the parent company must include the subsidiary in its Group financial statements. According to the new definition of control, control exists if the potential parent has decision-making authority with respect to the potential subsidiary by means of voting or other rights, it has exposure to positive or negative variable returns from the subsidiary and it has the ability to use its power over the subsidiary to affect the amount of the returns.

Further information is available in Note 4.

IFRS 11 – Joint Arrangements

IFRS 11 imposes new rules on accounting for joint arrangements. On the basis of the new rules, a decision must be made as to whether a joint operation or a joint venture is involved. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The individual rights and obligations are accounted for in the Group financial statements on a pro rata basis. By contrast, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. This right is presented in the Group financial statements using the equity method thereby eliminating the option of including it in the Group financial statements on a pro rata basis.

IFRS 12 – Disclosure of Interests in Other Entities

This standard governs disclosure obligations related to investments in other entities. The information required to be disclosed is significantly more comprehensive than has previously been the case under IAS 27, IAS 28 and IAS 31.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance

The amendments include clarification and rules making transition to IFRS 10, IFRS 11 and IFRS 12 easier. Adjusted comparative information is only required for the preceding comparative period now. In connection with the note disclosures on non-consolidated structured entities the obligation to provide comparative information for periods before the period in which IFRS 12 is applied for the first time is also removed.

Amendments to IAS 27 – Separate Financial Statements

As part of the adoption of IFRS 10 Group financial statements, the rules for the control concept and the requirements for the preparation of consolidated financial statements are being removed from IAS 27 and finally addressed in IFRS 10 (see comments on IFRS 10). As a result, IAS 27 will in future only contain rules related to accounting for subsidiaries, joint ventures and associates in IFRS single-entity financial statements.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

Amendments were also made to IAS 28 as part of the adoption of IFRS 11 Joint Arrangements. IAS 28 continues to govern the application of the equity method. However, the scope of application has been considerably expanded through the adoption of IFRS 11, as not only investments in associates but also in joint ventures (see IFRS 11) have to be measured using the equity method. The use of proportionate consolidation for joint ventures is therefore no longer permitted.

A further change relates to the accounting treatment under IFRS 5, if only a portion of an investment in an associate or a joint venture is held for sale. IFRS 5 is to be applied to the portion held for sale until it is sold, if the other portion (to be retained) continues to be accounted for under the equity method.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities

This addition to IAS 32 clarifies the requirements for offsetting financial instruments. It addresses the significance of the current legally enforceable right of offset and clarifies which methods including a gross offset may be deemed to be a net offset within the meaning of the standard.

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets

As part of a subsequent amendment to IFRS 13 Fair Value Measurement a new disclosure requirement was introduced for the goodwill impairment test as defined under IAS 36: the recoverable amount of the cash-generating units is to be disclosed regardless of whether an impairment loss was actually recognised. As this note disclosure was introduced unintentionally, it is deleted again under this amendment from May 2013.

On the other hand, this amendment contains additional disclosures if an impairment loss was actually recognised and the recoverable amount was determined on the basis of a fair value.

Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

As a result of this amendment derivatives continue to be designated under certain conditions as hedging instruments in existing hedging relationships despite novation of a hedging instrument to a central counterparty as a consequence of legal requirements.

HSH Nordbank does not expect the provisions mentioned above to materially affect the consolidated financial statements unless otherwise explicitly stated.

In addition to the IFRS HSH Nordbank has also observed the German Accounting Standard GAS 16 Interim Financial Reporting for its Interim management report.

With regard to the assumption of a going concern, we refer to the comments in the interim Group management report in the section entitled "Risks and opportunities resulting from regulatory proceedings at EU level". It is stated there, that the going concern assumption of the Bank for accounting and measurement purposes is based in particular on the presumed approval by the EU commission of the replenishment of the capital relief guarantee and the final clearance to the amendment of the guarantee agreement following the preliminary approval given in June 2013. Furthermore, it is based on the assumption that approval will only be connected to requirements that can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of HSH Nordbank's business model by market participants and other relevant stakeholders be maintained.

These interim Group financial statements were reviewed by an auditor.

All facts up to 19 August 2014 were taken into account.

2. PROVISION OF A GUARANTEE FACILITY

The hedging effect of the guarantee is fundamentally described in the Annual Report as at 31 December 2013. The guarantee of the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein is split into two partial guarantees for financial reporting purposes. Partial guarantee 1 relates to structured financial instruments, in particular those that are full or partial derivatives in nature and equity instruments. Partial guarantee 1 is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee 2 is recognised as a credit derivative. The hedging effect of the partial guarantee 2 amounted to € 7.4 million as at June 2014. An additional premium in the amount of € 0.8 million was recorded for this.

The guarantee reduced to € 7 billion in 2011 was replenished to the original amount of € 10 billion as at 30 June 2013. The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process, which will probably be concluded in this year. The guarantee agreement was adjusted by way of an appropriate amendment agreement. Under this agreement the fee provisions for the re-increased guarantee remain essentially unchanged. A one-off payment of € 275 million for the re-increased amount becomes payable on the coming into force of the amendment agreement. This puts the guarantor in a position as if the guarantee had never been reduced. The one-off payment of € 275 million represents a fee for a time-related guarantee and is amortised over the period of the expected benefit in line with IAS 18. Accordingly, it is recognised through profit or loss on a pro rata temporis basis in the Expenses for government guarantees line item. In the first half of 2014, € 57 million has been recognised as expenses.

The amendment agreement also includes revised stipulations concerning the capital protection clause which took effect on 1 January 2014. Insofar as the obligation to pay the additional premium would have the effect of decreasing the Tier 1 capital ratio (both from an ex post and ex ante perspective) excluding hybrid capital (common equity ratio) of HSH Nordbank to below 10% (minimum common equity ratio) or of increasing an already existing shortfall, the guarantor is obliged to waive the portion of the entitlement that would result in the ratio falling below the minimum common equity ratio against the issue of a debtor warrant (so-called capital protection clause).

Since January 2014, HSH Nordbank calculates the supervisory capital ratio on the basis of IFRS data (until 31 December 2013 HGB data were used). In the event that the common equity ratio falls below 10% a waiver by the guarantor HSH Finanzfonds AöR will be recognised to income from the additional premium, as has been done up to now. However, according to the revision of the capital protection clause, a debtor warrant will not be issued immediately upon the declaration of the debt waiver, but it is subject to specific conditions. A debt waiver was recognised as at 30 June 2014. The conditions for a debtor warrant have not been met as at the reporting date. The debt waiver increases the compensation item and thus the hedging effect by € 570 million.

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the first loss piece of € 3.2 billion to be borne by the Bank. This means that future expected fees (base and additional premium) for the second loss guarantee need to be recognised in loan loss provisions. These amounted to € 586 million as at 30 June 2014 and are offset against the compensation item. An amount of € 324 million is attributable to the future additional premium (ex ante additional premium) and € 262 million to the future base premium (ex ante base premium).

The hedging effect of the guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the face of the balance sheet for the first time as at 31 December 2010, amounted to € 4,139 million as at 30 June 2013 (31 December 2013: € 4,039 million).

In a first step, this amount of € 4,139 million was included in the loan loss provisions as the hedging effect of the guarantee as at 30 June 2014. An additional premium in the amount of 3.85% was computed with respect to this amount from 1 April 2009 through 30 June 2014 and recognised in the amount of € 849 million in loan loss provisions, of which € 99 million had a negative effect on the net income in the first half of 2014.

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 € 3,268 million (31 December 2013: € 2,714 million). The corresponding compensation effect in loan loss provisions in the income statement amounts to € 574 million (previous year: € 271 million).

HEDGING EFFECT OF THE GUARANTEE

(€ m)	30.06.2014	31.12.2013	January–June 2014		January–June 2013	
	Balance sheet	Balance sheet	Income statement		Income statement	
	Loan loss provisions	Loan loss provisions	Loan loss provisions	Net interest income	Loan loss provisions	Net interest income
Hedging effect before guarantee costs	4,139	4,039	100	–	396	–
Additional premium ex post	–849	–750	–99	–	–120	–
Debt waiver	570	–	573	–3	–718	–
Debtor warrant	–	–	–	–	713	–
Base and additional premium ex ante	–586	–568	–	–18	–	36
Claim for compensation of interest	–6	–7	–	1	–	–1
Compensation under the second loss guarantee	**3,268**	**2,714**	**574**	**–20**	**271**	**35**

3. ADJUSTMENTS TO PREVIOUS YEAR COMPARATIVE FIGURES

These financial statements contain various adjustments to the comparative figures.

The adjustments made were reviewed in accordance with the requirements of IAS 8 and classified as changes in accordance with IAS 8.14 et seq. or correction of errors in accordance with IAS 8.41 et seq.

I. Corrections in accordance with IAS 8.41 et seq.

In the debt consolidation of intragroup receivables for which an individual valuation allowance was recorded, an error in data collection resulted in the understatement of deferred tax liabilities, loans and advances to customers, equity and net interest income, and the overstatement of income taxes.

This accounting treatment was retroactively corrected in the interim Group financial statements as at 30 June 2014. Due to the implementation of the adjustment as at 30 June 2014, the comparative figures of net interest income as well as the income taxes change.

II. Corrections in accordance with IAS 8.14 et seq.

The introduction of the new consolidation standard IFRS 10 leads to an adjustment of the income statement as at 30 June 2013 as well as to an adjustment of the statement of financial position as at 31 December 2013. For further information on the new companies to be included in the scope of consolidation due to the introduction of IFRS 10, see Note 4.

Disclosures for the previous year period were adjusted. The following tables show the effects of the adjustments on the income statement, earnings per share, and the reconciliation with total comprehensive income as at 30 June 2013, as well as the effects of the adjustments on the statement of financial position as at 31 December 2013:

ADJUSTMENT 2013
INCOME STATEMENT

(€ m)	January–June 2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	Following adjustment	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	Following adjustment in total
Interest income	2,988	5	2,993	–10	2,983
Interest expenses	–2,427	–	–2,427	–	–2,427
Net income from hybrid financial instruments	–76	–	–76	–	–76
Net interest income	**485**	**5**	**490**	**–10**	**480**
Net commission income	52	–	52	–	52
Result from hedging	10	–	10	–	10
Net trading income	109	–	109	5	114
Net income from financial investments	167	–	167	–	167
Net income from financial investments accounted for under the equity method	–14	–	–14	–	–14
Total income	**809**	**5**	**814**	**–5**	**809**
Loan loss provisions	–224	–	–224	32	–192
Administrative expenses	–370	–	–370	–12	–382
Other operating income	34	–	34	19	53
Net income before restructuring	**249**	**5**	**254**	**34**	**288**
Result from restructuring	–8	–	–8	–	–8
Expenses for government guarantees	–143	–	–143	–	–143
Net income before taxes	**98**	**5**	**103**	**34**	**137**
Income taxes	–8	–1	–9	2	–7
Group net income	**90**	**4**	**94**	**36**	**130**
Group net income attributable to non-controlling interests	–1	–	–1	–	–1
Group net income attributable to HSH Nordbank shareholders	91	4	95	36	131

ADJUSTMENT 2013
EARNINGS PER SHARE

(€)	January–June 2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	Following adjustment	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	Following adjustment in total
Undiluted	0.30	0.01	0.31	0.12	0.43
Diluted	0.30	0.01	0.31	0.12	0.43
Number of shares (millions)	**302**	**–**	**302**	**–**	**302**

ADJUSTMENT 2013
RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	January–June 2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	Following adjustment	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	Following adjustment in total
Group net income	**90**	**4**	**94**	**36**	**130**
Income and expense that will be reclassified to the income statement at a later date		–			
Changes in:		–			
Revaluation reserve (before taxes)	64	–	64	–	64
of which: from exchange rate effects	–1	–	–1	–	–1
Income taxes not recognised in the income statement	–7	–	–7	–	–7
of which: from exchange rate effects	1	–	1	–	1
	57	**–**	**57**	**–**	**57**
Currency conversion reserve	6	–	6	–1	5
	–	**–**	**–**	**–**	**–**
Income taxes not recognised in the income statement	–	–	–	–	–
	6	**–**	**6**	**–**	**5**
Changes in other net income from financial investments accounted for under the equity method	2	–	2	–	2
	2	**–**	**2**	**–**	**2**
Income and expense that will not be reclassified to the income statement at a later date					
Changes in:					
Revaluation reserve (before taxes)	–33	–	–33	–	–33
Income taxes not recognised in the income statement	11	–	11	–	11
	–22	**–**	**–22**	**–**	**–22**
Actuarial gains/losses (before taxes)	–15	–	–15	–	–15
Income taxes not recognised in the income statement	5	–	5	–	5
	–10	**–**	**–10**	**–**	**–10**
Other comprehensive income for the period	**33**	**–**	**33**	**–1**	**32**
Total comprehensive income	**123**	**5**	**128**	**34**	**162**
Total comprehensive income attributable to non-controlling interests	–1	–	–1	–	–1
Total comprehensive income attributable to HSH Nordbank shareholders	124	5	129	34	163

ADJUSTMENT 2013
STATEMENT OF FINANCIAL POSITION – ASSETS

(€ m)	31.12.2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	Following adjustment	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	Following adjustment in total
Loans and advances to banks	5,156	–	5,156	2	5,158
Loans and advances to customers	69,079	39	69,118	–649	68,469
Loan loss provisions	–3,804	–	–3,804	221	–3,583
Trading assets	9,049	–	9,049	–4	9,045
Financial investments	21,255	–	21,255	1	21,256
Property, plant and equipment	215	–	215	265	480
Investment property	68	–	68	199	267
Deferred tax assets	1,222	–	1,222	4	1,226
Other assets	364	–	364	11	375
Other items (excluding adjustment)	6,418	–	6,418	–	6,418
Total assets	**109,022**	**39**	**109,061**	**50**	**109,111**

ADJUSTMENT 2013
STATEMENT OF FINANCIAL POSITION – LIABILITIES

(€ m)	31.12.2013				
	Before adjustment	Adjustment in accordance with IAS 8.41 et seq.	Following adjustment	IFRS 10 adjustment in accordance with IAS 8.14 et seq.	Following adjustment in total
Liabilities to customers	40,697	–	40,697	–35	40,662
Trading liabilities	7,102	–	7,102	1	7,103
Provisions	1,360	–	1,360	34	1,394
Current tax liabilities	202	–	202	1	203
Deferred tax liabilities	27	12	39	–	39
Other liabilities	1,154	–	1,154	21	1,175
Equity	4,524	27	4,551	28	4,579
Share capital	3,018	–	3,018	–	3,018
Capital reserve	594	–	594	–	594
Retained earnings	1,768	19	1,787	–12	1,775
Revaluation reserve	27	–	27	–	27
Currency conversion reserve	–64	–	–64	3	–61
Group net loss/profit	–812	8	–804	37	–767
Total before non-controlling interests	4,537	–	4,537	55	4,592
Non-controlling interests	–13	–	–13	–	–13
Other items (excluding adjustment)	53,956	–	53,956	–	53,956
Total equity and liabilities	**109,022**	**39**	**109,061**	**50**	**109,111**

4. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, the scope of consolidation created in accordance with IFRS 10 for the first time includes 66 (31 December 2013: 74, without consideration of IFRS 10: 59) fully consolidated subsidiaries, of which eight structured entities.

Five associates consolidated under the equity method as at the balance sheet date (31 December 2013: three, without consideration of IFRS 10: seven) and, as was the case as at 31 December 2013, one joint venture are included in the Group financial statements.

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

FULLY CONSOLIDATED COMPANIES

	Subsidiaries of which HSH Nordbank directly or indirectly holds 100% of the equity interests	Registered office	Share of equity capital in % as at 30 June 2014	Share of equity capital in % as at 31 December 2013
1.	Avia Management S.à.r.l.	Luxembourg	100.0	100.0
2.	Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
3.	CAPCELLENCE Holding GmbH & Co. KG (former: Capcellence Private Equity Beteiligungen GmbH & Co. KG)[5]	Hamburg	100.0	100.0
4.	CHIOS GmbH	Hamburg	100.0	100.0
5.	DMS Beteiligungs GmbH[1]	Radolfzell	100.0	100.0
6.	GODAN GmbH	Hamburg	100.0	100.0
7.	HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
8.	HSH Debt Advisory ApS	Copenhagen	100.0	100.0
9.	HSH Facility Management GmbH	Hamburg	100.0	100.0
10.	HSH Gastro+Event GmbH[3]	Hamburg	100.0	100.0
11.	HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
12.	HSH N Financial Securities LLC	Wilmington	100.0	100.0
13.	HSH N Residual Value Ltd.	Hamilton	100.0	100.0
14.	HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
15.	HSH Private Equity GmbH	Hamburg	100.0	100.0
16.	HSH Restructuring Advisory ApS	Copenhagen	100.0	100.0
17.	HSH Security GmbH	Kiel	100.0	100.0
18.	ISM Agency LLC[6]	New York	100.0	100.0
19.	Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
20.	Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0
21.	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0	100.0
22.	Solar Holding S.à.r.l.	Luxembourg	100.0	100.0
23.	Teukros GmbH	Hamburg	100.0	100.0
24.	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
25.	2200 Victory LLC	Dover	100.0	100.0

Subsidiaries with non-controlling interests		Registered office	Share of equity capital in % as at 30 June 2014	Share of equity capital in % as at 31 December 2013
26.	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Wiesbaden	0.0	0.0
27.	AGV Irish Equipment Leasing No. 1 unlimited	Dublin	99.6	99.6
28.	Amentum Aircraft Leasing No. Five Limited	Dublin	49.0	49.0
29.	Amentum Aircraft Leasing No. Six Limited	Dublin	49.0	49.0
30.	Amentum Aircraft Leasing No. Ten Limited	Dublin	49.0	49.0
31.	Amentum Aircraft Leasing No. Three Limited	Dublin	49.0	49.0
32.	Amentum Aircraft Leasing No. Two Limited	Dublin	49.0	49.0
33.	Anthracite Rated Investments (Jersey) Ltd.[8)]	St. Helier	0.0	0.0
34.	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG[2)]	Hamburg	83.3	83.3
35.	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG[2)]	Hamburg	83.3	83.3
36.	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG[2)]	Hamburg	83.3	83.3
37.	Capcellence Vintage Year 12 Beteiligungen GmbH & Co. KG[2)]	Hamburg	83.3	83.3
38.	Capcellence Vintage Year 13 Beteiligungen GmbH & Co. KG[2)]	Hamburg	83.3	83.3
39.	CPM Luxembourg S.A.[4), 8)]	Luxembourg	3.2	3.2
40.	CPM Securitisation Fonds S.A.[4), 8)]	Luxembourg	3.2	3.2
41.	DEERS Green Power Development Company S.L.[7)]	Madrid	99.0	99.0
42.	Franz Portfolio 2 GmbH & Co. KG	Hamburg	0.0	0.0
43.	HSH Care+Clean GmbH[3)]	Hamburg	51.0	51.0
44.	HSH Move+More GmbH[3)]	Kiel	51.0	51.0
45.	HSH N Funding I	George Town	66.3	66.3
46.	HSH N Funding II	George Town	56.3	56.3
47.	Kontora Family Office GmbH	Hamburg	75.0	75.0
48.	K/S Angered	Copenhagen	0.0	0.0
49.	LCG Finance II B.V.	Vught	0.0	0.0
50.	Life Insurance Fund Elite LLC	New York	0.0	0.0
51.	Life Insurance Fund Elite LLC Trust	New York	0.0	0.0
52.	Mitco Real Estate A S.à.r.l.	Luxembourg	0.0	0.0
53.	Mitco Resolution 1 S.à.r.l.	Luxembourg	0.0	0.0
54.	Mitco Resolution 2 S.à.r.l.	Luxembourg	0.0	0.0
55.	Mitco Resolution 3 S.à.r.l.	Luxembourg	0.0	0.0
56.	Mitco Resolution 4 S.à.r.l.	Luxembourg	0.0	0.0
57.	Mitco Resolution 5 S.à.r.l.	Luxembourg	0.0	0.0
58.	Next Generation Aircraft Finance 2 S.à.r.l.	Munsbach	49.0	49.0
59.	Next Generation Aircraft Finance 3 S.à.r.l.	Munsbach	49.0	49.0
60.	OCEAN Funding 2013 GmbH[8)]	Frankfurt a. M.	0.0	0.0
61.	RDM Limited	George Town	0.0	0.0
62.	RESPARCS Funding Limited Partnership I[8)]	Hong Kong	0.0	0.0
63.	RESPARCS Funding II Limited Partnership[8)]	St. Helier	0.0	0.0
64.	Senior Assured Investment S.A.[8)]	Luxembourg	0.0	0.0
65.	Senior Preferred Investments S.A.[8)]	Luxembourg	0.0	0.0
66.	SPE II Pissarro SAS	Paris	0.0	0.0

CONSOLIDATED COMPANIES

Associates consolidated under the equity method		Registered office	Share of equity capital in % as at 30 June 2014	Share of equity capital in % as at 31 December 2013
1.	Belgravia Shipping Limited	London	33.3	33.3
2.	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG	Hamburg	33.3	83.3
3.	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG	Hamburg	33.3	83.3
4.	Relacom Management AB	Stockholm	21.2	21.2
5.	SITUS NORDIC SERVICES ApS	Copenhagen	40.0	40.0
Joint ventures consolidated under the equity method				
6.	PRIME 2006-1 Funding Limited Partnership[8]	St. Helier	47.5	47.5

[1] Subsidiary of Bu Wi Beteiligungsholding GmbH
[2] Subsidiary of CAPCELLENCE Holding GmbH & Co. KG
[3] Subsidiary of HSH Facility Management GmbH
[4] Subsidiary of HSH Nordbank Securities S.A.
[5] Subsidiary of HSH Private Equity GmbH
[6] Subsidiary of Life Insurance Fund Elite LLC
[7] Subsidiary of Solar Holding S.à.r.l.
[8] Structured entities

I. Information on subsidiaries – changes to the scope of consolidation

A) Additions

The reassessment of the control relationships pursuant to IFRS 10 resulted in a different classification of the five companies of Amentum group mentioned in the following list, which have thus far been classified as associates based on a share of 49% of the voting rights held by HSH Nordbank. These now represent subsidiaries as defined in IFRS 10 as the decision-making power is exercised by third parties in the interest and to the benefit of HSH Nordbank. This control situation is also the reason for the inclusion of ten further companies listed below by means of a full consolidation pursuant to IFRS 10.

- Amentum Aircraft Leasing No. Five Limited, Dublin
- Amentum Aircraft Leasing No. Six Limited, Dublin
- Amentum Aircraft Leasing No. Ten Limited, Dublin
- Amentum Aircraft Leasing No. Three Limited, Dublin
- Amentum Aircraft Leasing No. Two Limited, Dublin
- Franz Portfolio 2 GmbH & Co. KG, Hamburg
- LCG Finance II B.V., Vught, Luxembourg
- Mitco Real Estate A S.à.r.l., Luxembourg
- Mitco Resolution 1 S.à.r.l., Luxembourg
- Mitco Resolution 2 S.à.r.l., Luxembourg
- Mitco Resolution 3 S.à.r.l., Luxembourg
- Mitco Resolution 4 S.à.r.l., Luxembourg
- Mitco Resolution 5 S.à.r.l., Luxembourg
- RDM Limited, George Town
- SPE II Pissarro SAS, Paris

The structured entity OCEAN Funding 2013 GmbH, Frankfurt am Main, is included for the first time in the scope of consolidation in the period under review by means of a full consolidation. The company has started business in the period under review and is controlled by HSH Nordbank through contractual rights.

There were no business combinations within the meaning of IFRS 3 in the period under review.

B) Disposals

Contrary to the inclusion as at 31 December 2013, the following companies are no longer included in the scope of fully consolidated companies:

- AGV Irish Equipment Leasing No. 4 Limited, Dublin
- Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg
- Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg
- DMS Dynamic Micro Systems Semiconductor Equipment GmbH, Radolfzell
- Feronia GmbH, Hamburg
- GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbh & Co. KG, Hamburg
- HSH Corporate Finance GmbH, Hamburg
- HSH Kunden- und Kontenservice GmbH, Hamburg
- Sotis S.à.r.l., Luxembourg

As part of an agreement dated 23 May 2014, the preference shares which HSH Nordbank held until that date in AGV Irish Equipment Leasing No. 4 Limited were withdrawn by the company. The loss of control resulting from this change entailed the deconsolidation of the company. A loss in the amount of € –1.4 million resulted from the deconsolidation, which is recognised under the item 'Other operating income'.

The ownership structure in Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG and Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG changed due to a repatriation of contributions in kind with effect from 31 March 2014. The share of HSH Nordbank was reduced to 33.3% which required a reclassification of these two companies. The companies are no longer subsidiaries due to the lack of control through HSH Nordbank, but are included in the Group financial statements as associates under the equity method. The change of the consolidation method did not result in any major effect on earnings.

With effect from 30 April 2014, HSH Nordbank AG disposed of its shares indirectly held until that date in DMS Dynamic Micro Systems Semiconductor Equipment GmbH and consequently lost its control over the company. A profit of € 15.3 million resulted from the deconsolidation. € 15.3 million of this amount is disclosed under Net income from financial investments and € –47 thousand under Other operating income.

The companies Feronia GmbH and HSH Kunden- und Kontenservice GmbH were merged with the fully consolidated subsidiary HSH Auffang- und Holdinggesellschaft mbH & Co. KG with effect from 24 June 2014 and 9 May 2014 respectively.

The company GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG was expanded to the non-consolidated subsidiary Arbutus GmbH with effect from 27 March 2014 before Arbutus GmbH itself grew to HSH Auffang- und Holdinggesellschaft mbH & Co. KG on 9 May 2014.

Furthermore, the company HSH Corporate Finance GmbH was merged with HSH Nordbank AG with economic effect from 1 April 2014.

The company Sotis S.á.r.l. was no longer consolidated following its dissolution on 18 June 2014. The deconsolidation did not have any major effect on income.

C) Changes of ownership interests in subsidiaries

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

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

A) General information

The following companies were included in the scope of consolidation for the first time under the equity method in the reporting period:

- Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg
- Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg

The following companies included in the scope of consolidation as at 31 December 2013 will no longer be consolidated under the equity method:

- Amentum Aircraft Leasing No. Five Limited, Dublin
- Amentum Aircraft Leasing No. Six Limited, Dublin
- Amentum Aircraft Leasing No. Three Limited, Dublin
- Amentum Aircraft Leasing No. Two Limited, Dublin

The following overview shows the material associates accounted for under the equity method. As at the reporting date HSH Nordbank does not hold shares in joint ventures material to the Bank that are accounted for under the equity method:

ASSOCIATES MATERIAL TO HSH NORDBANK CONSOLIDATED UNDER THE EQUITY METHOD

	Business activities	Registered office	Shares (voting right)	
			30.06.2014 in %	31.12.2013 in %
Relacom Management AB	Holding company for a Scandinavian telco service provider group	Stockholm, Sweden	21.2 (21.2)	21.2 (21.2)

B) Changes in participations

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

C) Summarised financial information

The following table shows summarised financial information on the associate Relacom Management AB, which is material to HSH Nordbank, as well as reconciliation to the carrying amount measured under the equity method of the share held by HSH Nordbank as at 30 June 2014 and as at 31 December 2013. All components of the summarised financial information on the other associates and joint ventures consolidated under the equity method which are not material to HSH Nordbank amount to figures each less than € 1 million and are thus not presented here for reasons of materiality:

30.06.2014

(€ m)	
Revenue/Sales revenue	246
Net loss for the year	–11
Other income or loss	–7
Total comprehensive income	**–18**
Total current assets	116
Total non-current assets	336
Total current liabilities	99
Total non-current liabilities	217
Net assets of the associate	**136**
HSH Nordbank's share (%) in the net assets of the associate	21.2
Net assets of the associate allocated to HSH Nordbank	29
Goodwill	–
Other adjustments from the measurement at fair value upon addition of the equity holding accounted for under the equity method	–40
Accumulated loss no longer recognised	–11
Carrying amount of HSH Nordbank's share accounted for under the equity method	**–**

31.12.2013

(€ m)	
Revenue/Sales revenue	69
Net income/loss for the year	–68
Other income or loss	3
Total comprehensive income	**–65**
Total current assets	133
Total non-current assets	319
Total current liabilities	132
Total non-current liabilities	195
Net assets of the associate	**125**
HSH Nordbank's share (%) in the net assets of the associate	21.2
allocated to HSH Nordbank	27
Goodwill	–
Other adjustments from the measurement at fair value upon addition of the equity holding accounted for under the equity method	–40
Accumulated loss no longer recognised	–13
Carrying amount of HSH Nordbank's share accounted for under the equity method	**–**

Financial statements of Belgravia Shipping Ltd. prepared as at 31 December 2013 were used to consolidate Belgravia Shipping Limited as at 30 June 2014. There are no findings indicating that material transactions or other material events between this reporting date and the reporting date of HSH Nordbank would have to be taken into account.

The financial year of PRIME 2006-1 Funding Limited Partnership deviates by three months from the financial year of HSH Nordbank (financial year ends on 30 September). The financial statements for the first half of the financial year with the 31 March 2014 reporting date were used for inclusion of the company in the present interim financial statements. There were no material events that would require an adjustment to the reporting date of the consolidated financial statements.

D) Risks and restrictions

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

Additional information on companies to be accounted for under the equity method may be found under Notes 10 and 24.

III. Information on consolidated structured entities

HSH Nordbank's scope of consolidation includes eight fully consolidated structured entities. In addition, another structured entity is included in the Group financial statements under the equity method.

NOTES ON THE GROUP INCOME STATEMENT

5. NET INTEREST INCOME

NET INTEREST INCOME

(€ m)	**January–June 2014**	January–June 2013
Interest income from		
Lending and money market transactions	853	1,065
Fixed-interest securities	211	244
Trading transactions	7	5
Derivative financial instruments	1,455	1,553
Unwinding	109	103
Current income from		
Equities and other non-fixed-interest securities	4	5
Affiliated companies	–	1
Equity holdings in non-affiliated companies	3	4
Other holdings	5	3
Interest income	**2,647**	**2,983**
of which attributable to financial instruments not classified as HfT or DFV	1,045	1,264
Interest expenses for		
Liabilities to banks	149	221
Liabilities to customers	405	424
Securitised liabilities	271	337
Subordinated capital	45	47
Other liabilities	25	2
Disposal of receivables	1	7
Derivative financial instruments	1,360	1,389
Interest expenses	**2,256**	**2,427**
of which attributable to financial instruments not classified as HfT or DFV	587	657
Net income from re-estimating interest and repayment cash flows	–	–18
Net income from discounting and compounding	–160	–58
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	**–160**	**–76**
of which attributable to financial instruments not classified as HfT or DFV	–160	–76
Total	**231**	**480**

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expenses from derivative financial instruments.

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

In case of unchanged payment expectations, a change in the present value of impaired loans and advances (unwinding) occurs over time. The interest income from such loans and advances is calculated as the present value by adding accrued interest using the original effective interest rate.

The term hybrid financial instruments covers silent participations, profit participations and bonds measured at amortised acquisition cost. Their interest depends on the profit or loss of the Bank.

Net income or loss from hybrid financial instruments includes both the effects on profit/loss resulting from the application of IAS 39.A8 as well as the current interest income from the instruments that fall under the scope of application of this standard.

The cumulative net income from hybrid financial instruments amounts to € 404 million (previous year: € 635 million). € 1,424 million are attributable to the result from re-estimating interest and repayment cash flows (previous year: € 1,403 million) and € – 1,020 million are attributable to the income/loss from discounting and compounding (previous year: € – 768 million).

The difference between the valuation for tax purposes of financial instruments and the measurement of such instruments under IAS 39.A8 result in deferred tax assets of € 10 million (previous year: € 11 million of deferred tax assets).

The decrease in net interest income during the reporting period results in particular from the reduced amount of receivables in the Restructuring Unit. In addition, a scheduled adjustment to the interest rate for hybrid instruments as well as the reversal of a hedge relationship resulted in significant special effects. Further information on this issue may be taken from the earnings position in the management report.

6. NET COMMISSION INCOME

NET COMMISSION INCOME

(€ m)	**January–June 2014**	January–June 2013
Commission income from		
Lending business	58	37
Securities business	15	33
Guarantee business	9	9
Payments and account transactions as well as documentary business	11	11
Other commission income	6	7
Commission income	**99**	**97**
Commission expenses from		
Lending business	4	7
Securities business	15	29
Guarantee business	3	4
Payments and account transactions as well as documentary business	2	2
Other commission expenses	2	3
Commission expenses	**26**	**45**
Total	**73**	**52**

Financial instruments not classified as HfT or DFV accounted for € 74 million (previous year: € 54 million) of Net commission income.

7. RESULT FROM HEDGING

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

RESULT FROM HEDGING

(€ m)	**January–June 2014**	January–June 2013
Fair value changes from hedging transactions	1	–104
Micro fair value hedge	–20	–39
Portfolio fair value hedge	21	–65
Fair value changes from underlyings	–13	114
Micro fair value hedge	21	39
Portfolio fair value hedge	–34	75
Total	**–12**	**10**

8. NET TRADING INCOME

Net trading income comprises realised income/loss and the valuation result for financial instruments classified as Held for Trading (HfT) or Designated at Fair Value (DFV). Interest income and expenses for financial instruments of these categories are shown under Net interest income.

Gains and losses on currency translation are recorded in this income statement item as a matter of principle. The results from the translation of loan loss provisions denominated in foreign currency not hedged against foreign exchange risk are disclosed in the loan loss provisions.

Other products comprises the income from foreign exchange transactions, credit derivatives and commodities.

NET TRADING INCOME

(€ m)	Bonds and interest rate derivatives		Equities and equity derivatives		Other products		**Total**	
	January–June 2014	January–June 2013	**January–June 2014**	January–June 2013	**January–June 2014**	January–June 2013	**January–June 2014**	January–June 2013
Realised net income								
Held for Trading	–5	79	3	–10	–2	–	–4	69
Designated at Fair Value	3	–	–	–	–	–	3	–
Subtotal	**–2**	**79**	**3**	**–10**	**–2**	**–**	**–1**	**69**
Valuation result								
Held for Trading	39	15	23	24	8	–5	70	34
Designated at Fair Value	72	32	–29	–21	–	–	43	11
Subtotal	**111**	**47**	**–6**	**3**	**8**	**–5**	**113**	**45**
Total	**109**	**126**	**–3**	**–7**	**6**	**–5**	**112**	**114**

Net trading income includes net income from foreign currency of € 4 million (previous year: € – 8 million).

During the reporting period € 22 million (previous year: € 63 million) of the changes in fair value of the financial assets categorised as Designated at Fair Value (DFV) related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € 6 million (previous year: € – 108 million) is attributable to changes in the credit spread.

In the period under review, changes in value related to changes in the credit spread rather than to market interest rate changes for liabilities in the category DFV amounted to € – 23 million (previous year: € – 62 million). In cumulative terms, a total of € 1 million (previous year: € 45 million) is attributable to changes in the credit spread.

9. NET INCOME FROM FINANCIAL INVESTMENTS

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

NET INCOME FROM FINANCIAL INVESTMENTS

(€ m)	**January–June 2014**	January–June 2013
Classified as AfS		
+ Realised gains/losses (–)	157	62
– Write-downs	1	1
+ Write-ups	2	9
Subtotal	**158**	**70**
Classified as LaR		
+ Realised gains/losses (–)	26	27
– Write-downs	–	13
+ Write-ups	44	82
Subtotal	**70**	**96**
– Additions to portfolio valuation allowances (LaR portfolios)	–	–
+ Reversal of portfolio valuation allowances (LaR portfolios)	12	1
Subtotal	**12**	**1**
Total	**240**	**167**

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

As at the 30 June 2014 reporting date, HSH Nordbank owns shares in five associates (30 June 2013: five) and one joint venture (30 June 2013: two) that are included in the interim Group financial statements under the equity method (see Note 4).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 30 June 2014 is summed up below:

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	**January–June 2014**	January–June 2013
Pro rata net income for the period	2	1
Other income/expenses from addition/disposal of financial investments accounted for under the equity method	–	–
Impairments	–	–15
Total	**2**	**–14**

A review of the value of the shares measured using the equity method under IAS 36 as at 30 June 2014 did not result in the need to recognise an additional impairment loss.

Given the full impairment for some of the financial investments accounted for under the equity method, HSH Nordbank's share in the current losses of these companies, amounting to € – 16 million, was no longer recorded in the current period. The accumulated non-recognised pro rata share in the losses of these companies amounts to € – 30 million.

Net income from financial investments accounted for under the equity method is disclosed in the segment report as a part of Net income from financial investments.

The results of the financial assets accounted for under the equity method are provided in the segment Restructuring Unit with the exception of Belgravia Shipping Limited. The results of Belgravia Shipping Limited are included in the segment Shipping, Project & Real Estate Financing at the Core Bank.

11. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	**January–June 2014**	January–June 2013
– Expenses from additions to valuation allowances	553	824
+ Income from the reversal of valuation allowances	434	206
Result from changes in valuation allowances	**–119**	**–618**
– Expenses from allocations to provisions in the lending business	9	28
+ Income from reversal of provisions in the lending business	47	143
Result from changes in provisions in the lending business	**38**	**115**
– Direct write-downs	185	47
+ Payments received on loans and advances previously written down	71	64
+ Foreign currency income from loan loss provisions denominated in foreign currency	–42	23
Result from other changes in loan loss provisions	**–156**	**40**
Result from changes in loan loss provisions before compensation	**–237**	**–463**
Compensation under the second loss guarantee	**574**	**271**
Total loan loss provisions	**337**	**–192**

We refer to Note 2 with regard to the compensation under the second loss guarantee.

Direct write-downs of € 185 million (previous year: € 47 million) relate entirely to Loans and advances to customers.

Loan loss provisions in on-balance-sheet lending business relate exclusively to loans and advances classified as LaR.

The net changes in provisions in the lending business during the period under review are presented below:

NET CHANGES IN LOAN LOSS PROVISIONS

(€ m)	**January–June 2014**	January–June 2013
Individual valuation allowances	–135	–586
Portfolio valuation allowances	16	–32
Net change in valuation allowances	**–119**	**–618**
Provisions for specific risks	33	114
Provisions for portfolio risks	5	1
Net change in provisions in the lending business	**38**	**115**

12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)	January–June 2014	January–June 2013
Personnel expenses	146	166
Operating expenses	161	155
Depreciation on property, plant and equipment. leasing assets, investment properties and amortisation on intangible assets	31	61
Total	**338**	**382**

Depreciation includes unscheduled depreciation on investment properties in the amount of € 0 million (previous year: € 3 million) as well as on technical equipment and machinery in the amount of € 2 million (previous year: € 26 million).

Unscheduled depreciation relates to the Restructuring Unit segment.

13. OTHER OPERATING INCOME

OTHER OPERATING INCOME

(€ m)	January–June 2014	January–June 2013
Other operating income	119	182
Other operating expenses	65	129
Total	**54**	**53**

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

In the previous year, an economic unit was deconsolidated, generating income in the amount of € 19 million. Derecognition of this unit is the result of an economic assignment of an airplane provided as collateral to a co-financing financial institution. Furthermore, other operating income and expenses of the previous year include major measurement effects caused by the classification of HSH Real Estate Group as a disposal group pursuant to IFRS 5.

14. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING

(€ m)	January–June 2014	January–June 2013
Operating expenses	11	17
Income from the reversal of provisions and the release of liabilities	3	9
Total	**-8**	**-8**

Operating expenses relate to the implementation of different projects as part of the continued reorganisation of HSH Nordbank. Income from the reversal of provisions and the release of liabilities in the period under review result more or less equally from a reversal of provisions for personnel costs and material costs.

15. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES

(€ m)	**January–June 2014**	January–June 2013
HSH Finanzfonds AöR	259	143
Total	**259**	**143**

The increase of € 116 million in the expenses payable to HSH Finanzfonds AöR results from the increase in the second loss guarantee by € 3 billion to € 10 billion as at 30 June 2013 (see Note 2). Due to the increase, current expenses for the guarantee rose by € 61 million. € 57 million of the one-off payment for the replenishment of the second loss guarantee was recognised on a pro rata temporis basis in 2014 (previous year: € 2 million).

16. EARNINGS PER SHARE

To calculate Earnings per share, the Group net result attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the period under review. The calculation was based on non-rounded values.

EARNINGS PER SHARE

	January–June 2014	January–June 2013
Attributable Group net result (€ m) – undiluted/diluted	300	131
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	0.99	0.43
Diluted	0.99	0.43

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

17. CASH RESERVE

CASH RESERVE

(€ m)	**30.06.2014**	31.12.2013
Cash on hand	14	14
Balances at central banks	9,665	4,455
of which: at the Deutsche Bundesbank	6,269	1,593
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	404	382
of which: eligible for refinancing at the Deutsche Bundesbank	397	375
Total	**10,083**	**4,851**

18. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)	**30.06.2014**	31.12.2013
Payable on demand	3,943	3,235
Other loans and advances	1,694	1,923
Total	**5,637**	**5,158**

19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)	**30.06.2014**	31.12.2013
Retail customers	1,043	1,136
Corporate clients	60,069	61,679
Public authorities	5,517	5,654
Total	**66,629**	**68,469**

20. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	**30.06.2014**	31.12.2013
Valuation allowances for loans and advances to banks	18	126
Valuation allowances for loans and advances to customers	5,916	6,171
Valuation allowances in the lending business	**5,934**	**6,297**
Compensation under the second loss guarantee	–3,268	–2,714
Loan loss provisions for items in the statement of Financial Position	**2,666**	**3,583**
Provisions in the lending business	106	145

We refer to Note 2 with regard to the compensation under the second loss guarantee.

The change in loss provisions for loans and advances to banks during the period under review was as follows:

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

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	30.06.2014	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013
As at 1 January	**125**	**133**	**1**	**1**	**126**	**134**
Additions	–	5	–	–	–	5
Reversals	–	1	–	–	–	1
Utilisation	90	2	–	–	90	2
Reclassifications	–18	–7	–	–	–18	–7
Unwinding	–	–1	–	–	–	–1
Exchange rate changes	–	–2	–	–	–	–2
As at 30 June 2014/31 December 2013	**17**	**125**	**1**	**1**	**18**	**126**

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

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

(€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	30.06. 2014	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013
As at 1 January	**5,811**	**4,867**	**360**	**504**	**6,171**	**5,371**
Changes in the scope of consolidation	–	–124	–	–	–	–124
As at 1 January following adjustment	**5,811**	**4,743**	**360**	**504**	**6,171**	**5,247**
Additions	553	2,594	–	32	553	2,626
Reversals	418	481	16	157	434	638
Utilisation	381	647	–	–	381	647
Reclassifications	18	7	–	–	18	7
Unwinding	–109	–202	–	–	–109	–202
Changes in the scope of consolidation	52	–61	–	–	52	–61
Exchange rate changes	44	–142	2	–19	46	–161
As at 30 June 2014/31 December 2013	**5,570**	**5,811**	**346**	**360**	**5,916**	**6,171**

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

21. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

The positive fair value of derivatives used in hedge accounting is accounted for in this item. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets. Hedge accounting is used solely for interest rate risks.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

(€ m)	**30.06.2014**	31.12.2013
Positive fair value of derivatives used in micro fair value hedges	126	152
Positive fair value of derivatives used in portfolio fair value hedges	1,171	1,135
Total	**1,297**	**1,287**

Changes in this item are directly related to changes in the item Negative fair value of hedging derivatives (see Note 33). The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

22. TRADING ASSETS

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

TRADING ASSETS

(€ m)	**30.06.2014**	31.12.2013
Debentures and other fixed-interest securities	1,681	2,027
Shares and other non-fixed-interest securities	2	4
Positive fair value of financial derivatives	7,343	6,975
Other, including promissory notes held for trading	44	34
Receivables from syndicated transactions	42	5
Total	**9,112**	**9,045**

23. FINANCIAL INVESTMENTS

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

FINANCIAL INVESTMENTS

(€ m)	**30.06.2014**	31.12.2013
Debentures and other fixed-interest securities	19,343	20,750
Shares and other non-fixed-interest securities	282	322
Equity holdings in non-affiliated companies	182	180
Interests in affiliated companies	3	4
Total	**19,810**	**21,256**

24. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

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

As at the 30 June 2014 reporting date, the HSH Nordbank Group owns shares in five associates (31 December 2013: three) and one joint venture (31 December 2013: one) that are included in the interim Group financial statements under the equity method.

As in the previous year, the accumulated individual carrying amounts of the associates and joint ventures accounted for under the equity method total to less than € 0.5 million as at 30 June 2014.

An overview of the associates and joint ventures included in the Group financial statements under the equity method is available in Note 4. Net income from financial investments accounted for under the equity method is disclosed in Note 10.

25. INTANGIBLE ASSETS

INTANGIBLE ASSETS

(€ m)	**30.06.2014**	31.12.2013
Software	34	43
Developed in-house	18	26
Acquired	16	17
Software in development	2	2
Developed in-house	2	2
Total	**36**	**45**

26. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

(€ m)	30.06.2014	31.12.2013
Land and buildings	76	80
Plant and equipment	57	61
Leasing assets	272	320
Technical equipment and machinery	–	19
Total	**405**	**480**

Under the item Investment property all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Real estate leased as lessor in the operating leasing business is also included in this item.

The leasing assets of HSH Nordbank mainly consist of airplanes in the portfolio of subsidiaries. The decrease of the leasing assets mainly results from a disposal of an airplane in the period under review.

INVESTMENT PROPERTY

(€ m)	30.06.2014	31.12.2013
Investment property	254	267
Total	**254**	**267**

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

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	30.06.2014	31.12.2013
Loans and advances to customers	42	15
Other assets	6	10
Total	**48**	**25**

This item mainly contains loans and advances to customers and other assets for which it is highly likely that they will be sold within the next 12 months in the course of the strategic realignment of the Bank.

28. DEFERRED TAX ASSETS

Of the deferred tax assets amounting to € 1,153 million (31 December 2013: € 1,226 million), € 233 million (31 December 2013: € 216 million) are attributable to tax loss carry-forwards. HSH Nordbank's medium term income planning shows that the Bank will have sufficient taxable income available in the future against which the underlying loss carry-forwards can be utilised.

29. OTHER ASSETS

OTHER ASSETS

(€ m)	30.06.2014	31.12.2013
Prepaid expenses	162	221
Tenant loans	24	23
Receivables from insurance contracts	14	20
Receivables from fund transactions	3	2
Receivables from other taxes	2	3
Receivables from participations and affiliated companies	1	2
Other assets	86	104
Total	**292**	**375**

€ 85 million of the assets reported here relate to financial instruments (31 December 2013: € 105 million).

30. LIABILITIES TO BANKS

LIABILITIES TO BANKS

(€ m)	30.06.2014	31.12.2013
Payable on demand	1,896	1,120
Other term liabilities	14,380	17,092
Total	**16,276**	**18,212**

31. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS

(€ m)	30.06.2014	31.12.2013
Savings deposits	29	37
Other liabilities		
Payable on demand	13,718	10,733
Other term liabilities	31,651	29,892
Total	**45,398**	**40,662**

32. SECURITISED LIABILITIES

SECURITISED LIABILITIES

(€ m)	30.06.2014	31.12.2013
Debentures issued	27,664	28,459
Money market securities issued	182	102
Total	**27,846**	**28,561**

Debentures issued include € 583 million of hybrid financial instruments (31 December 2013: € 560 million). The carrying amount of these hybrid financial instruments was determined based on assumptions relating to future earnings of HSH Nordbank (IAS 39.A8 measurement).

In the item Debentures issued repurchased own debentures in the amount of € 3,353 million (31 December 2013: € 3,443 million) were deducted.

33. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

This item shows the negative fair values of derivatives used in hedge accounting. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading liabilities. Hedge accounting is used solely for interest rate risks.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)	30.06.2014	31.12.2013
Negative fair value of derivatives used in micro fair value hedges	139	138
Negative fair value of derivatives used in portfolio fair value hedges	786	796
Total	**925**	**934**

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

34. TRADING LIABILITIES

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

TRADING LIABILITIES

(€ m)	**30.06.2014**	31.12.2013
Negative fair values from derivative financial instruments		
Interest-rate-related business	7,244	6,403
Currency-related business	89	123
Other business	585	577
Total	**7,918**	**7,103**

35. PROVISIONS

PROVISIONS

(€ m)	**30.06.2014**	31.12.2013
Provisions for pension obligations and similar obligations	969	854
Other provisions		
Provisions for personnel expenses	37	54
Provisions in the lending business	106	145
Provisions for restructuring	113	130
Provisions for litigation risks and costs	44	49
Miscellaneous	188	162
Total	**1,457**	**1,394**

The net change in pension obligations of € 115 million comprises the payments for pension obligations in the amount of € 22 million and additions in the amount of € 137 million. The increase in pension obligations is mainly attributable to the decline in market interest rates.

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

PROVISIONS IN THE LENDING BUSINESS

(€ m)	**30.06.2014**	31.12.2013
Specific loan loss provisions for		
Contingent liabilities	32	47
Irrevocable loan commitments	18	28
Other credit risks	5	14
Subtotal	**55**	**89**
Portfolio loan loss provisions for		
Contingent liabilities	44	44
Irrevocable loan commitments	7	12
Subtotal	**51**	**56**
Total	**106**	**145**

36. OTHER LIABILITIES

OTHER LIABILITIES

(€ m)	**30.06.2014**	31.12.2013
Collateral provided for assumed liabilities	863	839
Outstanding payments for the second loss guarantee	101	102
Liabilities for outstanding invoices	47	67
Other tax liabilities	21	28
Deferred income	18	16
Personnel liabilities	13	11
Liabilities for restructuring	9	13
Other	95	99
Total	**1,167**	**1,175**

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

€ 1,124 million of the liabilities reported here relate to financial instruments (31 December 2013: € 1,109 million).

37. SUBORDINATED CAPITAL

SUBORDINATED CAPITAL

(€ m)	**30.06.2014**	31.12.2013
Subordinated liabilities	4,147	4,110
Silent participations	1,287	1,146
Profit participation capital	33	32
Total	**5,467**	**5,288**

The carrying amounts of silent participations and profit participation capital were determined on the basis of assumptions of the future earnings situation of HSH Nordbank Group and assumptions with regard to making use of termination or extension options (IAS 39.A8).

The increase of silent participations results from measurement effects from the application of IAS 39.A8.

38. EQUITY

EQUITY

(€ m)	30.06.2014	31.12.2013
Share capital	3,018	3,018
Capital reserve	594	594
Retained earnings	930	1,775
Cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	–99	15
Deferred taxes on cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI	31	–5
Revaluation reserve	46	27
Currency conversion reserve	–55	–61
Other net income from financial investments accounted for under the equity method	1	3
Other net income from assets held for sale and disposal groups	–	3
Group net profit/loss	300	–767
Total before non-controlling interests	**4,834**	**4,592**
Non-controlling interests	–10	–13
Total	**4,824**	**4,579**

CHANGES IN ORDINARY SHARES

(number of shares)	30.06.2014	31.12.2013
Number at the beginning of the year	301,822,453	301,822,453
Number at end of the year	**301,822,453**	**301,822,453**

SEGMENT REPORTING

39. SEGMENT REPORTING

(€ m/%)	Shipping, Project & Real Estate Financing		Corporates & Markets		Corporate Center		Consolidation Core Bank		Total Core Bank	
	30.06. 2014	30.06. 2013	**30.06. 2014**	30.06. 2013	**30.06. 2014**	30.06. 2013	**30.06. 2014**	30.06. 2013	**30.06. 2014**	30.06. 2013
Net interest income	271	293	39	86	–194	–80	49	–1	165	298
Net commission income	34	20	22	29	–4	–3	–1	–8	51	38
Result from hedging	–	–	–	–	–	–	–12	10	–12	10
Net trading income	4	27	105	73	15	–1	–29	–62	95	37
Net income from financial investments [1]	23	7	5	10	110	56	5	8	143	81
Total income	**332**	**347**	**171**	**198**	**–73**	**–28**	**12**	**–53**	**442**	**464**
Loan loss provisions	–152	–154	9	–6	5	4	181	49	43	–107
Administrative expenses	–101	–126	–135	–118	20	29	–2	3	–218	–212
Other operating income	5	5	3	4	3	23	1	–1	12	31
Net income before restructuring	**84**	**72**	**48**	**78**	**–45**	**28**	**192**	**–2**	**279**	**176**
Result from restructuring	–	–	–	–	–	–	–6	–6	–6	–6
Expenses for government guarantees	–	–	–	–	–	–	–88	–39	–88	–39
Net income before taxes	**84**	**72**	**48**	**78**	**–45**	**28**	**98**	**–47**	**185**	**131**
Cost/income ratio (CIR) (%)	30	36	79	60					49	46
Return on equity before tax (%)	13	10	23	36					19	13
Average equity	1,301	1,457	414	431	66	13	131	94	1,912	1,995

(€ bn)	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013
Segment assets	**29**	**28**	**28**	**24**	**18**	**16**	**1**	**1**	**76**	**69**

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

(€ m/%)	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	30.06. 2014	30.06. 2013	**30.06. 2014**	30.06. 2013	**30.06. 2014**	30.06. 2013	**30.06. 2014**	30.06. 2013
Net interest income	82	157	–16	25	66	182	231	480
Net commission income	22	14	–	–	22	14	73	52
Result from hedging	–	–	–	–	–	–	–12	10
Net trading income	19	117	–2	–40	17	77	112	114
Net income from financial investments [1]	99	72	–	–	99	72	242	153
Total income	**222**	**360**	**–18**	**–15**	**204**	**345**	**646**	**809**
Loan loss provisions	–97	–306	391	221	294	–85	337	–192
Administrative expenses	–120	–170	–	–	–120	–170	–338	–382
Other operating income	42	22	–	–	42	22	54	53
Net income before restructuring	**47**	**–94**	**373**	**206**	**420**	**112**	**699**	**288**
Result from restructuring	–	–	–2	–2	–2	–2	–8	–8
Expenses for government guarantees	–	–	–171	–104	–171	–104	–259	–143
Net income before taxes	**47**	**–94**	**200**	**100**	**247**	**6**	**432**	**137**
Cost/income ratio (CIR) (%)							52	47
Return on equity before tax (%)							18	5
Average equity	2,635	3,197	155	167	2,790	3,364	4,702	5,359

(€ bn)	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013
Segment assets	**34**	**37**	**3**	**3**	**37**	**40**	**113**	**109**

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

Segment reporting is in accordance with the provisions of IFRS 8. The segments are based on the internal organisational structure in alignment with product and customer groups.

HSH Nordbank's Core Bank consists of the segments Shipping, Project & Real Estate Financing, Corporate & Markets as well as Corporate Center. Results of the Shipping, Energy & Infrastructure and Real Estate Clients divisions are reported under the Shipping, Project & Real Estate Financing segment. Net income in this segment is earned primarily from loan and financial products as well as financing-related services. In the Corporates & Markets division we combine, on the one hand, business transacted with corporates and wealth management (until 30 June 2013 Private Banking) with a focus on entrepreneurs, foundations and non-profit organisations. On the other hand the development, sales and distribution and trading of financial products (Capital Markets), special financing and advisory solutions including transaction banking services (Corporate Finance) as well as the servicing of savings banks, banks and insurance companies are allocated to this segment. The Corporate Center segment includes the administration and service divisions as well as other positions of the Overall Bank.

The Restructuring Unit of HSH Nordbank manages the winding down of credit and capital market transactions that are not continued in the Core Bank. The Special Loans division manages restructuring cases held in the loan portfolios. The Workout division is responsible for the liquidation of and realisation of collateral on especially onerous loan commitments. The focus is placed here on finding alternative portfolio solutions that can enable the risk potential to be reduced whilst minimising the effect on income. The Wind-Down-Assets division manages the remaining loan portfolios as well as the capital markets portfolios.

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

The cost income ratio and return on equity (RoE) are not shown in the segment report for the segments Corporate Center and Restructuring Unit. The ratios for the Corporate Center segment are not shown, as the ratios would only provide little information for the divisions organised under this segment. In the case of the Restructuring Unit, the segment involves business areas which are non-strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income is calculated in accordance with Fund Transfer Pricing (FTP). The planned investment and financing profit is distributed among the business segments on the basis of economic capital committed. The transformation contribution is allocated to the customer departments of the Core Bank on the basis of average receivables.

Total income recognised in the segments is exclusively generated from business conducted with external customers.

Costs arising at the Corporate Center are allocated to the business segments as part of the internal cost allocation.

Net income elements not allocated to divisions are reported in the consolidation columns of the Core Bank and the Restructuring Unit.

Measurement and disclosure differences as well as differences in the mapping of economic hedging relationships are mainly shown under net interest income in the consolidation columns.

Net trading income in the consolidation columns includes, amongst other things, credit rating effects on own issues of HSH Nordbank measured at fair value, differences in the mapping of economic hedging relationships as well as changes in the value of interest rate/currency derivatives recognised in net trading income, especially EUR/USD basis swaps.

Loan loss provisions are shown in the segments in which they originated. Effects on the basis of the hedging effects of the second loss guarantee are disclosed in the consolidation columns. This applies to expenses for government guarantees accordingly.

Average equity capital was previously allocated to the segments on the basis of economic capital tied up. The regulatory capital commitment is in use as the allocation standard since 2014. The previous year figures have been adjusted for purposes of comparability.

The cost/income ratio is the ratio of administrative expenses to total income. Return on equity results from the ratio of net income before taxes to average equity. Information on companies consolidated under the equity method recognised under Net income from financial investments can be found in Note 10.

The segment results of the previous years had to be adjusted respectively within the framework of the initial application of IFRS 10.

NOTES ON FINANCIAL INSTRUMENTS

40. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **30.06.2014**	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	9,679	404	–	–	–	–	10,083
Loans and advances to banks	5,483	87	67	–	–	–	5,637
Loans and advances to customers	65,179	101	1,248	–	–	–	66,528
Receivables under finance lease transactions	–	–	–	–	–	101	101
Positive fair values of hedging derivatives	–	–	–	–	–	1,297	1,297
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	365	365
Trading assets	–	–	–	9,112	–	–	9,112
Financial investments	5,436	12,215	2,159	–	–	–	19,810
Non-current assets held for sale and disposal groups	42	–	–	–	–	–	42
Other assets	85	–	–	–	–	–	85
Total assets	**85,904**	**12,807**	**3,474**	**9,112**	**–**	**1,763**	**113,060**
Liabilities							
Liabilities to banks	–	–	159	–	16,117	–	16,276
Liabilities to customers	–	–	2,494	–	42,904	–	45,398
Securitised liabilities	–	–	4,634	–	23,212	–	27,846
Negative fair values of hedging derivatives	–	–	–	–	–	925	925
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	1,104	1,104
Trading liabilities	–	–	–	7,918	–	–	7,918
Subordinated capital	–	–	107	–	5,360	–	5,467
Other liabilities	–	–	–	–	1,124	–	1,124
Total liabilities	**–**	**–**	**7,394**	**7,918**	**88,717**	**2,029**	**106,058**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m) **31.12.2013**	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	4,469	382	–	–	–	–	4,851
Loans and advances to banks	4,962	86	110	–	–	–	5,158
Loans and advances to customers	67,015	146	1,177	–	–	–	68,338
Receivables under finance lease transactions	–	–	–	–	–	131	131
Positive fair values of hedging derivatives	–	–	–	–	–	1,287	1,287
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	151	151
Trading assets	–	–	–	9,045	–	–	9,045
Financial investments	6,436	12,671	2,149	–	–	–	21,256
Non-current assets held for sale and disposal groups	15	–	–	–	–	–	15
Other assets	105	–	–	–	–	–	105
Total assets	**83,002**	**13,285**	**3,436**	**9,045**	**–**	**1,569**	**110,337**
Liabilities							
Liabilities to banks	–	–	143	–	18,069	–	18,212
Liabilities to customers	–	–	2,557	–	38,105	–	40,662
Securitised liabilities	–	–	4,717	–	23,844	–	28,561
Negative fair values of hedging derivatives	–	–	–	–	–	934	934
Value adjustments from the portfolio fair value hedge	–	–	–	–	–	961	961
Trading liabilities	–	–	–	7,103	–	–	7,103
Liabilities relating to disposal groups	–	–	–	–	–	–	–
Subordinated capital	–	–	103	–	5,185	–	5,288
Other liabilities	–	–	–	–	1,109	–	1,109
Total liabilities	**–**	**–**	**7,520**	**7,103**	**86,312**	**1,895**	**102,830**

41. RECLASSIFICATION UNDER IAS 39 (REVISED 2008)

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (revised 2008) as LaR where they meet the relevant requirements and were not intended for short-term sale at the time of reclassification and are due to be held for the foreseeable future. The assets were reclassified in 2008 and 2009 due to the global financial crisis and the consequences it has had on the valuation of securities holdings. The reclassifications were performed in accordance with IAS 39.50D or IAS 39.50E respectively.

The reclassification as LaR measures fair value at the time of reclassification at cost or amortised cost, respectively. At the time of reclassification an effective interest rate was determined which is used for subsequent measurement of the amortised acquisition cost. For reclassification of financial instruments from AfS to LaR the revaluation reserve recognised up to the point of reclassification is released through net interest income on a pro rata temporis basis in accordance with IAS 39.54 a).

During the third quarter of 2008, financial instruments were reclassified from the categories HfT and AfS into LaR. These reclassifications are shown in the following table:

(€ m)		30.06.2014		31.12.2013	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	–	–	29	28
Reclassified from AfS to LaR	1,765	–	–	–	–
Total financial assets reclassified as LaR	**2,785**	**–**	**–**	**29**	**28**

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

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

(€ m)		30.06.2014		31.12.2013	
	Carrying amount as at the time of reclassification	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Reclassified from HfT to LaR	399	–	–	29	29
Reclassified from AfS to LaR	6,336	1,712	1,791	2,136	2,156
Total financial assets reclassified as LaR	**6,735**	**1,712**	**1,791**	**2,165**	**2,185**

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

The decrease in carrying amounts and fair values of all reclassified financial instruments was due to extensive changes in holdings. At the time of reclassification as HfT, the carrying amount of the financial instruments affected was € 1,419 million and the carrying amount of assets classified as AfS was € 6,389 million. The changes in holdings result from sales as well as maturities. The sales were carried out following the realignment of the HSH Nordbank Group and were neither planned nor anticipated at the time of the restructuring.

Shown below is the impact all holdings reclassified to date would have had on the income statement and revaluation reserve if they had not been reclassified.

For financial instruments reclassified from HfT the valuation result in the income statement for the current reporting period would have been € 0 million (previous year: € 1 million) for the financial instruments reclassified in the 2008 financial year and € 1 million (previous year: € – 2 million) for the financial instruments reclassified in the 2009 financial year.

For financial instruments reclassified from AfS the valuation result in the income statement for the current reporting period would have been € 0 million (previous year: € 0 million) for the financial instruments reclassified in the 2008 financial year and € 63 million (previous year: € – 22 million) for the financial instruments reclassified in the 2009 financial year.

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

(€ m)	**January–June 2014**			January–June 2013		
	From HfT	**From AfS**	**Total**	From HfT	From AfS	Total
Net interest income	–	18	18	3	40	43
Net trading income	–	6	6	–	–22	–22
Net income from financial investments	–	–	–	5	–	5
Total	**–**	**24**	**24**	**8**	**18**	**26**

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

I. DETERMINING FAIR VALUE

Under IFRS 13 the fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is determined on the basis of the listed price on an active market (mark-to-market), or if this is not possible on the basis of recognised valuation techniques and models (mark-to-matrix or mark-to-model). Irrespective of whether and to what extent the inputs applied in determining the fair value are observable in the market, financial instruments are assigned to one of the three fair value hierarchy levels as defined in IFRS 13.

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be entered into or has been entered into for a similar financial instrument as at the measurement date. This is generally the case for securities and derivatives traded on liquid markets. Such an unadjusted market price at the measurement date for the identical instrument is classified as level 1 of the valuation hierarchy under IFRS 13.

If such a market price is not available for the identical instrument, the measurement is carried out using valuation techniques or models.

When using valuation techniques the market approach is the preferable method for determining the fair value. The fair value is determined to the extent possible on the basis of prices that come from transactions executed on the measurement date. If the fair value cannot be determined from market or transaction prices for the identical financial instrument, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary (mark-to-matrix method). The fair value is assigned to level 2 of the fair value hierarchy if the adjustment to the prices or parameters observable in the market is not material. However, if the adjustment is material, the fair value is assigned to level 3.

The fair value is determined based on an income approach using an appropriate model (such as option price model, discounted cash flow method, collateralised debt obligation model), if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hierarchy. Observable market data is usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices). If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to level 3 of the fair value hierarchy. Valuation models that are based on non-observable market data, and which therefore require assumptions concerning the relevant parameters, are often necessary for structured securities – or more generally for securities whose markets are illiquid and for complex OTC derivatives.

The fair value of receivables and liabilities measured at amortised cost is determined by discounting cash flows taking into account rating-related spreads as well as the LGD of loans. In the case of receivables with a default rating, the fair values are determined based on the expected future cash flows. For current receivables and liabilities (such as current accounts), the carrying amount is shown at fair value.

A portion of the liabilities measured at fair value comes under the guarantee obligation (Gewährträgerhaftung) (credit enhancements). Lower credit spreads are applied in determining the fair values for such liabilities than is the case for liabilities for which similar obligations of third parties do not exist.

The following section gives an overview of the parameters and assumptions used and the valuation procedures they are based on.

1. **Parameters used in valuation techniques and models**
The following are the parameters used to determine the fair value for each class of financial assets and liabilities. We refer to the information provided on significant unobservable inputs (Section IV of this Note) with regard to the material parameters used.

a. Trading assets/trading liabilities (HfT)
Securities in the trading portfolio are valued using quoted market prices to a large extent. 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.

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

OTC derivatives are valued using valuation techniques and models. A distinction is drawn between plain vanilla derivatives traded in liquid markets, such as interest rate swaps, cross-currency interest rate swaps, FX forwards, FX options, single-name and index credit default swaps and complex derivatives where markets are illiquid. The former are valued using recognised techniques and models that are based on non-observable market parameters to an insignificant extent at most, while the latter require a significant number of judgements to be made with regard to the selection of both the model and the parameter estimates.

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

b. Positive/negative fair values of hedging derivatives
This class contains exclusively plain vanilla interest rate and cross-currency interest rate swaps which can be measured using recognised techniques and models that use non-observable market parameters to an insignificant extent, if at all.

c. Financial investments (AfS)
The HSH Nordbank Group's financial investments comprise mainly fixed income securities. Substantial parts are valued using liquid market prices (such as stock exchange 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.

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

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

d. Assets/liabilities Designated at Fair Value (DFV)
Assets designated at fair value carried under financial investments and loans and advances to customers or banks primarily comprise holdings in the credit investment business (ABS, synthetic CDOs, CLNs). For measuring CDOs, a standard market model (Gauss-Copula) is used which includes both observable and non-observable market parameters. The pricing hierarchy described above is used for the other products.

DFV liabilities disclosed under securitised liabilities, liabilities to customers or banks and subordinated capital include complex structured registered and bearer securities with embedded interest, currency, equity and other risks, which are mainly directly hedged by corresponding derivatives (so-called back-to-back transactions). Where current market prices are available for securitised liabilities on liquid markets, these are used. However, the vast majority of DFV liabilities are measured using valuation techniques and models. These make extensive use of complex techniques and models which also use market parameters which are not directly observable. DFV liabilities are principally hedged through offsetting derivatives so that there are positions which compensate for model risks or parameter uncertainties.

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

2. Value adjustments

If the value of a financial instrument as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads, closing costs, liquidity, model risks and credit or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into account. The methods applied for this draw to some extent on non-observable market parameters in the form of estimates.

The value adjustment for credit risk is determined for OTC derivatives at the level of a group of financial instruments (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFS 13.49 for a portfolio-based measurement are met.

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

3. Day One Profit and Loss

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

4. Measurement processes

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

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

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

The measurement procedures and models as well as the estimation technique used to determine the level 3 inputs and their parameterisation are periodically reviewed and, if applicable, adjusted, re-calibrated or replaced by new measurement procedures or models. Any deficits and weaknesses identified are reported monthly to the Management Board.

II. Fair values of financial instruments

The fair values of the financial assets and liabilities are disclosed by classes of financial instruments and compared with the respective carrying amount below.

FAIR VALUES OF FINANCIAL INSTRUMENTS
ASSETS

(€ m)	30.06.2014			31.12.2013		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading assets	9,112	9,112	–	9,045	9,045	–
Designated at Fair Value (DFV)						
Loans and advances to banks	67	67	–	110	110	–
Loans and advances to customers	1,248	1,248	–	1,177	1,177	–
Financial investments	2,159	2,159	–	2,149	2,149	–
Available for Sale (AfS)						
Cash reserve	404	404	–	382	382	–
Loans and advances to banks	87	87	–	86	86	–
Loans and advances to customers	101	101	–	146	146	–
Financial investments[1]	12,215	12,237	22	12,671	12,464	–207
of which equity instruments measured at cost	313	–	–	315	–	–
Loans and Receivables (LaR)						
Cash reserve	9,679	9,679	–	4,469	4,469	–
Loans and advances to banks	5,465	5,496	31	4,836	4,866	30
Loans and advances to customers	59,263	60,691	1,428	60,844	61,587	743
Financial investments	5,436	5,478	42	6,436	6,383	–53
Non-current assets held for sale and disposal groups	42	42	–	15	15	–
Other assets	85	85	–	105	105	–
No IAS 39 category						
Positive fair value of hedging derivatives	1,297	1,297	–	1,287	1,287	–
Receivables under finance lease transactions	101	101	–	131	131	–
Value adjustments from the portfolio fair value hedge	365	–	–365	151	–	–151
Total assets	**107,126**	**108,284**	**1,158**	**104,040**	**104,402**	**362**

[1] € 313 million of the difference between the carrying amount and fair value (31 December 2013: € 315 million) is attributable to equity instruments measured at cost in accordance with IAS 39.46 (c). Another difference between the carrying amount and fair value of financial investments classified as available for sale (AfS) is attributable to the fact that the adjustment item created for these transactions from the portfolio fair value hedge is disclosed separately. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed under the Value adjustments from the portfolio fair value hedge item, of which € 335 million (31 December 2013: € 108 million) is accounted for by financial investments classified as available for sale (AfS) and € 30 million (31 December 2013: € 43 million) by loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS LIABILITIES

(€ m)	**30.06.2014**			31.12.2013		
	Carrying amount	**Fair value**	**Difference**	Carrying amount	Fair value	Difference
Held for Trading (HfT)						
Trading liabilities	7,918	7,918	–	7,103	7,103	–
Designated at Fair Value (DFV)						
Liabilities to banks	159	159	–	143	143	–
Liabilities to customers	2,494	2,494	–	2,557	2,557	–
Securitised liabilities	4,634	4,634	–	4,717	4,717	–
Subordinated capital	107	107	–	103	103	–
Other liabilities (LIA)						
Liabilities to banks	16,117	16,321	204	18,069	18,259	190
Liabilities to customers	42,904	44,338	1,434	38,105	39,281	1,176
Securitised liabilities	23,212	23,473	261	23,844	23,849	5
Liabilities relating to disposal groups	–	–	–	–	–	–
Other liabilities	1,124	1,124	–	1,109	1,109	–
Subordinated capital	5,360	5,157	–203	5,185	4,789	–396
No IAS 39 category						
Negative fair values of hedging derivatives	925	925	–	934	934	–
Value adjustments from the portfolio fair value hedge	1,104	–	–1,104	961	–	–961
Total liabilities	**106,058**	**106,650**	**592**	**102,830**	**102,844**	**14**

The fair value of financial instruments for which there is an active market is measured by the stock exchange or market price at the reporting date. If there is no active market for financial instruments, the fair value is calculated by applying recognised measurement procedures and models. For receivables and liabilities measured at amortised cost, fair value is determined by discounting cash flows taking into account rating-related spreads as well as the loss given default (LGD) of loans. In the case of receivables with a default rating, the measurement of fair value is made on the basis of expected future cash flows. For current receivables and liabilities (such as current accounts) the carrying amount is shown at fair value.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as LaR are shown less the reported loan loss provisions, since fair value also reflects possible impairments.

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

Assets and liabilities show the following breakdown by level in the fair value hierarchy under IFRS 13. For assets and liabilities recognised and measured at fair value, the fair values are broken down by class of financial instrument in the three levels in the hierarchy.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
30.06.2014	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve				
AfS	7	397	–	404
of which debt instruments	7	397	–	404
Loans and advances to banks				
AfS	–	40	47	87
of which debt instruments	–	40	47	87
of which contractually-linked instruments	–	–	–	–
DFV	–	–	67	67
of which debt instruments	–	–	67	67
Loans and advances to customers				
AfS	–	–	101	101
of which debt instruments	–	–	101	101
DFV	–	61	1,187	1,248
of which debt instruments	–	61	1,187	1,248
Positive fair value of hedging derivatives	–	1,297	–	1,297
of which interest rate derivatives	–	1,297	–	1,297
Trading assets (HfT)	202	8,124	786	9,112
of which debt instruments	201	1,480	–	1,681
of which contractually-linked instruments	–	78	–	78
of which equity and near-equity instruments	1	1	–	2
of which interest rate derivatives	–	5,561	308	5,869
of which cross-currency interest rate derivatives	–	298	–	298
of which currency derivatives	–	70	18	88
of which credit derivatives	–	19	2	21
of which other derivatives	–	43	33	76
of which structured derivatives	–	565	425	990
of which other trading portfolios	–	9	–	9
of which financial investments (excl. equity instruments measured at cost)				
AfS	7,322	4,454	126	11,902
of which debt instruments	7,301	4,261	11	11,573
of which contractually-linked instruments	–	192	–	192
of which equity and near-equity instruments	21	1	115	137
DFV	–	1,274	885	2,159
of which debt instruments	–	1,264	535	1,799
of which contractually-linked instruments	–	10	333	343
of which equity and near-equity instruments	–	–	17	17
Total	**7,531**	**15,647**	**3,199**	**26,377**

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
31.12.2013	Level 1	Level 2	Level 3	**Total**
Balance sheet line item/category/instrument type				
Cash reserve				
AfS	7	375	–	382
of which debt instruments	7	375	–	382
Loans and advances to banks				
AfS	–	41	45	86
of which debt instruments	–	41	45	86
DFV	–	34	76	110
of which debt instruments	–	34	76	110
Loans and advances to customers				
AfS	–	–	146	146
of which debt instruments	–	–	146	146
DFV	–	83	1,094	1,177
of which debt instruments	–	83	1,094	1,177
Positive fair value of hedging derivatives	–	1,287	–	1,287
of which interest rate derivatives	–	1,287	–	1,287
Trading assets (HfT)	440	7,502	1,103	9,045
of which debt instruments	436	1,557	–	1,993
of which contractually-linked instruments	–	69	–	69
of which equity and near-equity instruments	4	–	–	4
of which interest rate derivatives	–	4,979	270	5,249
of which cross-currency interest rate derivatives	–	529	–	529
of which currency derivatives	–	124	19	143
of which credit derivatives	–	18	2	20
of which other derivatives	–	35	80	115
of which structured derivatives	–	187	732	919
of which other trading portfolios	–	4	–	4
of which financial investments (excl. equity instruments measured at cost)				
AfS	7,537	4,680	139	12,356
of which debt instruments	7,499	4,484	7	11,990
of which contractually-linked instruments	–	195	–	195
of which equity and near-equity instruments	38	1	132	171
DFV	–	1,281	868	2,149
of which debt instruments	–	1,239	495	1,734
of which contractually-linked instruments	–	42	353	395
of which equity and near-equity instruments	–	–	20	20
Total	**7,984**	**15,283**	**3,471**	**26,738**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
30.06.2014	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	27	132	159
of which debt instruments	–	27	132	159
Liabilities to customers				
DFV	–	499	1,195	1,694
of which debt instruments	–	499	1,195	1,694
Securitised liabilities				
DFV	–	3,370	1,264	4,634
of which debt instruments	–	3,353	1,264	4,617
of which contractually-linked instruments	–	17	–	17
Negative fair values of hedging derivatives	–	925	–	925
of which interest rate derivatives	–	925	–	925
Trading liabilities (HfT)	–	7,013	905	7,918
of which interest rate derivatives	–	6,300	527	6,827
of which cross-currency interest rate derivatives	–	407	–	407
of which currency derivatives	–	62	26	88
of which credit derivatives	–	1	–	1
of which other derivatives	–	50	31	81
of which structured derivatives	–	193	321	514
Subordinated capital				
DFV	–	91	16	107
of which debt instruments	–	91	16	107
Total	**–**	**11,925**	**3,512**	**15,437**

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
31.12.2013	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	26	117	143
of which debt instruments	–	26	117	143
Liabilities to customers				
DFV	–	443	2,114	2,557
of which debt instruments	–	443	2,114	2,557
Securitised liabilities				
DFV	–	2,563	2,154	4,717
of which debt instruments	–	2,560	2,154	4,714
of which contractually-linked instruments	–	3	–	3
Negative fair values of hedging derivatives	–	934	–	934
of which interest rate derivatives	–	934	–	934
Trading liabilities (HfT)	–	6,280	823	7,103
of which interest rate derivatives	–	5,727	432	6,159
of which cross-currency interest rate derivatives	–	229	–	229
of which currency derivatives	–	95	28	123
of which credit derivatives	–	1	–	1
of which other derivatives	–	50	78	128
of which structured derivatives	–	178	285	463
Subordinated capital				
DFV	–	87	16	103
of which debt instruments	–	87	16	103
Total	**–**	**10,333**	**5,224**	**15,557**

Of the financial instruments allocated to level 3, € 2,640 million of assets (31 December 2013: € 2,672 million) and € 3,937 million of liabilities (31 December 2013: € 4,701 million) are in economic hedging relationships, so that uncertainties and risk positions due to unobservable parameters offset each other at the level of hedging relationships involved.

During the period under review financial instruments measured at fair value were transferred from one hierarchy level to another. Transfers are made as at the reporting date. Transfers are shown below with the carrying amounts at the time of transfer for each class of financial instruments.

TRANSFER, ASSETS

(€ m) 30.06.2014	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (HfT)	–	–141	530	–	–	–389
of which debt instruments	–	–140	140	–	–	–
of which equity and near-equity instruments	–	–1	1	–	–	–
of which other derivatives	–	–	26	–	–	–26
of which structured derivatives	–	–	363	–	–	–363
Financial investments (excl. equity instruments measured at cost)						
AfS	743	–671	678	–743	–	–7
of which debt instruments	743	–671	678	–743	–	–7
DFV	–	–	–	–1	1	–
of which debt instruments	–	–	–	–1	1	–
Total	**743**	**–812**	**1,208**	**–744**	**1**	**–396**

TRANSFER, ASSETS

(€ m) 31.12.2013	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to banks						
AfS	–	–	41	–	–	–41
of which debt instruments	–	–	41	–	–	–41
Trading assets (HfT)	–	–200	354	–4	4	–154
of which debt instruments	–	–200	200	–	–	–
of which contractually-linked instruments	–	–	67	–	–	–67
of which interest rate derivatives	–	–	42	–	–	–42
of which credit derivatives	–	–	13	–1	1	–13
of which structured derivatives	–	–	32	–3	3	–32
Financial investments (excl. equity instruments measured at cost)						
AfS	–	–2,270	2,271	–4	4	–1
of which debt instruments	–	–2,088	2,088	–4	4	–
of which contractually-linked instruments	–	–182	182	–	–	–
of which equity and near-equity instruments	–	–	1	–	–	–1
DFV	–	–913	936	–	–	–23
of which debt instruments	–	–913	918	–	–	–5
of which contractually-linked instruments	–	–	18	–	–	–18
Total	**–**	**–3,383**	**3,602**	**–8**	**8**	**–219**

TRANSFER, LIABILITIES

(€ m) **30.06.2014**	**Transfer to level 1**	**Transfer from level 1**	**Transfer to level 2**	**Transfer from level 2**	**Transfer to level 3**	**Transfer from level 3**
Liabilities to customers						
DFV	–	–	52	–	–	–52
of which debt instruments	–	–	52	–	–	–52
Securitised liabilities						
DFV	–	–	902	–	–	–902
of which debt instruments	–	–	902	–	–	–902
Trading liabilities (HfT)	–	–	26	–	–	–26
of which other derivatives	–	–	26	–	–	–26
Total	**–**	**–**	**980**	**–**	**–**	**–980**

TRANSFER, LIABILITIES

(€ m) **31.12.2013**	**Transfer to level 1**	**Transfer from level 1**	**Transfer to level 2**	**Transfer from level 2**	**Transfer to level 3**	**Transfer from level 3**
Liabilities to banks						
DFV	–	–	10	–28	28	–10
of which debt instruments	–	–	10	–28	28	–10
Liabilities to customers						
DFV	–	–	8	–59	59	–8
of which debt instruments	–	–	8	–59	59	–8
Securitised liabilities						
DFV	–	–	314	–	–	–314
of which debt instruments	–	–	314	–	–	–314
Trading liabilities (HfT)	–	–	97	–	–	–97
of which interest rate derivatives	–	–	32	–	–	–32
of which structured derivatives	–	**–**	**65**	**–**	**–**	**–65**
Total	**–**	**–**	**429**	**–87**	**87**	**–429**

IFRS 13 and the accounting standard IDW RS HFA 47 adopted in December 2013 specify the principles to be applied in determining the fair value. These also include guidelines for assigning input factors to the fair value hierarchy levels. HSH Nordbank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities, for which the OTC market is the relevant market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from level 1 to level 2 or vice versa in the reporting period - depending on the prices used for measurement. Furthermore, significant transfers from level 3 to level 2 were also made in the reporting period for products with certain equity option components within the framework of regularly performed model validations, since it was possible to use observable inputs in the model now.

The following shows the reconciliation for all assets and liabilities recognised and measured at fair value and allocated to level 3 in the fair value hierarchy. The data is presented by class of financial instrument from the start to the end of the period. The table takes into account all movements of assets and liabilities which were or are allocated to level 3 during the reporting period.

In the reconciliations below income is shown with a negative sign and expenses without a sign.

RECONCILIATION, ASSETS

(€ m)		Change in balance affecting income	
	1 January 2014	Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Loans and advances to banks			
AfS	**45**	**–1**	**–**
of which debt instruments	45	–1	–
DFV	**76**	**–**	**–**
of which debt instruments	76	–	–
Loans and advances to customers			
AfS	**146**	**15**	**–13**
of which debt instruments	146	15	–13
of which contractually-linked instruments	–	–	–
DFV	**1,094**	**78**	**–**
of which debt instruments	1,094	78	–
Trading assets (HfT)	**1,103**	**61**	**–**
of which equity and near-equity instruments	–	–	–
of which interest rate derivatives	270	29	–
of which currency derivatives	19	–1	–
of which credit derivatives	2	–	–
of which other derivatives	80	–19	–
of which structured derivatives	732	52	–
Financial investments (excl. equity instruments measured at cost)			
AfS	**139**	**2**	**5**
of which debt instruments	7	2	1
of which equity and near-equity instruments	132	–	4
DFV	**868**	**37**	**–**
of which debt instruments	495	37	–
of which contractually-linked instruments	353	2	–
of which equity and near-equity instruments	20	–2	–
Total	**3,471**	**192**	**–8**

	Quantitative change in balance			Transfers						
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassification	Exchange rate changes	Changes in the scope of consolidation	**30 June 2014**	Net income from assets held as at 30 June 2014
	–	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**47**	**–1**
	–	–	–	–	–	–	3	–	47	–1
	–	**–9**	**–**	**–**	**–**	**–**	**–**	**–**	**67**	**–**
	–	–9	–	–	–	–	–	–	67	–
	–5	**–20**	**–23**	**–**	**–**	**–**	**1**	**–**	**101**	**–1**
	–5	–20	–23	–	–	–	1	–	101	–1
	–	–	–	–	–	–	–	–	–	–
	18	**–3**	**–**	**–**	**–**	**–**	**–**	**–**	**1,187**	**78**
	18	–3	–	–	–	–	–	–	1,187	78
	13	**–4**	**–**	**–389**	**–**	**–**	**2**	**–**	**786**	**95**
	4	–4	–	–	–	–	–	–	–	–
	9	–	–	–	–	–	–	–	308	37
	–	–	–	–	–	–	–	–	18	–
	–	–	–	–	–	–	–	–	2	–
	–	–	–	–26	–	–	–2	–	33	–19
	–	–	–	–363	–	–	4	–	425	77
	12	**–26**	**–**	**–7**	**–**	**–**	**1**	**–**	**126**	**–1**
	8	–	–	–7	–	–	–	–	11	–1
	4	–26	–	–	–	–	1	–	115	–
	–	**–22**	**–**	**–**	**1**	**–**	**1**	**–**	**885**	**–36**
	–	–	–	–	1	–	2	–	535	–38
	–	–21	–	–	–	–	–1	–	333	–
	–	–1	–	–	–	–	–	–	17	2
	38	**–84**	**–23**	**–396**	**1**	**–**	**8**	**–**	**3,199**	**134**

RECONCILIATION, ASSETS

(€ m)				Change in balance affecting income	
	1 January 2013	Less equity instruments measured at cost	**1 January 2013 following adjustment**	Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type					
Loans and advances to banks					
AfS	**41**		**41**	**–**	**–4**
of which debt instruments	41		41	–	–4
DFV	**78**		**78**	**–1**	**–**
of which debt instruments	78		78	–1	–
Loans and advances to customers					
AfS	**–**		**–**	**–14**	**–7**
of which debt instruments	–		–	–14	–7
DFV	**1,155**		**1,155**	**–76**	**–**
of which debt instruments	1,155		1,155	–76	–
Trading assets (HfT)	**1,441**		**1,441**	**–233**	**–**
of which contractually-linked instruments	67		67	4	–
of which interest rate derivatives	480		480	–167	–
of which currency derivatives	31		31	–12	–
of which credit derivatives	15		15	–	–
of which other derivatives	33		33	–11	–
of which structured derivatives	815		815	–47	–
Financial investments (excl. equity instruments measured at cost)					
AfS	**499**	**–349**	**150**	**–1**	**–**
of which debt instruments	–	–	–	–1	5
of which contractually-linked instruments	–	–	–	–	1
of which equity and near-equity instruments	499	–349	150	–	–6
DFV	**943**		**943**	**–6**	**–**
of which debt instruments	541		541	–18	–
of which contractually-linked instruments	360		360	14	–
of which equity and near-equity instruments	42		42	–2	–
Non-current assets held for sale and disposal groups					
AfS	**29**		**29**	**–**	**–**
of which equity and near-equity instruments	29		29	–	–
Total	**4,186**	**–349**	**3,837**	**–331**	**–11**

	Quantitative change in balance			Transfers						
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassi-fication	Exchange rate changes	Changes in the scope of consolidation	**31 December 2013**	Net income from assets held as at 31 December 2013
	–	**–**	**–4**	**–41**	**–**	**52**	**1**	**–**	**45**	**–**
	–	–	–4	–41	–	52	1	–	45	–
	6	**–7**	**–**	**–**	**–**	**–**	**–**	**–**	**76**	**–1**
	6	–7	–	–	–	–	–	–	76	–1
	167	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**146**	**–14**
	167	–	–	–	–	–	–	–	146	–14
	–	**–**	**–**	**–**	**–**	**17**	**–2**	**–**	**1,094**	**–76**
	–	–	–	–	–	17	–2	–	1,094	–76
	62	**–2**	**36**	**–154**	**4**	**–24**	**–27**	**–**	**1,103**	**–194**
	–	–	–	–67	–	–	–4	–	–	–
	4	–1	–	–42	–	–1	–3	–	270	–140
	–	–1	1	–	–	–	–	–	19	–12
	–	–	–	–13	1	–	–1	–	2	–
	58	–	–	–	–	–	–	–	80	–11
	–	–	35	–32	3	–23	–19	–	732	–31
	–	**–**	**–**	**–1**	**4**	**–**	**–13**	**–**	**139**	**–3**
	–	–	–	–	4	–	–1	–	7	–3
	–	–	–	–	–	–	–1	–	–	–
	–	–	–	–1	–	–	–11	–	132	–
	–	**–1**	**–8**	**–23**	**–**	**–19**	**–18**	**–**	**868**	**–10**
	–	–	–8	–5	–	–	–15	–	495	–19
	–	–	–	–18	–	–	–3	–	353	12
	–	–1	–	–	–	–19	–	–	20	–3
										–
	–	**–16**	**–**	**–**	**–**	**–**	**–**	**–13**	**–**	**–**
	–	–16	–	–	–	–	–	–13	–	–
	235	**–26**	**24**	**–219**	**8**	**26**	**–59**	**–13**	**3,471**	**–298**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income	
	1 January 2014	Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	**117**	**5**	**–**
of which debt instruments	117	5	–
Liabilities to customers			
DFV	**2,114**	**40**	**–**
of which debt instruments	2,114	40	–
Securitised liabilities			
DFV	**2,154**	**45**	**–**
of which debt instruments	2,154	45	–
Trading liabilities (HfT)	**823**	**109**	**–**
of which interest rate derivatives	432	94	–
of which currency derivatives	28	–1	–
of which other derivatives	78	–20	–
of which structured derivatives	285	36	–
Subordinated capital			
DFV	**16**	**–**	**–**
of which debt instruments	16	–	–
Total	**5,224**	**199**	**–**

Quantitative change in balance			Transfers							
Purchases	Sales	Settlements	from level 3	to level 3	Reclassi-fication	Exchange rate changes	Changes in the scope of consoli-dation	Realised net income (income statement)	**30 June 2014**	Net income from assets held as at 31 Decem-ber 2013
10	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**132**	**–5**
10	–	–	–	–	–	–	–	–	132	–5
33	**–3**	**–**	**–140**	**–52**	**–**	**–**	**3**	**–**	**1,995**	**–69**
33	–3	–	–140	–52	–	–	3	–	1,995	–69
–12	**–15**	**17**	**–45**	**–902**	**–**	**–**	**22**	**–**	**1,264**	**–20**
–12	–15	17	–45	–902	–	–	22	–	1,264	–20
3	**–3**	**–**	**–**	**–26**	**–**	**–**	**–1**	**–**	**905**	**–113**
3	–2	–	–	–	–	–	–	–	527	–96
–	–1	–	–	–	–	–	–	–	26	–
–	–	–	–	–26	–	–	–1	–	31	20
–	–	–	–	–	–	–	–	–	321	–37
–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16**	**–**
–	–	–	–	–	–	–	–	–	16	–
34	**–21**	**17**	**–185**	**–980**	**–**	**–**	**24**	**–**	**4,312**	**–207**

RECONCILIATION, LIABILITIES

(€ m)		Change in balance affecting income	
	1 January 2013	Realised net income (income statement)	Net income not recognised in profit or loss
Balance sheet line item/category/instrument type			
Liabilities to banks			
DFV	**120**	**–2**	**–**
of which debt instruments	120	–2	–
Liabilities to customers			
DFV	**2,399**	**–84**	**–**
of which debt instruments	2,399	–84	–
Securitised liabilities			
DFV	**2,569**	**87**	**–**
of which debt instruments	2,569	87	–
Trading liabilities (HfT)	**1,144**	**–282**	**–**
of which interest rate derivatives	623	–167	–
of which currency derivatives	46	–17	–
of which other derivatives	33	–20	–
of which structured derivatives	442	–78	–
Subordinated capital			
DFV	**18**	**–2**	**–**
of which debt instruments	18	–2	–
Total	**6,250**	**–283**	**–**

	Quantitative change in balance			Transfers							
	Purchases	Sales	Settlements	from level 3	to level 3	Reclassi-fication	Exchange rate changes	Changes in the scope of consoli-dation	Realised net income (income statement)	**31 De-cember 2013**	Net income from assets held as at 31 Decem-ber 2013
	–	**–**	**–19**	**–**	**–10**	**28**	**–**	**–**	**–**	**117**	**3**
	–	–	–19	–	–10	28	–	–	–	117	3
	72	**–**	**–193**	**–130**	**–8**	**59**	**4**	**–5**	**–**	**2,114**	**89**
	72	–	–193	–130	–8	59	4	–5	–	2,114	89
	–33	**77**	**6**	**–94**	**–314**	**–**	**–3**	**–141**	**–**	**2,154**	**–111**
	–33	77	6	–94	–314	–	–3	–141	–	2,154	–111
	91	**–**	**–5**	**2**	**–97**	**–**	**–24**	**–6**	**–**	**823**	**261**
	11	–	–3	1	–32	–	–	–1	–	432	142
	–	–	–1	–	–	–	–	–	–	28	17
	64	–	–	1	–	–	–	–	–	78	15
	16	–	–1	–	–65	–	–24	–5	–	285	87
	–	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**16**	**–**
	–	–	–	–	–	–	–	–	–	16	–
	130	**77**	**–211**	**–222**	**–429**	**87**	**–23**	**–152**	**–**	**5,224**	**242**

The following tables show the items containing realised and unrealised gains and losses in the income statement and equity (statement of comprehensive income).

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

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

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)	Realised/Unrealised net income (income statement)					Other comprehensive income for the period	Net income from assets held as at 30 June 2013				
30.06.2013	Net interest income	Net trading income	Net income from financial investments	Other operating income	**Total**	**Revaluation reserve**	Net interest income	Net trading income	Net income from financial investments	**Total**	**Other comprehensive income for the period**
Balance sheet line item/category/instrument type											
Loans and advances to banks											
AfS	–	–	–	–	–	–	–	–	–	–	–
DFV	–1	1	–	–	–	–	–1	1	–	–	–
Loans and advances to customers											
DFV	7	–61	–	–	–54	–	7	–61	–	–54	–
Trading assets (HfT)	32	–236	–	–	–204	–	32	–228	–	–196	–
Financial investments											
AfS	–	–	–	–	–	1	–	–	1	1	2
DFV	8	–15	–	–	–7	–	8	–19	–	–11	–
Non-current assets held for sale and disposal groups											
AfS	–	–	–	–13	–13	–	–	–	–	–	–
Total	**46**	**–311**	**–**	**–13**	**–278**	**1**	**46**	**–307**	**1**	**–260**	**2**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/Unrealised net income (income statement)				Other comprehensive income for the period	Net income from liabilities held as at 30 June 2014				
30.06.2014	Net interest income	Net trading income	Net income from financial investments	**Total**	**Revaluation reserve**	Net interest income	Net trading income	Net income from financial investments	**Total**	**Other comprehensive income for the period**
Balance sheet line item/ category/instrument type										
Liabilities to banks										
DFV	**–**	**–5**	**–**	**–5**	**–**	**–**	**–5**	**–**	**–5**	**–**
of which debt instruments	–	–5	–	–5	–	–	–5	–	–5	–
Liabilities to customers										
DFV	**–8**	**–32**	**–**	**–40**	**–**	**–11**	**–58**	**–**	**–69**	**–**
of which debt instruments	–8	–32	–	–40	–	–11	–58	–	–69	–
Securitised liabilities										
DFV	**–15**	**–30**	**–**	**–45**	**–**	**–14**	**–5**	**–**	**–19**	**–**
of which debt instruments	–15	–30	–	–45	–	–14	–5	–	–19	–
Trading liabilities (HfT)	**–4**	**–105**	**–**	**–109**	**–**	**–5**	**–109**	**–**	**–114**	**–**
of which interest rate derivatives	–12	–82	–	–94	–	–12	–84	–	–96	–
of which currency derivatives	–	1	–	1	–	–	–	–	–	–
of which other derivatives	–	20	–	20	–	–	20	–	20	–
of which structured derivatives	8	–44	–	–36	–	7	–45	–	–38	–
Subordinated capital										
DFV	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
of which debt instruments	–	–	–	–	–	–	–	–	–	–
of which contractually-linked instruments	–	–	–	–	–	–	–	–	–	–
Total	**–27**	**–172**	**–**	**–199**	**–**	**–30**	**–177**	**–**	**–207**	**–**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/Unrealised net income (income statement)			Other comprehensive income for the period	Net income from liabilities held as at 30 June 2013			
30.06.2013	Net interest income	Net trading income	**Total**	**Revaluation reserve**	Net interest income	Net trading income	**Total**	**Other comprehensive income for the period**
Balance sheet line item/category/ instrument type								
Liabilities to banks								
DFV	–	2	2	–	–1	2	1	–
Liabilities to customers								
DFV	–8	58	50	–	–10	60	50	–
Securitised liabilities								
DFV	–17	–	–17	–	–17	2	–15	–
Trading liabilities (HfT)	–3	221	218	–	96	108	204	–
Subordinated capital								
DFV	–	1	1	–	–	–	–	–
Total	**–28**	**282**	**254**	**–**	**68**	**172**	**240**	**–**

IV. Information on significant unobservable inputs

Quantitative information on significant unobservable inputs

The following overview contains quantitative information on significant unobservable inputs.

FAIR VALUE

(€ m) 30.06.2014			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Loans and advances to banks	AfS	Debt instruments	47	–	DCF method	Spread (bps)	120	120
	DFV	Debt instruments	67	–	Option pricing model	Interest rate volatilities	13% – 73%	29%
						Basket correlation	88% – 98%	94%
Loans and advances to customers	AfS	Debt instruments	101	–	DCF method	Spread (bps)	33 – 700	400
	DFV	Debt instruments	1,187	–	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate correlation	–25% – 32%	1%
					Price	Price	85 – 97	90
Trading assets/ Trading liabilities	HfT	Interest rate derivatives	308	527	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	13% – 73%	29%
						Interest rate correlation	–13% – 99%	39%
						Interest rate FX correlation	–25% – 32%	1%
		Currency derivatives	18	26	Option pricing model	FX correlation	31% – 82%	47%
		Credit derivatives	2	–	Option pricing model			
		Other derivatives	33	31	Option pricing model	Securities FX correlation	–68% –30%	–29%
						Securities correlation		
						Return on dividends		
		Structured derivatives	425	321	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	13% – 73%	29%
						Interest rate correlation	–13% – 99%	39%
						Interest rate FX correlation	–25% – 32%	1%
						FX correlation	31% – 82%	47%
						Interest rate FX correlation	–68% – 30%	29%

(€ m) 30.06.2014			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Financial investments	AfS	Debt instruments	11	–	Price	Price	67 – 100	91
		Equity and near-equity instruments	115	–	DCF method	Spread (bps)	311 – 633	444
	DFV	Debt instruments	535	–	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	13% – 73%	29%
					Price	Price	100	100
		Contractually-linked instruments	333	–	Price	Price	82 – 100	99
		Equity and near-equity instruments	17	–	Price	Price	33 – 81	67
Liabilities to banks	DFV	Debt instruments	–	132	Option pricing model	Interest rate volatilities	13% – 73%	29%
						Interest rate FX correlation	–25% – 32%	1%
Liabilities to customers	DFV	Debt instruments	–	1,994	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	13% – 73%	29%
						Interest rate correlation	–13% – 99%	39%
						Interest rate FX correlation	–25% – 32%	1%
						Securities FX correlation	–68% – 30%	29%
					Price	Price	89 – 97	93
Securitised liabilities	DFV	Debt instruments	–	1,264	Option pricing model	Mean reversion	0% –10%	1.5%
						Interest rate volatilities	13% – 73%	29%
						FX correlation	31% – 82%	47%
					Price	Price	79%	79%
Subordinated capital	DFV	Debt instruments	–	16	Option pricing model	Interest rate volatilities	13% – 73%	29%
			3,199	**4,311**				

FAIR VALUE

(€ m) 31.12.2013			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Loans and advances to banks	AfS	Debt instruments	45	–	DCF method	Spread (bps)	60 – 700	350
	DFV	Debt instruments	76	–	Option pricing model	Interest rate volatilities	11% – 77%	29%
						Basket correlation	50% – 95%	80%
Loans and advances to customers	AfS	Debt instruments	146	–	DCF method	Spread (bps)	60 – 700	350
	DFV	Debt instruments	1,094	–	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate correlation	–3% – 98%	41%
					Price	Price	38 – 92	84
Trading assets/ Trading liabilities	HfT	Interest rate derivatives	270	432	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
		Currency derivatives	19	28	Option pricing model	FX correlation	39% – 75%	52%
		Credit derivatives	2	–	Option pricing model	Option pricing model		
		Other derivatives	80	78	Option pricing model	Securities FX correlation	–66% –17%	–25%
						Securities correlation	–21% –86%	22%
						Return on dividends	0% –4%	2.5%
		Structured derivatives	732	285	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
						Return on dividends	0% – 4%	2.5%
						FX correlation	39% – 75%	52%

(€ m) **31.12.2013**			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
Financial investments	AfS	Debt instruments	7	–	Price	Price	29 – 52	41
		Equity and near-equity instruments	132	–	DCF method	Spread (bps)	350 – 700	500
	DFV	Debt instruments	495	–	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
		Contractually-linked instruments	353	–	Price	Price	69 – 98	95
		Equity and near-equity instruments	20	–	Option pricing model	Return on dividends	0% – 4%	2.5%
					Price	Price	38 – 92	84
Liabilities to banks	DFV	Debt instruments	–	117	Option pricing model	Interest rate volatilities	11% – 77%	29%
						Interest rate FX correlation	–20% – 23%	2%
						Return on dividends	0% – 4%	2.5%
Liabilities to customers	DFV	Debt instruments	–	2,114	Option pricing model	Mean reversion	0% – 10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
Securitised liabilities	DFV	Debt instruments	–	2,154	Option pricing model	Mean reversion	0% –10%	1.5%
						Interest rate volatilities	11% – 77%	29%
						Interest rate correlation	–3% – 98%	41%
						Interest rate FX correlation	–20% – 23%	2%
						FX correlation	39% – 75%	52%
						Return on dividends	0% – 4%	2.5%
Subordinated capital	DFV	Debt instruments	–	16	Option pricing model	Interest rate volatilities	11% – 77%	29%
			3,471	**5,224**				

The correlation and volatility ranges shown for derivatives cover derivatives with different types of underlyings, tenors and exercise prices.

The overview also includes financial instruments, whose change in value resulting from inputs unobservable in the market does not give rise to any P&L effect due to economic hedging relationships (at the micro level). Changes in value attributable to the respective relevant inputs are offset for these financial instruments by the changes in value of the hedging derivatives.

Sensitivities of fair values in relation to unobservable inputs

The following describes how the fair values of financial instruments can change as a result of fluctuations in significant unobservable inputs.

Correlation

Correlation can represent an important unobservable input for the measurement of derivatives. It is a measure of the degree to which two reference values move in relation to each other. Correlation is an important input for the model-based determination of the fair value of derivatives with more than one underlying. Financial instruments of this type include, for example, derivatives with several currencies ("FX basket") or several shares as the underlyings ("equity basket" derivatives). Currency correlations describe the relationship between the changes in value of several currencies. Share correlations express the relationship between yields on different shares. A high degree of correlation means that there is a high relationship between the changes in value in the respective underlyings.

Depending on the type of derivative changes in correlation can have a positive or negative effect on the fair value. For example, in the case of a "best of two" derivative, an increase in the correlation between two underlyings results in a decrease in the fair value of the derivative from the perspective of the purchaser.

Volatility

Volatility can also represent an important unobservable input for the measurement of options. It expresses how strongly the value of the underlying fluctuates over time. The amount of volatility depends on the underlying, its tenor and the exercise price agreed for the option.

The fair value of options typically increases if the volatility increases. The sensitivity of the fair value of options to changes in volatility can vary considerably. For example, the sensitivity of the fair value to changes in volatility is comparatively high, if the price of the underlying is close to the agreed exercise price ("at-the-money"). By contrast, sensitivity to changes in volatility is lower, if the price of the underlying is far from the exercise price ("far out-of-the-money" or "far in-the-money").

Reciprocal effects between unobservable inputs

Reciprocal effects between unobservable inputs can exist in principle. If several unobservable inputs are used in determining the fair value, the range of the possible characteristics for another unobservable input can be restricted or increased by the characteristic used for one of the relevant unobservable inputs.

Effects of unobservable inputs

If the measurement of a financial instrument is based partly on unobservable inputs, the fair value determined is the best estimated value in accordance with a discretionary decision made by the Bank. However, it remains subjective in that there may be alternative input selection options that cannot be refuted by observable market data. For many of the financial instruments included (such as derivatives) the unobservable inputs only represent a subset of the total inputs required for the measurement. The remaining inputs are observable inputs.

An alternative choice of inputs for the unobservable inputs depending on the limits of a possible range would have had the effect on the fair value of the financial instruments in question as set out in the following table. Advantageous and disadvantageous changes in fair value arise as a result of the recalculation of fair values based on possible alternative values to the relevant unobservable inputs. In doing so, interest rate volatilities were changed by +/– 5%, all correlations by +/– 20% (capped at +/– 100%) and mean reversion by +/– 0.5%. Furthermore, price parameters and spreads were also changed by +/– 2% and +/– 50 bp, respectively.

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

FAIR-VALUE-CHANGES LEVEL 3

(€ m)			30.06.2014		31.12.2013	
			advantageous	disad-vantageous	advantageous	disad-vantageous
Loans and advances to banks	AfS	Debt instruments	1	1	1	1
Loans and advances to customers	AfS	Debt instruments	1	1	2	2
	DFV	Debt instruments	–	–	1	1
Trading assets/Trading liabilities	HfT	Interest rate derivatives	3	3	3	3
		Currency derivatives	–	–	1	1
		Other derivatives	1	1	1	1
		Structured derivatives	1	1	1	1
Financial investments	AfS	Debt instruments	–	–	–	–
		Equity and near-equity instruments	2	2	3	3
	DFV	Contractually-linked instruments	1	1	1	1
Liabilities to customers	DFV	Debt instruments	–	–	2	2
			10	**10**	**15**	**15**
of which measured in profit or loss			6	6	9	9
of which not measured in profit or loss			4	4	6	6

There are no hedging derivatives in place for the financial instruments included in the above table that fully hedge the risk relating to changes in fair value caused by changes in unobservable inputs. However, there may be hedging derivatives in place that approximately hedge the changes in fair value.

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

FAIR VALUE CHANGES LEVEL 3

(€ m)			30.06.2014		31.12.2013	
			advantageous	disad-vantageous	advantageous	disad-vantageous
Loans and advances to banks	AfS	Debt instruments	–	–	–	–
	DFV	Debt instruments	–	–	–	–
Loans and advances to customers	AfS	Debt instruments	–	–	–	–
	DFV	Debt instruments	3	3	1	1
Trading assets/ Trading liabilities	HfT	Interest rate derivatives	2	2	4	4
		Currency derivatives	1	1	–	–
		Credit derivatives	6	6	6	6
		Other derivatives	–	–	–	–
		Structured derivatives	4	4	5	5
Financial investments	AfS	Debt instruments	–	–	–	–
		Equity and near-equity instruments	–	–	–	–
	DFV	Debt instruments	1	1	1	1
		Contractually-linked instruments	6	6	6	6
		Equity and near-equity instruments	–	–	–	–
Liabilities to banks	DFV	Debt instruments	1	1	1	1
Liabilities to customers	DFV	Debt instruments	2	2	2	2
Securitised liabilities	DFV	Debt instruments	1	1	3	3
			27	**27**	**29**	**29**
of which measured in profit or loss			27	27	29	29
of which not measured in profit or loss			–	–	–	–

There are hedging derivatives in place for the financial instruments included in the above table that hedge the risk relating to changes in fair value caused by changes in unobservable inputs. The changes in value shown would not be reflected in the income statement as they are offset by changes in fair value of the hedging derivatives.

V. Day One Profit and Loss

The day one profit and loss reserve developed as follows:

DAY ONE PROFIT AND LOSS

(€ m)	30.06.2014	31.12.2013
Holdings as at 1 January	**30**	**37**
Additions not recognised in profit or loss	–	1
Reversals recognised in profit or loss	3	8
Holdings as at 30 June/ 31 December	**27**	**30**

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

VI. Equity instruments measured at cost

For equity instruments which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39.A81. These are primarily equity instruments of unlisted companies for which no active market exists and reliable estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

The portfolio of shares and other non-interest-bearing securities measured at cost amounts to € 130 million (31 December 2013: € 134 million). Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 183 million (31 December 2013: € 181 million). There are currently no concrete intentions to dispose of these equity instruments.

Financial instruments accounted for at cost are disclosed as Financial Instruments under Assets measured at fair value (AfS).

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 3 million (31 December 2013: € 151 million) were disposed of. This resulted in a profit of € 25 million (31 December 2013: € 63 million).

43. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED EUROPEAN STATES

The following tables contain overviews of HSH Nordbank's commitments in European states where an increased economic risk is assumed. They present the risk directly attributable to the listed European countries. The income statement effects are only shown for the original positions, that is the measurement results of the hedging derivatives are not taken into account.

ASSETS CLASSIFIED AS LAR

(€ m)	Gross carrying amount		Individual valuation allowance		Fair value	
	30.06.2014	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013
Portugal	**209**	**213**	**5**	**5**	**204**	**263**
Country	170	167	–	–	171	225
Corporates/Other	39	46	5	5	33	38
Ireland	**218**	**260**	**33**	**4**	**175**	**254**
Banks	45	44	–	–	45	44
Corporates/Other	173	216	33	4	130	210
Italy	**691**	**709**	**11**	**17**	**631**	**636**
Country	56	58	–	–	50	51
Banks	12	12	–	–	12	12
Corporates/Other	623	639	11	17	569	573
Greece	**1,047**	**991**	**189**	**184**	**867**	**803**
Corporates/Other	1,047	991	189	184	867	803
Russia	**51**	**3**	**8**	**–**	**43**	**2**
Corporates/Other	51	3	8	–	43	2
Spain	**1,334**	**1,523**	**77**	**52**	**1,283**	**1,473**
Country	161	166	–	–	160	142
Banks	45	124	–	–	49	130
Corporates/Other	1,128	1,233	77	52	1,074	1,201
Slovenia	**106**	**108**	**–**	**–**	**106**	**103**
Country	90	90	–	–	90	85
Corporates/Other	16	18	–	–	16	17
Hungary	**81**	**83**	**–**	**–**	**82**	**82**
Country	5	5	–	–	6	6
Banks	–	1	–	–	–	1
Corporates/Other	76	77	–	–	76	75
Cyprus	**1,727**	**1,702**	**432**	**409**	**1,310**	**1,289**
Banks	19	–	–	–	20	–
Corporates/Other	1,708	1,702	432	409	1,290	1,289
Total	**5,464**	**5,592**	**755**	**671**	**4,701**	**4,905**

FINANCIAL TRANSACTIONS ALLOCATED TO THE HOLDING CATEGORY

(€ m)	HfT		Hedge		DFV		AfS	
	30.06.2014	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013
Portugal	**–**	**–**	**–**	**–**	**98**	**94**	**3**	**3**
Country	–	–	–	–	98	94	–	–
Banks	–	–	–	–	–	–	3	3
Ireland	**12**	**15**	**7**	**6**	**–**	**–**	**–**	**–**
Banks	6	7	7	6	–	–	–	–
Corporates/ Other	6	8	–	–	–	–	–	–
Italy	**18**	**18**	**1**	**1**	**557**	**519**	**79**	**135**
Country	–	–	–	–	526	488	43	40
Banks	–	–	–	1	30	30	36	95
Corporates/ Other	18	18	1	–	1	1	–	–
Greece	**25**	**32**	**–**	**–**	**–**	**1**	**6**	**4**
Country	–	–	–	–	–	1	6	4
Corporates/ Other	25	32	–	–	–	–	–	–
Russia	**45**	**46**	**–**	**–**	**–**	**–**	**–**	**–**
Corporates/ Other	45	46	–	–	–	–	–	–
Spain	**245**	**230**	**34**	**28**	**58**	**56**	**488**	**487**
Banks	39	32	17	19	57	55	296	305
Corporates/ Other	206	198	17	9	1	1	192	182
Hungary	**–**	**–**	**–**	**–**	**–**	**–**	**13**	**12**
Country	–	–	–	–	–	–	13	12
Cyprus	**1**	**3**	**–**	**–**	**–**	**–**	**–**	**–**
Corporates/ Other	1	3	–	–	–	–	–	–
Total	**346**	**343**	**42**	**35**	**713**	**669**	**589**	**641**

The cumulative measurement result recognised directly in equity for financial instruments held in the AfS category amounted to € –15 million for the selected countries (previous year: € –31 million). Furthermore, a cumulative measurement result of € 0 million was recognised through profit or loss (previous year: € –22 million).

44. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS AND DETAILS OF COLLATERAL

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

The table below gives information on the credit quality of financial instruments which were neither impaired nor overdue as at the reporting date. The table provides a breakdown of the financial instruments by category and rating class of the respective counterparty.

CREDIT QUALITY

(€ m)	1 (AAA) to 1 (AA+)		1 (AA) to 1 (A–)		2 to 5		6 to 9	
	30.06.2014	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013	**30.06.2014**	31.12.2013
Held for Trading (HfT)								
Trading assets	2,287	2,785	3,710	4,106	1,604	1,179	696	520
Designated at Fair Value (DFV)								
Loans and advances to banks	48	51	–	–	19	59	–	–
Loans and advances to customers	1,139	1,127	–	–	–	–	–	–
Financial investments	166	158	821	821	1,109	1,059	30	29
Assets held for sale	–	–	–	–	–	–	–	–
Available for Sale (AfS)								
Cash reserve	404	382	–	–	–	–	–	–
Loans and advances to banks	58	52	22	26	3	5	4	3
Loans and advances to customers	–	–	–	–	9	11	92	118
Financial investments	8,185	7,620	3,027	3,776	373	694	554	497
Assets held for sale	–	–	–	–	–	–	–	–
Loans and Receivables (LaR)								
Cash reserve	9,679	4,469	–	–	–	–	–	–
Loans and advances to banks	1,755	1,701	2,673	2,797	984	278	53	42
Loans and advances to customers	4,280	4,604	4,783	5,224	14,454	14,788	15,312	14,170
Financial investments	2,650	3,258	808	1,090	614	684	468	519
Assets held for sale	4	1	4	2	12	4	13	4
Other assets	–	–	–	–	–	–	85	105
No IAS 39 category								
Positive fair values of hedging derivatives	334	343	590	683	235	160	101	85
Receivables under finance lease transactions	8	11	10	14	30	39	31	37
Value adjustments from the portfolio fair value hedge	94	40	166	80	66	19	28	10
Total	**31,091**	**26,602**	**16,614**	**18,619**	**19,512**	**18,979**	**17,467**	**16,139**

CREDIT QUALITY

(€ m)	10 to 12		13 to 15		16 to 18	
	30.06. 2014	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013
Held for Trading (HfT)						
Trading assets	112	56	293	147	410	252
Designated at Fair Value (DFV)						
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	77	50	32	–
Financial investments	10	11	6	33	17	38
Assets held for sale	–	–	–	–	–	–
Available for Sale (AfS)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	17	–	–	–	–
Financial investments	–	2	12	3	17	22
Assets held for sale	–	–	–	–	–	–
Loans and Receivables (LaR)						
Cash reserve	–	–	–	–	–	–
Loans and advances to banks	–	3	–	–	–	–
Loans and advances to customers	3,370	3,738	3,858	5,287	3,251	2,371
Financial investments	118	79	200	190	125	118
Assets held for sale	3	1	3	2	3	1
Other assets	–	–	–	–	–	–
No IAS 39 category						
Positive fair values of hedging derivatives	33	13	3	3	1	–
Receivables under finance lease transactions	7	10	8	14	7	6
Value adjustments from the portfolio fair value hedge	9	2	1	–	–	–
Total	**3,662**	**3,932**	**4,461**	**5,729**	**3,863**	**2,808**

II. Carrying amounts of overdue but unimpaired financial assets

The table below shows the financial assets which were overdue but unimpaired as at the reporting date. The assets are broken down by category. Categories not shown have no overdue assets.

CARRYING AMOUNTS OF OVERDUE BUT UNIMPAIRED FINANCIAL ASSETS

(€ m)	Overdue <3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	30.06. 2014	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013
Loans and Receivables (LaR)								
Loans and advances to customers	746	1,005	677	261	383	668	1,219	1,215
of which hedged by the second loss guarantee	551	846	645	212	321	613	1,109	1,143
Total	**746**	**1,005**	**677**	**261**	**383**	**668**	**1,219**	**1,215**

Payments of € 74 million (31 December 2013: € 21 million) on transactions with a carrying amount volume of € 201 million (31 December 2013: € 319 million) were received up to ten days after the reporting date of 30 June 2014. Payments are regarded as being in arrears when they are one day overdue.

The overdue, unimpaired credit portfolio is offset by collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

III. Impaired financial assets

The table below shows all impaired financial assets and the associated collateral received as at the reporting date. The financial assets are broken down by category.

IMPAIRED FINANCIAL ASSETS

(€ m)	Gross carrying amount of impaired financial assets		Impairment		Carrying amount of financial assets after impairment	
	30.06. 2014	31.12. 2013	**30.06. 2014**	31.12. 2013	**30.06. 2014**	31.12. 2013
Loans and Receivables (LaR)						
Loans and advances to banks	18	140	17	125	1	15
Loans and advances to customers	12,846	13,684	5,570	5,811	7,276	7,873
Financial investments[1]	760	853	307	355	453	498
Available for Sale (AfS)						
Financial investments[1]	169	223	122	166	47	57
Total	**13,793**	**14,900**	**6,016**	**6,457**	**7,777**	**8,443**

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

The impaired credit portfolio is secured with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

€ 12,049 million (31 December 2013: € 13,619 million) of the total carrying amount of impaired financial assets of € 13,793 million (31 December 2013: € 14,900 million) is hedged by the second loss guarantee, of which € 4 million is attributable to loans and advances to banks ((31 December 2013: € 60 million), € 11,529 million to loans and advances to customers (31 December 2013: € 12,928 million) and € 515 million to financial instruments in the LaR and AfS holdings categories (31 December 2013: € 631 million).

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

IV. Credit risk exposure

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

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

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

V. Collateral received

A) Collateral values of financial assets reducing default risk

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

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)

		Value of collateral received		
30.06.2014	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	9,112	207	–	662
Designated at Fair Value (DFV)				
Loans and advances to banks	67	–	60	–
Loans and advances to customers	1,248	–	–	–
Financial investments	2,159	–	–	–
Available for Sale (AfS)				
Cash reserve	404	–	–	–
Loans and advances to banks	87	–	–	–
Loans and advances to customers	101	–	35	–
Financial investments	12,215	–	–	–
Loans and Receivables (LaR)				
Cash reserve	9,679	–	–	–
Loans and advances to banks	5,483	–	378	17
Loans and advances to customers	65,179	25,961	1,458	2,053
Financial investments	5,436	–	–	–
Other assets	85	3	–	–
No IAS 39 category				
Positive fair value of hedging derivatives	1,297	–	–	–
Value adjustments from the portfolio fair value hedge	365	–	–	–
Receivables under finance lease transactions	101	–	–	–
Contingent liabilities	2,547	239	96	101
Irrevocable loan commitments	6,154	603	69	99
Total assets	**121,719**	**27,013**	**2,096**	**2,932**

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)		Value of collateral received		
31.12.2013	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	9,045	313	–	624
Designated at Fair Value (DFV)				
Loans and advances to banks	110	–	60	–
Loans and advances to customers	1,177	–	–	–
Financial investments	2,149	–	–	–
Available for Sale (AfS)				
Cash reserve	382	–	–	–
Loans and advances to banks	86	–	–	–
Loans and advances to customers	146	–	35	–
Financial investments	12,671	–	–	–
Loans and Receivables (LaR)				
Cash reserve	4,469	–	–	–
Loans and advances to banks	4,962	11	557	24
Loans and advances to customers	67,015	26,957	1,683	2,156
Financial investments	6,436	–	–	–
Non-current assets held for sale and disposal groups	15	–	–	–
Other assets	105	2	1	–
No IAS 39 category				
Positive fair value of hedging derivatives	1,287	–	–	–
Value adjustments from the portfolio fair value hedge	151	–	–	–
Receivables under finance lease transactions	131	–	–	–
Contingent liabilities	2,707	275	131	130
Irrevocable loan commitments	6,911	480	55	50
Total assets	**119,955**	**28,038**	**2,522**	**2,984**

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG via HSH Finanzfonds AöR in 2009. This guarantee facility of originally € 10 billion was reduced in 2011 by € 3 billion in total to € 7 billion and replenished again to the original amount of € 10 billion as at 30 June 2013.

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

The HSH Nordbank Group received collateral from counterparties with a total fair value of € 902 million (31 December 2013: € 1,002 million). The collateral received is split up as follows: € 740 million (31 December 2013: € 681 million) relate to OTC derivatives and structured transactions. The Group received collateral in the amount of € 162 million (31 December 2013: € 321 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 628 million (31 December 2013: € 612 million). Of the collateral received, an amount of € 282 million (31 December 2013: € 275 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank Group is obliged to return all collateral resold or pledged to the guarantor without exception.

The HSH Nordbank Group carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

C) Other collateral received

In the reporting period no assets were recognised from the realisation of collateral that are still disclosed on the face of the balance sheet as at the reporting date (31 December 2013: € 0 million).

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

45. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

OFF-BALANCE-SHEET BUSINESS

(€ m)	30.06.2014	31.12.2013
Contingent liabilities	2,547	2,707
Irrevocable loan commitments	6,154	6,911
Total	**8,701**	**9,618**

As at the reporting date, the fair value of irrevocable loan commitments amounts to € 9 million (31 December 2013: € 8 million).

OTHER DISCLOSURES

46. RELATED PARTIES

HSH Nordbank does business with related parties and companies. These include HSH Finanzfonds AöR as parent company, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50%. Furthermore, business relations exist with subsidiaries which are controlled but not consolidated for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

Transactions with related parties mainly include loans, call and term deposits, derivatives and securities transactions.

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

For transactions with HSH Finanzfonds AöR as well as with the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50%, the Bank makes use of IAS 24.25. According to IAS 24.25 HSH Nordbank is exempt from the disclosure requirement regarding public authorities, unless transactions are involved that have a significant impact on the consolidated financial statements.

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

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS

(€ m)	30.06.2014	31.12.2013
Loans and advances to customers	146	18
Loan loss provisions	–30	–4
Financial investments	3	4
Other assets	1	1
Total	**120**	**19**

SUBSIDIARIES – LIABILITIES

(€ m)	30.06.2014	31.12.2013
Liabilities to customers	20	5
Provisions	21	16
Other liabilities	2	2
Total	**43**	**23**

SUBSIDIARIES – INCOME STATEMENT

(€ m)	January–June 2014	January–June 2013
Net interest income	2	2
Loan loss provisions	–1	–1
Net trading income	1	–
Other operating income	3	2
Total	**5**	**3**

Similar to the previous year, there are no contingent liabilities or other financial liabilities to subsidiaries as at the reporting date.

Irrevocable loan commitments to subsidiaries amount to € 1 million (31 December 2013: € 801 million).

III. Associates

The following table shows the transactions with associates:

ASSOCIATES – ASSETS

(€ m)	30.06.2014	31.12.2013
Loans and advances to customers	60	107
Loan loss provisions	–24	–3
Financial investments	194	193
Other assets	–	1
Total	**230**	**298**

ASSOCIATES – LIABILITIES

(€ m)	30.06.2014	31.12.2013
Liabilities to customers	3	13
Provisions	–	–27
Total	**3**	**–14**

ASSOCIATES – INCOME STATEMENT

(€ m)	January–June 2014	January–June 2013
Net interest income	1	9
Loan loss provisions	–	–3
Net trading income	–1	–1
Administrative expenses	–4	–4
Total	**–4**	**1**

As was the case in the previous year there are no contingent liabilities relating to associates as at the reporting date. Irrevocable loan commitments amount to € 1 million (31 December 2013: € 19 million).

Other financial liabilities to associates amount to € 72 million (previous year: € 79 million).

IV. Joint ventures

The following table shows the transactions with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	30.06.2014	31.12.2013
Loans and advances to customers	5	7
Loan loss provisions	–5	–5
Trading assets	1	1
Total	**1**	**3**

As at the reporting date, there were no irrevocable loan commitments to joint ventures (31 December 2013: € 5 million).

V. Other related parties and companies

Transactions with individuals in key positions at HSH Nordbank AG, or their close relatives, or companies controlled by these individuals in the immaterial amount of less than € 0.5 million were recorded as at the balance sheet date.

47. MANAGEMENT BOARD MEMBERS

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, 19 August 2014

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

REVIEW OPINION

To HSH Nordbank AG, Hamburg and Kiel

We have reviewed the condensed interim Group financial statements of the HSH Nordbank AG, Hamburg and Kiel, – comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and selected explanatory notes – together with the interim Group management report of the HSH Nordbank AG for the period from 1 January to 30 June 2014 that are part of the semi annual financial report according to § 37 w WpHG ("Wertpapierhandelsgesetz": "German Securities Trading Act"). The preparation of the condensed interim Group financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim Group management report in accordance with the requirements of the WpHG applicable to interim Group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim Group financial statements and on the interim Group management report based on our review.

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

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

Without qualifying this opinion, we refer to the comments in the interim Group management report in the section entitled "Risks and opportunities resulting from regulatory proceedings at EU level". It is stated there, that the going concern assumption of the Bank is based in particular on the presumed approval by the EU commission of the replenishment of the capital relief guarantee and the final clearance to the amendment of the guarantee agreement following the preliminary approval given in June 2013. Furthermore, it is based on the assumption that approval will only be connected to requirements that can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of HSH Nordbank's business model by market participants and other relevant stakeholders be maintained.

Hamburg, 19 August 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

König
Wirtschaftsprüfer

Thiede
Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

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

Hamburg/Kiel, 19 August 2014

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

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

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This is an English translation of the original German version of the financial information.

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

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this financial information. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this financial information does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

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