FINANCIAL REPORT 2014 OF HSH NORDBANK AG
STRONG FOR ENTREPRENEURS

PERSPECTIVES

HSH
NORDBANK

MANAGEMENT REPORT OF HSH NORDBANK AG

BASIS

BUSINESS ACTIVITIES

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

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

The strategic divisions are combined in the Core Bank. The 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 31 December 2014. On the one hand, business transacted with corporates and wealth management with a focus on entrepreneurs, foundations and non-profit organisations is combined in the Corporates & Markets segment. On the other hand the development, sales and trading of financial products (Capital Markets), special financing and advisory solutions (Corporate Finance division) as well as the servicing of savings banks, banks and insurance companies are allocated to this segment. The administrative and service divisions as well as overall Bank positions and equity holdings not assigned to segments are included in the Corporate Center segment. Since the end of 2014 the Transaction Banking division has also been assigned to the Corporate Center segment (previously Corporates & Markets segment).

At the beginning of 2015 the Bank announced changes to the organisational structure aimed at increasing efficiency and pooling its client business expertise. Implementation shall mainly take place in the course of the current financial year. The divisions Corporate Clients, Energy & Infrastructure and Wealth Management will be combined in the new division Corporate Clients and allocated to the Corporates & Markets segment.

Furthermore, capital market activities and the servicing of savings banks, banks and insurance companies are combined in the Capital Markets division. The Corporate Finance division will become part of the Shipping, Project & Real Estate Financing segment. Business conducted with shipping clients will be concentrated in future in a single division.

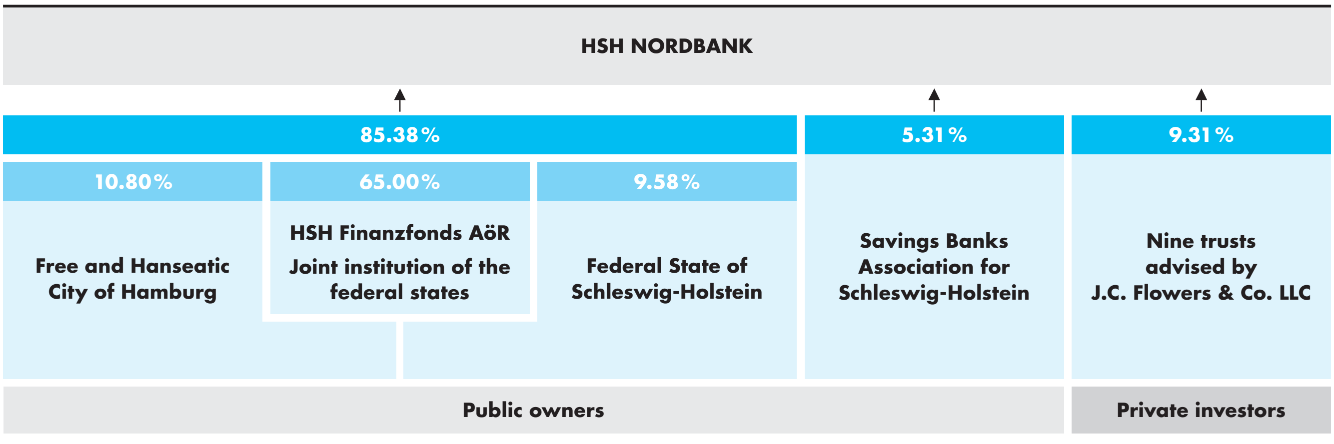
As part of the focussing of its business activities HSH Nordbank has significantly reduced its international network of locations over the past years and closed a number of branches abroad. HSH Nordbank will maintain its presence in Singapore, Hong Kong, Athens and New York in line with its strategic orientation. The New York branch will be reduced in size and converted into a representative office as part of the further reorganisation of HSH Nordbank. The branch in Luxembourg primarily provides services for the Restructuring Unit. In Germany, HSH Nordbank is represented in Berlin, Hanover, Düsseldorf, Munich and Stuttgart and since 2014 in Frankfurt am Main.

As an internal segment, the Restructuring Unit has managed the winding down of non-strategic credit and capital markets transactions since December 2009 (legacy portfolios).

The Bank has disposed of further non-strategic equity holdings over the past year (including Railpool GmbH and Railpool Holding GmbH & Co. KG, DMS Semiconductor Equipment GmbH as well as NOBIS Asset Management S.A.).

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

OWNERSHIP STRUCTURE



The federal states of Hamburg and Schleswig-Holstein as the owners of the Bank have issued via HSH Finanzfonds AöR a guarantee in favour of HSH Nordbank that provides capital relief (second loss guarantee), under which defaults in a specified portfolio are hedged (mainly Restructuring Unit and the ship financing recovery unit in the Core Bank). First piece losses incurred in this portfolio are borne by HSH Nordbank itself up to an amount of € 3.2 billion.

In 2013 the guarantee facility provided by Hamburg and Schleswig-Holstein was replenished after a reduction in 2011 from € 7 billion to the original facility of € 10 billion in view of the changed underlying conditions. This measure was provisionally approved by the EU Commission. The EU proceedings that were still pending at the beginning of 2015 are investigating whether the replenishment of the guarantee is consistent with state aid rules. A final decision in favour of HSH Nordbank is being sought for the middle of 2015, whereas the time frame is set solely by the EU Commission.

As a member of the German Savings Banks Finance Group HSH Nordbank AG is a member of the support fund of the Landesbanken and therefore is also affiliated to the joint liability scheme of the German savings bank organisation. This system secures the continued existence of the member institutions and guarantees their liquidity and solvency. The strengthening of the financial funding of the guarantee scheme by means of a risk- and deposit-based adjustment to the contribution system and expansion of the governance rules for the institutional guarantee is planned in connection with the harmonisation of the European deposit guarantee schemes.

Key external factors influencing the business of HSH Nordbank include economic and financial markets developments (such as movements in the EUR/USD exchange rates, interest level), trends in the relevant industry sectors such as shipping (especially charter rates), regulatory requirements, external ratings as well as assessments made by capital market participants and other stakeholders.

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

OBJECTIVES AND STRATEGY

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

In order to implement the business model with a sustainable profitable focus as a Bank for Entrepreneurs HSH Nordbank is concentrating on strengthening the viable business areas of the Core Bank and, at the same time, on winding down the high-risk legacy portfolios, which are bundled in the Restructuring Unit.

The aim of HSH Nordbank in the planning period up to 2017 is to increase new business with risk commensurate margins in accordance with the business and risk strategy. The sales and distribution of the entire range of services will also be driven forward in order to exploit the business potential. On the one hand, business is to be intensified in the core region, where the Bank has long-standing client relationships and a high level of market penetration and, on the other hand, business activities outside Northern Germany are to be expanded further in order to achieve the planned growth and to ensure a balanced portfolio structure.

The strategic divisions will be continuously developed and their business portfolios and positioning adjusted to the changing underlying conditions in the market and competitive environment.

The aim of the Restructuring Unit in the planning period until 2017 is the steady and significant reduction in the non-strategic loan and capital markets portfolios through scheduled and early principal repayments, sales of loans and structured solutions.

With the ongoing winding down of the troubled assets on the balance sheet and against the backdrop of significant premium expense for the compensation for the second loss guarantee a key objective is to again reduce the guarantee facility of € 10 billion taking due account of the increasing capital requirements.

In view of the fact that a positive conclusion of the ongoing EU proceedings is being sought for the middle of the year discussions between the Management Board of the Bank and the Supervisory Board and the majority federal state owners, Schleswig-Holstein and Hamburg, as well as with the EU Commission are pursued intensively. These go beyond the Bank's current plan and address further structural measures, the aim of which is to improve the sustainability and resilience of the business model against the backdrop of the expected market and competitive conditions and to ensure final approval by the EU Commission of the replenishment of the guarantee. The objective upon conclusion of the EU state aid proceedings is to establish HSH Nordbank as a structurally profitable bank in the market, which can effectively meet current requirements regarding the building up of capital from its own resources.

The restructuring of the guarantee in order to thereby ease the burden on the expense side of HSH Nordbank's income statement and strengthen the capital base is one of the structural measures discussed with the EU Commission and the Bank's federal state owners. The objective is to reduce the amount of the guarantee fees to an appropriate level in the future more in line with the continuing reduction of risk and not only by the planned gradual reduction of the guarantee facility. It is important to note in this connection that HSH Nordbank has already provided substantial compensation for state aid since 2009, which includes, in addition to the premiums paid to the guarantors, the reduction of total assets and discontinuation of business fields in accordance with the conditions imposed.

A further objective is to amend the existing guarantee agreement to facilitate the future reduction or restructuring of the troubled assets. Portfolio adjustments could be made that allow the Bank to reduce risk even more sharply. In this context, particular focus is placed on the shipping portfolio, which accounts for a large part of the remaining troubled assets.

A high priority for HSH Nordbank is to continually improve the Bank's efficiency. In the fourth quarter 2014 HSH revised its cost and efficiency targets for the period to 2018 in view of the challenging environment with a sustained shipping crisis, intensive competition in the German corporates business and increasing regulatory requirements. The objective is to achieve a sustainable, competitive cost-income ratio. HSH Nordbank is striving to reduce operative administrative expenses at Group level to a maximum of € 500 million in 2018 (31 December 2014: € 724 million). A comprehensive package of measures was initiated for this purpose that is to be gradually implemented by 2018. Details regarding the measures introduced are set out in the "Business developments" section.

In this connection, the Bank has launched a realignment of IT, the objective of which is to sharpen the positioning of the division as a central management unit and service provider that supports the business operations. One key element of the new IT strategy to be implemented by 2018 is the focused rendering of services at a lower cost. Investments are also being made in adjusting the IT architecture with a focus on the data platform, in IT security and for the purpose of meeting the ever-increasing regulatory requirements.

MANAGEMENT SYSTEM

The management system of the Bank is aimed at the management of key value drivers – income, expense, capital, liquidity and risk – on a targeted basis. For this purpose the Bank uses a central key indicator and ratio system that ensures that the Overall Bank, Core Bank, Restructuring Unit and segments are managed in a uniform and effective manner.

Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers. On the one hand, the focus is placed on the change in these key indicators over the past year compared to the previous year and previous year's forecast ("Economic report" section) and, on the other, on their expected development in 2015 ("Forecast, opportunities and risks report" section). In principle, the HSH Nordbank Group and HSH Nordbank AG are managed on the basis of Group figures prepared in accordance with the International Financial Reporting Standards (IFRS).

The most important key indicators used for managing the earnings of HSH Nordbank are total income and new business volume. The latter includes new credit risk incurred as a result of the acquisition of new business and loan increases (loans, loan commitments and guarantees). The Bank also uses other supporting key indicators such as the new business margin, cross-selling income and risk-adjusted contribution margins within the framework of value-driven management.

With regard to the cost side the report focuses on administrative expenses. The number of employees (calculated as full-time equivalents, FTE) is also important as a key non-financial management indicator. Employee satisfaction, which is captured by surveying the employees, is another supporting management tool used in this connection.

Income before taxes is a key measure of earnings. In addition, return on equity and the cost-income ratio are integrated into the Bank's management systems within the framework of value-driven management as key relative ratios. Return on equity is calculated as the ratio of income before taxes to average equity capital disclosed on the balance sheet and shows the return on capital (allocated on a risk-adjusted basis). The cost-income ratio represents the ratio of administrative expenses to total income (since 2014 plus other operating income) and is used as a key indicator of cost efficiency.

The core Tier 1 capital ratio (common equity Tier 1 ratio or CET1 ratio) plus the additional premium buffer and risk-weighted assets (RWA) are used as key ratios for managing regulatory capital.

The CET1 ratio is determined in the same period calculation (i.e. taking the consolidated financial statements into account) in accordance with the transitional rules (phase in) of the Capital Requirements Regulation (CRR). The buffer arising from the additional premium (AP buffer) is based on a potential waiver of the additional premium by the guarantors, through which an adequate CET1 ratio is to be ensured. The amount of the AP buffer is calculated from the additional premium balance and a regulatory adjustment item included in regulatory capital for the additional premiums. The key ratio used for internal management purposes is not the same as that disclosed in the regulatory report due to the same period calculation. Further information regarding the guarantee and guarantee premiums is set out in Note 2 ("Provision of a guarantee facility") of the financial statements.

The CET1 ratio calculated under the assumption of full implementation of the CRR (fully loaded) has been used as an important management tool since 2014 in light of the introduction of a uniform Supervisory Review and Evaluation Process (SREP) in the European Banking Union.

RWA in the same period calculation are also determined in-phase in accordance with the provisions of the CRR taking due account of the second loss guarantee. The key ratio used for internal management purposes is not the same as that disclosed in the regulatory report due to the same period calculation.

Another supporting key ratio included in the management system is the leverage ratio, which must be disclosed from 2015. The leverage ratio is a capital ratio that is not weighted and compares the Tier 1 capital to regulatory adjusted business volume.

The monitoring of key risk types, which are described in detail in the "Risk report" section, is important for risk management. HSH Nordbank has identified loan loss provisions as a key management indicator in the lending business. Other key indicators and ratios are used to monitor the portfolio hedged by the second loss guarantee. These are loan loss provisions in the guaranteed portfolio, the risk weighting and expected future drawdown of the guarantee, in particular.

The key regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). The liquidity ratio as defined in LiqV describes the relationship between expected cash inflows and cash outflows over the next 30 days.

Furthermore, the liquidity situation is measured for a period of one year based on the liquidity development report (LAB) as a supporting indicator. An economic assessment over several years is performed based on the so-called Expected Case. In addition, the key ratios liquidity coverage ratio (LCR, based on the QIS set of rules: January 2013) and net stable funding ratio (NSFR, QIS set of rules: October 2014) were integrated into the internal management processes in 2013 (as part of the Basel QIS framework) as a support. The mandatory disclosure of the LCR will be gradually introduced in the years 2015 to 2018. The NSFR will need to be adhered to from 2018 at the earliest. Details on the liquidity ratios and liquidity management are set out in the section "Liquidity risk" in the "Risk report".

The recovery and early warning indicators as defined in MaSan (Minimum Requirements for the Design of Recovery Plans) are monitored and assessed periodically by the MaSan Committee as supporting ratios in order to be able to implement any required targeted measures on a timely basis. Further information regarding this and other key management committees can be found in the "Risk report" under "Risk management by a central committee structure".

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

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

Notwithstanding the management indicators for the key value drivers HSH Nordbank had to comply with conditions imposed by the EU Commission, mainly until 2014. These conditions applied to the total assets of the Overall Bank, Core Bank and Restructuring Unit and volume limits for the Shipping division, which were also monitored continuously. In addition, premiums still have to be paid as compensation for the state aid received.

The remuneration of the Management Board of HSH Nordbank is limited to a fixed – and therefore not performance-based – monetary remuneration. Entitlements to variable remuneration are not granted due to a requirement imposed by the EU Commission. The provisions recognised up to and including the 2011 financial year for variable performance-based remuneration are dependent, amongst other things, on when the Bank is able to pay dividends. Details are set out in the "Remuneration systems" section.

Reconciliation

The IFRS key ratios and figures for the Group as presented above are used to manage the HSH Nordbank Group and HSH Nordbank AG (single entity). Key management indicators designated as important or crucial are reconciled below to explain the earnings, net assets and financial position as well as the forecast report disclosed in the single entity financial statements prepared under HGB.

Reconciliation is not performed for the key management indicators: new business volume, total income of the Core Bank, return on equity, cost-income ratio, and liquidity ratio of the Liquidity Ordinance (LiqV) as well as loan loss provisions and total assets for the Restructuring Unit, as these are not determined for the single entity. Actual figures for the CET1 ratio and RWA are determined for the past financial year at the HGB single entity level. However, these two key figures are not forecast separately for the single entity. The key management indicator net income before taxes was reconciled for the first time in 2014.

Major differences between the key ratios and figures of the single entity and the Group arise from the different accounting standards applied (HGB versus IFRS) and consolidation of subsidiaries in the consolidated financial statements.

Total income

IFRS total income comprises the net interest income, net commission income, net trading income, net income from financial investments, net income from financial investments accounted for under the equity method and result from hedging line items. HGB total income includes net interest income, net commission income, result from the trading portfolio as well as other operating income line items. The latter is disclosed separately in the IFRS statement of income. In addition, operating income of subsidiaries is included in the IFRS Group, whilst current income of equity holdings included in the consolidated financial statements is omitted within the framework of consolidation.

Fees for the second loss guarantee are disclosed under net commission income under HGB, whereas this expense is disclosed as a separate line item in the IFRS statement of income outside total income. Measurement effects and realised gains or losses arising on securities and equity holdings are disclosed in IFRS total income under the result from the trading portfolio and net income from financial investments line items, whereas they are included in the loan loss provisions/ valuation line item under HGB.

Notwithstanding these disclosure differences concerning measurement and realisation effects arising on securities and equity holdings, these line items also include different figures. These result, for example, from the different measurement rules applied under HGB and IFRS.

Some securities held in the credit investment portfolio are classified as DFV (designated fair value) under IFRS and are therefore subject to fluctuations in measurement as a result of changes in fair value. Under HGB these positions are classified as non-current assets and generally not value-adjusted. In principle, measurement differences may also arise between HGB and IFRS with respect to other securities positions. These may be caused by the application of the historical cost principle in HGB, for example. Furthermore, material securities positions are classified as LaR (loans and receivables) under IFRS and assigned to non-current assets under HGB. These positions are generally accounted for in an identical manner under HGB and IFRS with regard to impairment losses. Changes in the fair value of positions classified as AfS (available for sale) are recognised in the revaluation reserve under IFRS. Under HGB these are measured through profit and loss applying the strict lower of cost or market value principle.

Furthermore, the measurement of hybrid capital in accordance with IAS 39.AG8 is included in IFRS total income taking account of the expected cash flows (net interest income), whereas, depending on the result in the reporting period, income from the loss participation in the hybrid capital or expenses for the replenishment of the hybrid capital are disclosed under HGB as a separate line item outside total income. Other specific IFRS effects are the measurement of basis swaps and DFV liabilities as well as fair value adjustments. There are also differences in the accounting for hedging relationships and regarding currency effects arising on the translation of non-monetary items such as equity holdings denominated in foreign currency.

Currency effects arising on valuation allowances in foreign currencies are included in loan loss provisions under IFRS, other exchange rate effects from the currency translation in net trading income. Under HGB, exchange rate effects are generally included in result from the trading portfolio. As an exception to this, certain currency effects are disclosed under other operating income (see Note 20 for details).

Administrative expenses

Differences in administrative expenses and the number of employees in the IFRS Group are mainly attributable to the inclusion of subsidiaries in administrative expenses reduced by consolidation effects.

Loan loss provisions

There are small differences in the amounts recognised for loan loss provisions due to the use of general loan loss provisions under HGB and portfolio valuation allowances under IFRS. The resulting differences have a slight impact on the amount of the guarantee effect. Additions to the fund for general banking risks and reversals from this fund are disclosed under the HGB loan loss provisions/valuation line item in addition to the measurement of securities and equity holdings commitments in accordance with Section 340g HGB. There is no corresponding line item under IFRS.

Net income before taxes

Differences in net income before taxes between the IFRS Group and HGB single entity financial statements result from the differing effects as described above in the total income, administrative expenses and loan loss provisions line items. The result from restructuring and expenses for government guarantees are also disclosed separately in the IFRS Group financial statements, whereas the result from restructuring is included in the extraordinary result and current guarantee expense from the base premium is disclosed under net commission income in the HGB single entity financial statements.

CET1 capital ratio and RWA

Differences in the CET1 capital ratio and RWA between the single entity and regulatory Group mainly result from the different accounting standards applied (between HGB and IFRS) and the inclusion of companies consolidated for regulatory purposes in the regulatory capital and RWA of the Group.

REMUNERATION SYSTEM

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

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

The Supervisory Board decided on the basis of a communication of the European Commission dated 23 August 2012 to no longer grant any entitlement to variable remuneration for the 2012 financial year and subsequent years until the restructuring phase is completed.

The provisions recognised up to and including the 2011 financial year for variable performance-related remuneration remain in force. This remuneration is subject to the precondition that the Bank is able to pay a dividend as at 31 December 2015 or at the latest as at 31 December 2016 and the European Commission has not instituted abuse proceedings. The Bank does not offer additional long-term incentives such as share option schemes. Please refer to Note 75 ("Remuneration paid to members of the Management Board and Supervisory Board") for more information on the remuneration of members of the Management Board.

The remuneration system for employees below the Management Board level is based on a total remuneration approach, reduces any significant dependence on variable remuneration and thereby prevents employees from taking excessively high risks for the purposes of realising the variable remuneration potential. The amount of the total budget for the variable performance-related remuneration of employees is determined on the basis of the Bank's performance, which is calculated using parameters that reflect the success of the Bank. In addition to achieving key financial ratios these parameters are also based on the Bank's strategic objectives amongst other things. They take account of the concept of sustainability and are always tailored to the business model as well as the overall Bank strategy and risk strategy.

The budget of the Overall Bank for variable performance-related remuneration of the employees is distributed to the employees taking into account the performance of the divisions based on the achievement of individual objectives. Fixed upper limits for ratio of variable to fixed remuneration were set for all employees of the Group in accordance with the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV) in order to avoid disproportionately high variable remuneration.

In accordance with the specific requirements of the InstitutsVergV HSH Nordbank defines a group of employees as so-called risk takers, who have a significant influence on the overall risk profile of the Bank by virtue of their function. In accordance with the InstitutsVergV parts of their variable remuneration are paid on a deferred basis and are dependent on the sustained performance of the Bank.

These remained the focus of the supervisory authorities in 2014 in connection with the further development of the remuneration systems. Special attention was paid in this regard to the analysis, interpretation and implementation of the amended InstitutsVergV that was published on 16 December 2013 and came into force on 1 January 2014. Various technical regulatory standards were also developed in connection with the regulation of remuneration systems at the European level, which had to be taken into account from the middle of 2014 in addition to the InstitutsVergV. The focus of the regulatory requirements was on special topics such as risk taker analysis or the future bonus and payment methodology.

The adjustments required were identified, analysed and their implementation initiated. The Bank has already been able to implement many of the InstitutsVergV requirements. Full implementation of the amended and partially new regulatory requirements has not been possible so far because of its dependence on the results of the negotiations regarding the relevant collective bargaining agreements.

In accordance with the regulation further details are published in a separate remuneration report on the website of HSH Nordbank.

ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

MODERATE GLOBAL ECONOMIC GROWTH

The global economy grew relatively unevenly in 2014. Whilst the gross domestic product of the USA expanded relatively strongly by around 2.8 %, the eurozone economy only grew slightly by just under 1 %.

At the beginning of 2015 the results of the elections in Greece and the hostile attitude of the new Greek government towards the reform programme agreed with its creditors gave rise to a tangible sense of uncertainty in the eurozone, which decreased again following the agreement to prolong the programme.

Inflation decreased during the course of the year in light of the relatively weak growth rates in Europe and also the clearly falling oil price. In December the consumer price index in the eurozone was 0.2 percentage points below the previous year's level.

The German economy started very dynamically in 2014, but was unable to maintain the pace of expansion and stagnated in the second and third quarters. However, the business climate improved again in the final quarter, as indicated by, among other things, the monthly ifo Business Climate Index. Overall, the German economy grew by 1.6 % in 2014. The relatively low growth rate is attributable to the palpable uncertainty of companies caused by geopolitical tensions in Russia, Ukraine and the Middle East, which was reflected particularly in subdued investment activity. However, the economy has been supported over the entire year by robust consumer demand.

FALLING GOVERNMENT BOND YIELDS THROUGHOUT THE WORLD

The situation in the financial markets was characterised by a further decrease in government bond yields, falling risk premiums for high risk bonds, a depreciation of the euro against the US dollar and a falling oil price. The European equity markets recorded a slight increase last year on high volatility.

The monetary policy measures taken by the central banks had a material impact on the markets. Whilst the European Central Bank (ECB) took new expansive measures and the Japanese central bank also increased its bond purchase programme, the US Federal Reserve Bank ended its bond purchase programme in October 2014. Renowned market observers such as the International Monetary Fund (IMF) point to the danger of asset price bubbles and increased stability risks.

The impact of the fall in the oil price among other things on countries such as Russia and Venezuela, whose revenues are largely dependent on oil exports, give reasons for concern.

In the first quarter the credit rating of Russia was downgraded by the rating agencies, Standard & Poor's and Moody's, to non-investment grade in light of the movement in the oil price and the conflict in Ukraine. The reasons given were its declining financial strength, decreasing foreign exchange reserves and Russia's limited access to international capital markets.

The general level of interest rates has fallen further in Germany. Following the yield on two-year German government bonds turning negative in the second half of 2014, five-year German government bonds were also quoted at negative rates at the beginning of 2015 This was mainly attributable to the very expansive monetary policy and geopolitical risks. A high level of liquidity in the market also resulted in falling risk premiums, for example for bonds issued by European periphery countries.

The current monetary policy in the USA and in the eurozone has put significant downward pressure on the euro against the US dollar. The single currency closed at its lowest level for the year of USD/EUR 1.21 after an interim high of USD/EUR 1.39 and depreciated further at the beginning of 2015.

MIXED TREND IN RELEVANT MARKETS

The main shipping markets have behaved differently during 2014. Overall, the expectation that the difficult conditions in the shipping markets can only be overcome slowly has been confirmed, however.

The container shipping market has stabilised during the past year at a very low level. Although demand grew slightly more strongly during the year than the container ship fleet, charter rates and ship prices did not increase. This was probably due to the more efficient use of the fleet by the shipping lines, to which the increased building of alliances made a particular contribution.

The growth in the fleet of bulk carriers slowed down continuously during the year. Nonetheless, charter rates decreased during the second half of the year following an initial increase. This was mainly attributable to adverse effects on the demand side, especially a reduction in coal imports to China. An export ban on unrefined ores implemented by Indonesia since the beginning of 2014 had an additional adverse impact.

Only the situation in the oil tanker market has improved during the year, although demand was rather weak well into the third quarter. Nevertheless, freight rates, time charter rates and ship values in this segment have increased markedly since the middle of the year.

German real estate markets remained overall on an upward trend. The residential real estate markets benefited from a sustained high demand for housing in large cities. However, the noticeable increase in construction activity over recent years is not yet meeting demand. Vacancy rates decreased again in the office real estate markets, as the demand for office space grew more quickly than the increase in office completions. The retail sector benefited from strong private consumption. However, although retail stores are feeling increasing pressure from e-commerce, they generated nevertheless appreciable sales growth.

Against this backdrop modern retail space was still in demand, especially in prime locations in large cities. Although the growth in rents for office and retail properties slowed slightly during the past year, it remained at a high rate in good locations, whereas the increased pace of growth of residential rents and prices for apartments in urban centres hardly slowed down. Commercial property also recorded further increases in value due to the high investor interest.

There was no common trend in the European real estate markets. Whilst the real estate markets in Great Britain – primarily in London – have already developed very positively over the past two years, there was still no upswing in other markets such as the Dutch market. Rents stagnated in many locations on high vacancy rates. However, quite a few markets started to recover. Prime properties in good locations were mainly in demand. The upward trend continued in the USA in both the office and residential real estate markets on a falling vacancy rate and increasing rents and market values.

The development of renewable energies made further progress. In Germany new installations in the wind energy sector in 2014 were 65 % above the previous year's level, which represents a new installation record for this country. For the first time the offshore sector also accounted for a considerable portion of this with around 11 %. According to estimates the increase in capacity slowed slightly throughout Europe. Growth in the photovoltaic market should have continued to decrease – this should have been particularly significant in Germany. This decrease was more pronounced for large-scale plants, as the subsidy programme for these ceased.

According to initial estimates the project financing volume for transport infrastructure in terms of signed contracts remained below the previous year's level. The proportion of PPP projects (Public Private Partnership) to the total volume has increased slightly. Financing was arranged mainly for roads, airports and in the railway sector, with the focus of the activities on Great Britain. Highly 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.

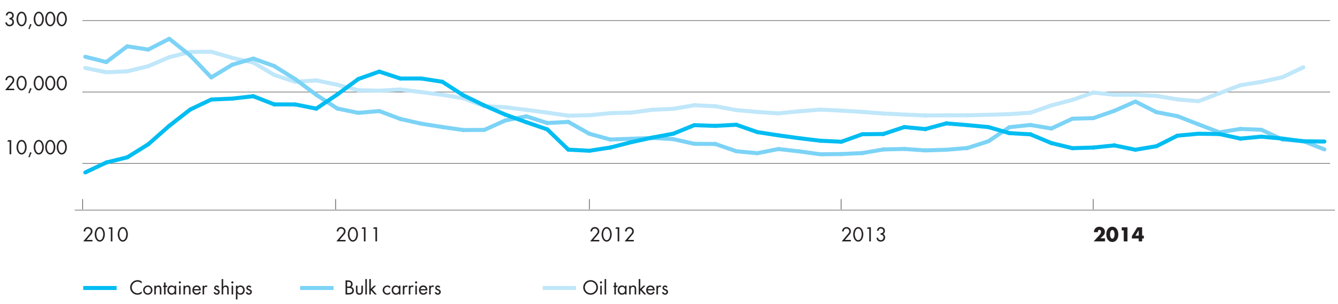
The sectors relevant for the corporate clients business of HSH Nordbank developed quite well in 2014 with a few exceptions. However, demand for loan financing remained generally restrained in view of the good financial position of many medium-sized companies, as investments made by companies can be financed from their own resources.

LAUNCH OF THE EUROPEAN BANKING AUTHORITY

2014 was for the banks a year very much marked at the regulatory level by the ECB's comprehensive assessment consisting of an asset quality review (AQR) and a stress test. The results of the assessment

TREND OF TIME CHARTER RATES IN THE SHIPPING INDUSTRY

(Market average, USD/day)



that took about a year were published on 26 October 2014 for the 130 banks involved. The objective of creating greater transparency with regard to balance sheet quality and the banks' resilience and identifying any action required was thus achieved. About a fifth of the European institutions were shown to have a capital shortfall, some of which had already been covered during the course of the year. Based on the results of the comprehensive assessment German banks are solidly capitalised overall and are also able to withstand severe stress conditions. HSH Nordbank also successfully concluded the Comprehensive Assessment.

Following the Comprehensive Assessment the ECB indicated that it expects banks to incorporate the adjustments made in the AQR in the IFRS consolidated financial statements for the year 2014 to the maximum extent possible.

The Comprehensive Assessment was part of the preparations for the launch of the European Banking Authority, which was transferred to the ECB on 4 November 2014. The Single Supervisory Mechanism (SSM) created as a result harmonises the supervisory standards for large banks throughout Europe.

In addition to single supervision, the Single Resolution Mechanism (SRM) is a further element of the European Banking Union. This is based on the Bank Recovery and Resolution Directive: BRRD), under which uniform rules are established throughout Europe for banks facing financial difficulties.

The BRRD is to be transposed into national law by all EU Member States and applied from 1 January 2016. In Germany the BRRD was transposed by the German BRRD Implementation Act (BRRD-Umsetzungsgesetz), which includes the Act on the Recovery and Resolution of Credit Institutions (SAG) (Sanierungs- und Abwicklungsgesetz). The SAG provides for the use of different instruments in a restructuring including the participation of shareholders and creditors in losses and in the recapitalisation of the bank to be recovered (bail-in). The BRRD Implementation Act already entered into force in Germany as of 1 January 2015 – a year earlier than stipulated in the BRRD.

The SRM also provides the institutional framework for the use of the instruments created under the BRRD and consists of a single resolution committee and a single resolution fund. The fund will be gradually built up through bank levies imposed on the supervised institutions. It will only be possible to make use of the fund if a bail-in had previously been carried out in a resolution case in the amount of at least 8 % of equity capital and total liabilities in accordance with a specified liability sequence.

The harmonisation of the European deposit guarantee schemes is the third pillar of the Banking Union. It is based on the European Deposit Guarantee Directive that came into force in the middle of 2014. Under this directive depositors have a legal claim for compensation of up to € 100,000 for deposits in default. At the same time the financial resources of national support schemes are improved.

Integrated supervisory review and evaluation process

Additional requirements for banks result from the establishing of a uniform Supervisory Review and Evaluation Process (SREP) in the European Banking Union. The supervisory evaluation of institutions will be based in future on a comprehensive analysis and assessment. This includes the periodic observation and assessment of financial and non-financial key indicators, capital and liquidity base, governance and controls as well as the resilience of the business model.

The regulator may impose additional capital and liquidity requirements based on the overall assessment of an institution and initiate further supervisory measures such as adjustments to the business model. Based on an overall assessment the ECB has assigned for the first time individual minimum capital ratios, among other things, to the banks supervised by it.

Further improvement in the capitalisation of banks

The comprehensive assessment results showed that the large German banks are solidly capitalised on an overall basis. The change in regulatory Tier 1 capital ratios of banks in 2014 was marked by the transition to the new Basel III equity capital standard, which has been implemented in the EU since 1 January 2014 via the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) and gradually comes into force by 2021. Stricter recognition and valuation rules of the Basel III framework have to be applied in calculating capital ratios, which are reflected methodologically in a reduction in Tier 1 capital adequacy and an increase in risk-weighted assets.

Earnings under pressure from low interest rates and competitive situation

With the overall improved capitalisation due to the capital measures taken and reduction of risk positions banks have the important prerequisites in order to survive in the increasingly difficult banking environment. Sustained pressure on earnings in Germany shows that the challenges remain great and banks must continuously adjust their business models to the changing underlying conditions and increase efficiency to ensure adequate profitability and therefore the ability to build up capital from their own resources.

The low interest rate environment was an increasing negative factor over the past year, as the interest spread tends to fall in periods of low interest rates. At the same time fixed-interest loans give rise to interest rate risk in the future. Intensive competition, particularly in the German banking market, also continued to have an adverse impact, while loan demand in the corporates business was subdued at the same time. The constant increase in regulatory requirements in the banking market, which mean significant additional expense for institutions, had a noticeable impact on the cost side.

HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

Taking into account the subdued loan demand of companies in Germany with a simultaneous solid demand for real estate loans HSH Nordbank was able to significantly increase its new business in the past year in line with the business and risk strategy and thereby confirm its good position in the target markets. The focus was on real estate financing, which also benefited from the positive trend in the German real estate markets. In addition, more business was also concluded than in the previous year in the core areas of Energy & Infrastructure and Shipping International, whereas restrained demand for bank loans was noticeable in the classic corporate client business. At the same time competition intensified in all divisions.

The solid financial position of many companies enabled them to make investments from their own resources and repay loans early. Both were reflected in earnings in addition to the winding down of the Restructuring Unit portfolio and offset the positive effect of the increase in new business.

In view of the persistent difficult trend in the shipping industry HSH Nordbank has again recognised substantial loan loss provisions particularly for the legacy portfolios concerned in the 2014 annual financial statements and further increased the loan loss provisions for problem commitments. This also reflects the ECB's conservative view from the AQR. On the other hand, positive trends in the real estate markets in the USA and Great Britain made it possible for loan loss provisions to be partially released.

The strong appreciation of the US dollar against the euro affected earnings, net assets and the financial position. Currency effects resulted in charges to the result from the trading portfolio and other operating income as well as to an increase in total assets due to the high US dollar proportion in the Restructuring Unit legacy portfolio and the Shipping division of the Core Bank. An increase in the US dollar requires higher collateral to be provided in the form of liquidity in the case of US dollar derivative funding. Accordingly, the liquidity position of the Bank was adversely impacted by movements in the US dollar viewed in isolation.

Despite the declining trend of interest rates in the past year margins were maintained at a stable level in the client business. Nevertheless, the further decrease in interest rates had an adverse impact on the results. The decrease in risk premiums had a positive effect as at the 2014 year end on the measurement of high risk securities portfolios, from which the Restructuring Unit benefited in particular.

HSH Nordbank passed the ECB's comprehensive assessment exceeding the minimum ratios in both the AQR and in the stress tests. The ECB is currently assigning for the first time individual minimum capital ratios extending beyond the regulatory capital ratios to the banks supervised by it. HSH Nordbank was assigned a minimum capital ratio assuming full implementation of Basel III (fully loaded). This additional regulatory capital requirement is clearly exceeded in the Group by the CET1 ratio disclosed as at 31 December 2014.

HSH Nordbank also faced the challenge of a large number of new regulatory requirements that resulted in a substantial use of resources and additional costs.

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

BUSINESS DEVELOPMENTS

SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE 2014 REPORTING YEAR

Overview: good business performance in 2014

In 2014 HSH Nordbank made good progress in implementing its strategy in the Core Bank and in the Restructuring Unit. This is underpinned by new business transacted by client divisions that was developed in line with the plan. The focus on core activities of HSH Nordbank was supported by the progress made in the winding down of troubled assets on the balance sheet.

It was also pleasing that HSH Nordbank performed positively in the ECB's comprehensive assessment consisting of an asset quality review (AQR) and stress test, which, as expected, confirmed the adequacy of the capital base even under crisis market conditions. The results of the AQR were incorporated in the 2014 annual and consolidated financial statements insofar as they complied with the accounting rules.

Despite the clear progress made the difficult market situation in the shipping industry continued to be felt in the year under review, especially in HSH Nordbank's legacy portfolios. Loan loss provisions to be recognised for shipping loans impacted above all the Core Bank's ship financing recovery unit. On the other hand, loan loss provisions in the Restructuring Unit benefited from reversals relating to shipping and real estate loans and a stronger relief provided by the balance sheet mechanism of the second loss guarantee.

At the end of 2014 HSH Nordbank revised its cost targets for the period up to 2018 and initiated a comprehensive package of measures. The objective is to substantially improve the cost efficiency of HSH Nordbank in a banking market that is under significant cost and earnings pressure and to clearly reduce administrative expenses.

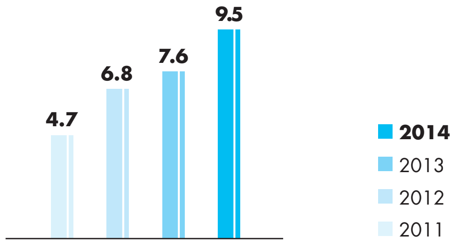
Earnings power of Core Bank strengthened by on plan new business

New business transacted by client divisions was again further increased in line with the business and risk strategy in the past year. The volume of new transactions concluded (key IFRS management indicator) increased by about a quarter to € 9.5 billion (previous year: € 7.6 billion) and thereby achieved the overall 2014 target level. It was also possible to noticeably increase the proportion of new loans disbursed compared to the previous year. The risk-adjusted interest margin trend was encouragingly stable in a difficult competitive environment. New business more than doubled compared to 2011, when the realignment of the client-based business model was initiated.

The customer divisions contributed to the performance in varying degrees. As a financing partner of choice throughout Germany, the Real Estate Clients business division recorded the sharpest increase in new business. The Energy & Infrastructure and Shipping International divisions have significantly increased their client business volume compared to the previous year. On the other hand, new business in the Corporate Clients division remained below the level of the same period of the previous year and the target level due to the still subdued loan demand and the very intensive competition between banks for medium-sized companies, although business picked up markedly in the second half of the year.

NEW BUSINESS OF THE CORE BANK

(€ bn)



The regional spread of the new business is balanced and contributes to the further diversification of the loan portfolio. About 31 % of the new business transacted in the reporting year is attributable to the core region of Northern Germany. The remaining portion is accounted for by clients located in other regions of Germany (46 %) and abroad (23 %).

The increase in new business has a positive impact on the Core Bank's earnings base. On the other hand, a higher level of principal repayments due to the solid financial resources of many corporate clients had an adverse impact. Sales of capital markets products remained below the previous year and target levels against the backdrop of a very low interest rate environment, although product sales were supported by higher volatility in the financial and foreign exchange markets, especially in the second half of the year. Transaction Banking, which includes services covering all aspects of payment transactions and foreign trade financing, recorded an increase in earnings.

Overall, the new business performance is underpinning the advanced implementation of the Core Bank's client-based business model and the solid position of the customer departments in their target markets.

Total assets of the Core Bank increased against the backdrop of the increase in new business and a higher cash reserve. The appreciation of the US dollar exchange rate increased assets. The increase in total assets was offset by unscheduled principal repayments.

Winding down of legacy portfolios driven forward

The winding down strategy of the Restructuring Unit was further implemented over the past year and the Bank's focus on core bank activities was thereby supported. Total assets of the legacy portfolios under the responsibility of the Restructuring Unit (key IFRS management indicator) decreased in the 2014 reporting year by a further € 6 billion, excluding consolidation items, to € 31 billion compared to € 37 billion as at 31 December 2013 and is therefore at target level in the year under review without taking account of the strong appreciation of the US dollar (effect: € + 1.4 billion). Under HGB total assets of the Restructuring Unit are not determined separately at the single entity level.

Total assets of the Restructuring Unit were about € 83 billion at the time the Restructuring Unit was formed at the end of 2009. The decrease includes reclassifications from the Core Bank totalling about € 8.1 billion that increased assets, which were made in order to implement the winding down measures agreed with the EU Commission and as part of the portfolio adjustments in the Core Bank.

HSH Nordbank pursues several approaches in order to further reduce the risk positions in the Restructuring Unit. These include the implementation of alternative structured solutions in the shipping portfolio, for which there was considerable investor interest in the year under review.

The favourable market environment in the real estate sectors in the USA and Great Britain in the fourth quarter was also exploited to reduce the portfolio by an amount equivalent to about € 0.6 billion whilst minimising losses. This includes the disposal of a residential property portfolio in the USA.

Successful conclusion of the comprehensive assessment

HSH Nordbank successfully completed the ECB's comprehensive assessment. The Bank exceeded the minimum capital ratios in both the AQR and stress test. The Bank's CET1 ratio at Group level (Common Equity Tier 1 ratio, core Tier 1 capital ratio) was at a solid level of 10.0 %, plus the buffer of 2.3 percentage points from the additional premium for the second loss guarantee in the AQR, which included a comprehensive review of the measurement of high risk assets. The minimum ratio of 8 % required for the AQR was therefore clearly exceeded.

This good AQR result for the Bank was achieved, even though the ECB applied so called prudential haircuts to the measurement of impaired loans and collateral. In addition, a conservative AQR methodology was applied to the measurement of client derivatives (credit value adjustments, CVA). The resulting regulatory capital charges were mainly compensated for under the second loss guarantee. The CET1 ratio (Group) thus remained at 10.0 % despite the specific AQR methodology. Only the buffer from the additional premium decreased by 0.8 percentage points (starting point as at the 2013 year end: 10.0 % plus buffer of 3.1 percentage points).

The stress test subsequently performed using assumptions regarding the economic environment was linked to the AQR. Starting from the adjusted CET1 ratio (Group) based on the outcome of the AQR the effect of stress scenarios was analysed over a period of three years (2014 to 2016). The analysis was based on a static balance sheet approach, as a result of which the winding down of troubled assets since the beginning of 2014 and planned up to 2016 as well as the increase in lower risk new business was not taken into account.

Whereas the Bank achieved a CET1 ratio in the Group of 9.4% in the base scenario stress test as at the end of the period under review (2016) (minimum threshold: 8.0%), the ratio in the adverse scenario, in which an extremely unfavourable economic and financial market environment was simulated, dropped to 6.1% (minimum ratio: 5.5%). The additional stress in the adverse scenario was further increased through the combination with the adjustments made in the AQR (join-up).

The guarantee premiums payable, which had to be included in the same amount as an expense over the three years of the period under review in the stress test and which caused significant hypothetical asset erosion, were a material negative factor. Nevertheless, the exceeding of the minimum ratio shows that HSH Nordbank can withstand this crisis scenario in the stress test.

Inclusion of the regulatory AQR adjustments in the IFRS consolidated financial statements

In the follow-up to the comprehensive assessment the ECB indicated that it expects banks to include the adjustments made in the AQR in the 2014 consolidated financial statements and annual financial statements to the maximum extent possible.

Insofar as they are in accordance with the accounting standards, HSH Nordbank processed the AQR results in the consolidated and annual financial statements. Details of the implementation were agreed with the ECB.

Again high additions to loan loss provisions were recognised for the shipping sector regardless of the AQR results against the backdrop of revised forecasts for charter rates. This was offset by partial reversals of provisions for real estate financing as a result of positive developments over the past year.

The measurement of client derivatives (credit value adjustments, CVA) was developed further. This resulted in a one-off negative effect. The inclusion of results of the AQR over and above this was also agreed with the supervisory authority.

Focus on cost efficiency

In the fourth quarter of 2014 HSH Nordbank revised its cost plan for the coming years and initiated a comprehensive cost reduction and efficiency improvement programme.

The key objective is to achieve a sustainable, competitive cost-income ratio (CIR). The Bank is striving to reduce administrative expenses in the IFRS Group to a maximum of € 500 million in 2018. This corresponds to a reduction of about 30% compared to 2014. The Bank has defined a set of measures for this purpose, which will be gradually implemented by the end of 2017. The programme is linked to the cost-cutting measures and organisational changes already initiated in 2013, which were systematically carried out during the course of 2014. Exploiting the potential for efficiency improvements will be combined with a further reduction in headcount, which is to be implemented by 2017.

One of the main focuses of the new programme are targeted overarching initiatives. These include the further streamlining of the organisational structure, simplification and standardisation of key processes and adjustments to the Bank's IT systems. Attention is also being focused on optimising the product portfolio. Lastly, cost-cutting measures are also being implemented at foreign branches – for example, by the decision to reduce the size of the New York branch and convert it to a representative office.

Reduction in headcount implemented as planned

The number of employees decreased as planned to 2,579 – calculated as FTE (key management indicator) – at the end of the year 2014 as a result of the cost saving programmes initiated in previous years (31 December 2013: 2,835). Changes to the scope of consolidation also had an impact on the headcount. The number of employees (FTE) at HSH Nordbank AG (single entity) decreased as planned to 2,265 by the end of 2014 (31 December 2013: 2,358).

EARNINGS, NET ASSETS AND FINANCIAL POSITION

Annual net result characterised by the winding down of portfolios in the Restructuring Unit and guarantee effects

HSH Nordbank AG disclosed a net loss for the year of € –312 million for 2014 (previous year: € –425 million).

The results were affected, inter alia, by the continued reduction in risk in the Restructuring Unit, negative interest rate and currency effects, restructuring expense and charges resulting from the recovery measures taken regarding the shipping loan portfolio.

The relieving effect of the guarantee arising from the partial compensation for the loan loss provisions was at the same time offset by high premium expense for the guarantee in net commission income.

The tougher requirements for the calculation of capital ratios that came into force in 2014 (transition to Basel III) resulted in the waiver of the claim to the additional premium of € 673 million by the guarantors. Income from the debt waiver was added to the fund for general banking risks (Section 340g HGB). HSH Nordbank's capital was thereby strengthened at single entity level as at the Group level (capital protection clause).

Further details underlying the business developments are included in the sections "Earnings situation" and "Net assets and financial position".

EARNINGS SITUATION

INCOME STATEMENT (GERMAN COMMERCIAL CODE SINGLE ENTITY)

(€ m)	2014	2013	Change in %
Net interest income	918	1,103	–17
Net commission income	–393	–322	–22
of which: Fees for second loss guarantees	–521	–414	26
Net income/net expenses from the trading portfolio	–230	266	>–100
Administrative expenses	–624	–660	–5
of which: Personnel expenses	–291	–291	–
of which: Operating expenses	–333	–369	–10
Other operating income/expenses	–93	30	>–100
Operating result before loan loss provisions/valuation	**–422**	**417**	**>–100**
Loan loss provisions/valuation	247	–806	>–100
Operating result after loan loss provisions/valuation	**–175**	**–389**	**55**
Extraordinary result	–74	–53	–40
Income taxe expenses	–184	–142	30
Income from the assumption of losses	121	159	–24
Accumulated loss	**–312**	**–425**	**–27**

Total income characterised by the reduction in risk items, currency effects and fees for government guarantee

IFRS total income for the Group (key management indicator) amounted to € 909 million in the past year (previous year: € 1,496 million). It has decreased significantly as forecast in the previous year. In addition, loan principal repayments made by clients, special effects as well as the sharp appreciation in the US dollar and decreasing interest rates had a stronger impact than expected, such that contrary to the forecast IFRS total income (key management indicator) in the Core Bank also decreased to € 591 million (previous year: € 898 million) despite the positive income effects of the successful client business.

Reconciliation between IFRS Group total income and HGB single entity total income is performed to explain the earnings of the single entity under HGB. Please refer to the "Management system" section in the part "Reconciliation" for more details.

HGB total income of the single entity comprises net interest income, net commission income, result from trading portfolio and other operating income and amounted to € 202 million as at the end of 2014 and was therefore as expected significantly below the previous year's level (€ 1,077 million). The individual income line items contributed as follows to total income:

Net interest income of the single entity amounted to € 918 million compared to € 1,103 million in the previous year.

As expected, the distinctly positive income impact of the growing new business of the Core Bank together with a stable margin trend and loan prolongations was more than offset by the substantial portfolio reduction in the Restructuring Unit and principal repayments in the Core Bank. The further decrease in interest rates also had a negative impact in the year under review.

As a special effect the change in market interest rates used to determine the present value of obligations for guarantee fees expected to be payable in the future had a negative impact of € – 12 million on net interest income.

Net commission income of HSH Nordbank AG of € – 393 million (previous year: € – 322 million) was adversely impacted by fees for government guarantees of € – 521 million. This is a clear increase compared to the previous year (€ – 414 million) and is caused by the replenishment of the second loss guarantee to € 10 billion in the middle of 2013.

After being adjusted for the expenses for government guarantees, Net commission income of HSH Nordbank AG of € 128 million clearly increased compared to the previous year (€ 92 million). Increased loan fees resulting from the expansion of new business made a particularly positive contribution. Sales of capital market products remained below the previous year's level against the backdrop of very low interest rates.

The result from the trading portfolio amounted to € – 230 million (previous year: € 266 million). These include further developments of the measurement of client derivatives (credit value adjustments, CVA) as a result of the AQR. Currency effects also made a significant contribution to the reduction in earnings against the backdrop of the appreciation in the US dollar.

Other operating income amounted to € – 93 million (previous year: € 30 million), which was mainly due to negative currency effects on banking book portfolios. In addition, the Bank generated extraordinary income in the previous year that did not arise in 2014.

Cost reductions show effect

As expected, IFRS administrative expenses for the Group (key management indicator) were further significantly reduced to € 724 million (previous year: € 755 million). Reconciliation between IFRS Group administrative expenses and HGB single entity administrative expenses is performed to explain the earnings of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

Administrative expenses of the single entity (HGB) were significantly reduced in the past year in line with the plan to € – 624 million (previous year: € – 660 million). Whereas personnel expenses of € – 291 million remained constant, operating expenses decreased to € – 333 million (previous year: € – 369 million). Savings achieved with regard to consultancy costs were offset by substantial additional costs incurred in relation to regulatory requirements. About € 14 million has been recognised as an expense solely for the special audit carried out in connection with the ECB's AQR.

Loan loss provisions reflect difficult situation in the shipping industry

A positive amount was disclosed in line with the plan for the IFRS loan loss provisions (key management indicator). It amounted to € 576 million (previous year: € – 833 million). As expected, the reduction in the Restructuring Unit was greater than in the Core Bank. The IFRS loan loss provisions (key management indicator) amounted to € 641 million for the Restructuring Unit and were in line with the plan (previous year: € – 439 million). Reconciliation between IFRS Group loan loss provisions and HGB single entity loan loss provisions is performed to explain the earnings of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

After taking the guarantee effect into account, HSH Nordbank AG disclosed a positive amount of € 247 million compared to a negative amount of € – 806 million in the previous year in the Loan loss provisions/valuation line item in the HGB single entity financial statements, which comprise loan loss provisions, measurement of securities and equity holdings transactions and additions to or reversals from the Section 340g reserves.

Loan loss provisions continue to be characterised by additions in the shipping loan portfolios. This reflects the assessment that recovery in the shipping sector will be slow.

The higher loan loss provisions for 2014 result – mainly due to the expected increase in the US dollar exchange rate – in a higher drawdown in the long-term of the guarantee in the years 2019 to 2025 based on our updated loan loss provision plan.

Therefore, fees for the guarantee to be expected in future have to be recognised additionally through profit or loss in the loan loss provisions. The additional premium also had to be recognised for the previous reporting period. Total premiums recorded in the loan loss provisions amounted therefore to € – 308 million. The compensation effect of the guarantee is reduced by this amount.

Taking account of the fees expected to be payable in the future, provisions were compensated for by the guarantee effects, particularly by the debt waiver, in the total amount of € 1,246 million. Loan loss provisions amounted to € 795 million as a result of this relief (previous year: € – 1,693 million).

The compensation effect of the guarantee did not result in a cash draw down as at 31 December 2014. The first loss piece of the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 1.2 billion as at the end of the year (losses submitted for invoicing). Further information on the second loss guarantee is set out in Note 2.

The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy and in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant releases of loan loss provisions in the future. A key driver of the amount of loan loss provisions is also the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of individual valuation allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of individual valuation allowance based on the assumption of a workout).

The Loan loss provisions/valuation result for the securities business decreased to € 128 million (previous year: € 230 million). The result continues to be dominated by the very high market liquidity and continuous fall in market interest rates. The result is attributable to both the successful sale of securities and measurement effects.

Due to the decisions of the Austrian Financial Market Authority (FMA) and the Austrian Federal Government announced in the beginning of March 2015 regarding the drawing up of a resolution plan and resultant debt moratorium for Heta Asset Resolution AG (HETA) HSH Nordbank wrote down securities and loans due from HETA totalling € 220 million by € 96 million in its financial statements 2014. The write-downs were mainly compensated for by the second loss guarantee. HSH Nordbank's claims against HETA are mostly secured under the default guarantee issued by the Austrian Federal State of Carinthia.

The loan loss provisions/valuation result from equity holdings amounts to € – 2 million (previous year: € 5 million). Gains on disposal were more than offset by impairment losses and expenses from the transfer of losses.

The tougher requirements for the calculation of capital ratios that came into force in 2014 (transition to Basel III) resulted in the waiver of the claim to the additional premium of € 673 million by the guarantors. Income from the debt waiver was added to the fund for general banking risks (Section 340g HGB). HSH Nordbank's capital was thereby strengthened at the single entity level as at Group level (capital protection clause).

The operating result after loan loss provisions/valuation amounted to € – 175 million compared to € – 389 million in the previous year. The positive compensation effect of the guarantee on loan loss provisions more than offset in total the decrease in total income.

The extraordinary result decreased to € – 74 million, compared to € – 53 million in the previous year. This included costs incurred in connection with the cost reduction programme initiated in the fourth quarter of 2014, primarily additions to provisions for related personnel measures.

Net income for the year negative as expected

As expected net income before taxes in the IFRS Group(key management indicator) amounted to a positive € 278 million in the 2014 reporting year (previous year: € – 518 million).This is equivalent as expected to a significantly improved return on equity (key management indicator) of 6 % (previous year: – 10 %). The cost-income ratio (key management indicator) was 70 % (previous year: 49 %) at the Group level and therefore increased more strongly than expected compared to the lower previous year's figure.

Reconciliation between IFRS Group net income before taxes and HGB single entity net income before taxes is performed to explain the earnings of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

Net income before taxes in the single entity in accordance with HGB amounted to € – 249 million (previous year: € – 442 million). After taking account of income taxes of € – 184 million (previous year: € – 142 million) and income from the transfer of losses of € 121 million (previous year: € 159 million) from the participation of silent partners and holders of profit participation certificates in the net loss for the year or accumulated losses, HSH Nordbank AG discloses a net loss for the year of € – 312 million for the financial year 2014 (previous year: € – 425 million).

In 2014 HSH Nordbank recognised a provision for potential additional tax payments resulting from the ongoing tax audits of previous years in the income taxes line item. Provision expense was offset by income from tax refunds.

Due to the increase in taxable temporary measurement differences and the decrease in the recoverability of deferred tax assets recognised on loss carryforwards deferred tax expense had to be recognised in addition to this.

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

As a result of the annual net loss and a corresponding accumulated loss, the silent participations and profit participation rights likewise received no distributions in 2014. The silent participations and profit participation capital also share in the net loss for the year and accumulated loss of the Bank. In order to avoid a double burden on the part of the hybrid capital creditors, the existing loss carryforward from the year 2013 in the amount of € – 425 million was offset by withdrawing funds from other retained earnings and capital reserves in the 2014 financial year.

Silent participations participated in the loss of the Bank in the amount of € 118 million. The profit participation capital bore a loss of € 3 million in the 2014 financial year. This is equivalent to a reduction in the carrying amount of the silent participations and profit participation capital of 5.27 %. The carrying amount of silent participations and profit participation capital was already reduced in 2013 by about 10.68 %, by 9.03 % in 2012, by 7.95 % in 2011, by 5.01 % in 2010 and by 16.40 % in 2009 due to the attributed losses. The carrying amounts of the hybrid financial instruments were 54.1 % of the original nominal amount due to the attributed losses as at the end of the year 2014.

NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET (GERMAN COMMERCIAL CODE SINGLE ENTITY)

(€ m)	**2014**	2013	Change in %
Assets			
Cash reserve, debt instruments issued by public institutions, bills eligible for refinancing with central banks	5,893	4,802	23
Loans and advances to banks	7,473	5,810	29
Loans and advances to customers	65,787	65,585	0
Securities	21,067	23,749	– 11
Trading portfolio	9,441	9,052	4
Equity holdings in non-affiliated companies and interests in affiliated companies	748	1,714	– 56
Other assets	2,280	2,161	6
Total assets	**112,689**	**112,873**	**– 0**
Liabilities			
Liabilities to banks	15,067	19,295	– 22
Liabilities to customers	45,922	43,184	6
Securitised liabilities	28,195	29,381	– 4
Trading portfolio	8,885	6,903	29
Subordinated debt and profit participation capital	4,127	4,111	0
Fund for general banking risks	2,082	1,409	48
Equity capital	4,422	4,806	– 8
Other liabilities	3,989	3,784	5
Total liabilities	**112,689**	**112,873**	**– 0**
Contingent liabilities	4,519	4,243	7
Other commitments	7,277	7,068	3
Derivatives (credit equivalents)	1,713	2,127	– 19
Volume off-balance sheet positions	**13,509**	**13,438**	**1**
Business volume	**126,198**	**126,311**	**– 0**

Slight decrease in total assets

Total assets in the single entity financial statements under HGB decreased slightly to € 112,689 million in the 2014 reporting year (31 December 2013: € 112,873 million). The growth in new business was offset by the reduction in risk positions, especially by the increased winding down of positions in the Restructuring Unit. The significant appreciation in the US dollar exchange rate also had the effect of increasing assets compared to the previous year.

The movement in material items on the balance sheet is as follows: The cash reserve increased from € 4,802 million to € 5,893 million, primarily as a result of higher credit balances held at central banks. Loans and advances to banks also increased to € 7,473 million (31 December 2013: € 5,810 million), particularly as a result of higher call deposits. Loans and advances to customers remained at a stable level and amounted to € 65,787 million (31 December 2013: € 65,585 million), as the increase in new business in the Core Bank was more than offset by the unwinding of loan transactions in the Restructuring Unit and principal repayments in the Core Bank client divisions.

Securities held decreased from € 23,749 million to € 21,067 million. This is due amongst other things to further winding-down of the credit investment portfolio. Trading portfolio assets increased slightly. This was mainly accounted for by derivatives held in the trading portfolio, whereas securities portfolios decreased.

Liabilities to banks in particular decreased on the liability side. The main reason for this was lower refinancing volume with central banks in view of the continued unwinding of the portfolio. Liabilities to customers increased to € 45,922 million (31 December 2013: € 43,184 million). Whilst deposits continued to decrease due to the discontinuation of the traditional retail business, call deposits from institutional investors in particular and repo transactions increased. Securitised liabilities totalled € 28,195 million (31 December 2013: € 29,381 million). The slight decrease is primarily attributable to a higher level of maturities and a lower volume of new issues due to the reduction in the portfolio.

Subordinated liabilities and profit participation capital remained virtually unchanged compared to the previous year end (31 December 2014: € 4,127 million, previous year: € 4,111 million). There were significant allocations to the fund for general banking risks by the transfer of income, which arose from the waiver by the guarantors of the additional premium and was used to strengthen Tier 1 capital (capital protection clause). As a result it increased from € 1,409 million in the previous year to € 2,082 million as at 31 December 2014.

Equity disclosed on the balance sheet under HGB decreased to € 4,422 million as at the 2014 year end (31 December 2013: € 4,806 million). This was mainly caused by the net loss for the year 2014.

Business volume at the same level as in the previous year

Business volume remained almost constant on an overall basis and amounted to € 126,198 million (31 December 2013: € 126,311 million). The trend of off-balance sheet business was upwards, whereby contingent liabilities increased to € 4,519 million (31 December 2013: € 4,243 million) and other obligations to € 7,277 million (31 December 2013: € 7,068 million) whereas derivatives held in the investment portfolio decreased.

Capital and funding

Solid CET 1 ratio as at the 2014 year end

The resilience of the capital position of HSH Nordbank and the effectiveness of the second loss guarantee were confirmed by the Bank's results in the ECB's comprehensive assessment. The capital ratios disclosed as at the 2014 year end remained at a solid level.

As forecast in the previous year, the CET1 ratio of the IFRS Group (under the Basel III transitional arrangements) as a key management indicator was 10.0 % plus a buffer of 2.6 percentage points, which is based on a potential waiver of additional premiums by the guarantors, under which an appropriate CET1 ratio is to be ensured (capital protection clause).

Even based on the assumption of full implementation of the Basel III rules (fully loaded) the CET1 ratio of the IFRS Group (since 2014 a key management indicator) of 10.0 % (plus a buffer of 1.3 percentage points from the waiver of additional premiums by the guarantors) is at a solid level.

RWA of the IFRS Group (key management indicator) amounted to € 39.5 billion and therefore increased slightly compared to the previous year according to plan (31 December 2013: € 37.9 billion).

Reconciliation between Group CET1 capital ratio and HGB single entity CET1 capital ratio is performed to explain the net assets and financial position of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

As forecast in the previous year, the in-phase CET1 ratio of HSH Nordbank AG (under the Basel III transitional arrangements) was 11.5 % plus the buffer of 2.8 percentage points, which is based on a potential waiver of additional premiums by the guarantors, under which an appropriate CET1 ratio is to be ensured (capital protection clause). In the previous year an in-phase CET1 ratio of 10.6 % plus a buffer of 4.9 percentage points was disclosed.

The strengthening of capital as a result of additions to the fund for general banking risks under the capital protection clause had a positive impact in the reporting year.

Compared to the previous year RWA increased slightly to € 39.7 billion (31 December 2013: € 37.9 billion). The reasons for this are the appreciation in the US dollar (EUR/USD 1.21 as at 31 December 2014 vs. EUR/USD 1.38 as at 31 December 2013), significant increase in new business, which, as planned, had a greater impact on RWA despite the better risk parameters than the further winding down of the legacy portfolios in the Restructuring Unit. The guarantee coverage reduced RWA in the legacy portfolios.

The traditional Tier 1 ratio of HSH Nordbank AG reached a value of 14.5 %, the regulatory capital ratio of HSH Nordbank AG amounted to 18.3 % (both same period calculation).

The regulatory minimum risk weight of 20 % is applied to the senior tranche of the second loss guarantee. About 0.7 % has been calculated as the risk weight as at the 2014 year end. This provides another guarantee buffer in addition to the buffer from the additional premium.

Refinancing activities expanded

HSH Nordbank successfully pursued its funding strategy in the financial year and thereby further strengthened its liquidity profile against the backdrop of existing challenges.

The Bank exploited the favourable conditions in the capital markets to issue two mortgage Pfandbriefe, each in the amount of € 500 million, in the course of the year. A Pfandbrief with a five-year term and a Pfandbrief with a term of seven-years were issued in July and September, respectively. There was wide demand for the issues, particularly among domestic and foreign institutional investors. The order books were heavily oversubscribed.

Following the private placement of ship Pfandbriefe with an issue amount of just under € 400 million by HSH Nordbank during the year, the Bank issued a benchmark ship mortgage bond of over € 500 million again for the first time since 2008 in February 2015.

Secured funding using longer-term repo transactions, which contributed more than 1.5 billion US dollar to the primary funding of US dollar transactions, was also encouraging. As part of asset-based funding (ABF) the Bank successfully concluded another transaction with Stratus ABS based on the ABF platform established in 2013. The refinancing of over US-$ 400 million is secured by aircraft loans of the internal Restructuring Unit. This was followed in the first quarter 2015 by Castellum ABF, the third large-volume US-Dollar refinancing executed via the ABF platform. This refinancing with a volume of US-$ 360 million has a term of 3.25 years and is secured by commercial real estate loans. Furthermore additional transactions based on loans in different asset classes are planned.

By means of the ABF issues the Bank is able to expand the refinancing of US dollar transactions and to reduce the use of EUR/USD basis swaps for derivative foreign currency financing accordingly. The proportion of primary US dollar refinancing for the Core Bank stood at about 63 % as at the 2014 year end. A high proportion still had to be refinanced via derivatives for the Overall Bank, including the Restructuring Unit.

An increase in the US dollar requires higher collateral be provided in the form of liquidity in the case of US dollar derivative funding. Accordingly, the appreciation of the US dollar against the euro over the past year assessed in isolation resulted in the liquidity position being adversely impacted.

Another focus was the sales of bond products for the savings banks client business and increasingly also for clients in other associations and financial institutions. The increased placement of bonds with institutional investors is resulting in the further diversification of the investor base. Total volume of uncovered bonds (senior unsecured) issued during the financial year amounted to around € 4.5 billion.

Besides the issuing activities a stable 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 about € 21 billion, which it can access at any time.

HSH Nordbank's solid liquidity position as at the balance sheet date 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 1.99 in the Group as at the year end and was therefore significantly above the regulatory minimum and, as planned, moderately below the level of the previous year (2.30).

The liquidity coverage ratio (LCR, short-term minimum liquidity ratio), which, in future, must be adhered to for the first time from October 2015 onward under the provisions of the Capital Requirement Regulation (CRR), reaches 143 % (preliminary) as at 31 December 2014 in the Group within the framework of QIS (regulatory framework under Basel), which is a good value, that clearly exceeds the minimum requirements. The LCR compares the portfolio of highly liquid assets to the net outflows over the next 30 days.

The net stable funding ratio (NSFR), which must be adhered to from 2018 at the earliest, is calculated as the ratio of available funding resources across all maturity ranges to the funding required and must also be at least 100% after full implementation. HSH Nordbank Group's NSFR was 96% (preliminary) as at 31 December 2014 within the framework of the QIS.

The longer maturities of the newly taken up funding and the significant asset reduction in the reporting year also had a positive impact on the liquidity profile. This enabled sustainable structural progress to be achieved with regard to the longer-term challenges, which result from a significant number of maturities of issues between 2015 and 2016 against the backdrop of the expiry of the guarantor's liability at the end of 2015.

Bonds covered by the guarantor liability totalling about € 19 billion will fall due in this entire period.

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

Against the backdrop of the adoption of the Bank Recovery and Resolution Directive (BRRD) and the Single Resolution Mechanism (SRM) the rating agencies, Fitch (March 2014) and Moody's (May 2014), changed the long-term rating of numerous banks in Europe – irrespective of their financial strength – to a negative outlook as part of an Europe-wide action. The outlook for the HSH Nordbank's rating was changed to Baa3 negative (Moody's) and A– negative (Fitch).

In the middle of March 2015 Moody's announced a global review of bank ratings. As result of this, the status of the long-term rating of HSH Nordbank at Moody's changed as expected to Baa3, rating watch negative. At the same time the rating agency assumes in its announcement that, in view of an expected positive outcome of the EU proceedings currently still pending and increasing restructuring successes, HSH Nordbank's current long-term rating will be confirmed as investment grade by an improvement in the financial strength rating.

The Fitch rating is also expected to be confirmed as investment grade. The reviews of the ratings by the rating agencies will probably be completed around the middle of 2015. A rating downgrade would have a material negative impact on the funding options available and access to the capital markets. Related opportunities and risks are described in the "Forecast, opportunities and risks report" section.

FINAL ASSESSMENT OF HSH NORDBANK'S POSITION

Successes achieved in the client business confirm the good progress made in implementing the business model and overall positive development of the Core Bank.

At the Overall Bank level, the passing of the ECB's comprehensive assessment last year was encouraging. Further major progress has been made in winding down non-strategic business and disposing of equity holdings and successes have also been achieved in the field of cost management.

The negative impacts of the fact that the shipping industry only recovers slowly are continuing to have a noticeable impact on the legacy portfolios. HSH Nordbank is still facing the challenges posed by a very demanding market and competitive environment and the constantly increasing regulatory requirements. Overall, HSH Nordbank assesses the Bank's position as not fully satisfactory.

Against this backdrop the aim is to combine the expected conclusion of the EU proceedings with structural measures in addition to the efficiency improvement programme that can contribute significantly to the further strengthening of the sustainability and resilience of the business model. Details regarding this are set out in the Forecast, opportunities and risks report section

REPORT ON EVENTS AFTER THE REPORTING PERIOD

No significant events occurred after the end of the 2014 reporting year that had a material effect on earnings, net assets and the financial position.

FORECAST, OPPORTUNITIES AND RISKS REPORT

FORECAST REPORT INCLUDING OPPORTUNITIES AND RISKS

The following section should be read in conjunction with the other sections in this Management Report. The forward-looking statements contained in this forecast report are based on assumptions and conclusions based on information currently available to HSH Nordbank. The statements are based on a series of assumptions that relate to future events and are incorporated in the corporate plan of HSH Nordbank. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond HSH Nordbank's control. Therefore actual events may differ considerably from the following forward-looking statements below. In this forecast report HSH Nordbank describes in greater detail the assumptions made in the planning process.

The estimates regarding the long-term trend in loan loss provisions as well as the planning for payment defaults and, consequently, the actual drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon, which can influence the future development of the Bank to a greater degree than expected. The main uncertainty factors result, for example, from the movement in key market parameters such as freight and charter rates as well as the US dollar exchange rate. A key driver of the amount of loan loss provisions is also the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of an individual valuation allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of a specific loan loss provision based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy and in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant potential for the reversal of impairment losses in the future.

Developments over the past years have shown that the ability to make forecasts in a volatile environment is limited. For example, the difficult market conditions in the shipping industry are lasting longer than expected.

In this section HSH Nordbank addresses in detail the material opportunities and risks of the forecasts for the key management parameters as well as the going-concern assumptions. Opportunities are defined as possible future developments or events that may give rise to a positive divergence from the forecast or an objective for HSH Nordbank. In contrast, as part of the forecast report, risks are defined as possible future developments or events that may give rise to a negative divergence from the forecast or an objective for HSH Nordbank. The bank-specific risk types are then separately explained in the "Risk report" 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 in 2015. The stimuli for this are likely to mainly come from the USA. HSH Nordbank expects a robust rate of expansion for the USA this year following the high growth momentum of the past months. In contrast., economic growth in the eurozone should again be significantly lower. However, the German economy should be able to grow slightly more strongly than other countries in the eurozone. This assumption is supported by the most recent economic forecasts.

Macroeconomic risks result primarily from the geopolitical conflicts surrounding Russia and Ukraine, possible destabilising effect of the falling oil price, generally expected interest rate hikes in the USA as well as overvalued financial market segments. Beyond that, the results of the elections in Greece have increased political risk in the eurozone. On the other hand, the low oil price should give a positive stimulus to global growth due to the cost relief provided for companies and consumers.

The US Federal Reserve will possibly increase the base rate during the year, as long as the economy grows as expected, whereas the ECB decided in January 2015 to further ease monetary policy in the form of a comprehensive purchase of government bonds over and above the steps already initiated. An objective of the measures is to counteract risks from a sharp fall in inflation.

Yields on long-term European and US government bonds should increase moderately. Interest rate levels as well as the US dollar should continue to be strongly influenced by central bank policy and could be subject to larger fluctuations accordingly. The Bank's plans are based on the expectation that short-term interest rates will increase significantly from 2017 onwards, and a EUR/USD exchange rate of 1.10 for 2015. A higher exchange rate is used again in the plan for subsequent years. HSH Nordbank assumes an exchange rate of EUR/USD 1.15 for 2016 and EUR/USD 1.20 for 2017.

Continued uneven market development

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

Demand for container ships should increase slightly in the course of the year 2015 and in subsequent years. However, supply should increase faster due to the growth in the fleet in the large ship classes. Overall, with regard to the container shipping industry, HSH Nordbank therefore expects the recovery in charter rates and ship prices to be slower.

The demand trend for bulk carriers should be positive in 2015 while weak demand growth is expected from 2016. Transportation capacity of bulk carriers should increase more sharply in 2015 than in the previous year and slightly more strongly than demand due to a high volume of deliveries. The expected market situation should put pressure on charter rates and ship values in 2015.

The demand trend for tankers has been positive in the past year. An increase in the oil supply at a low level of prices gives rise to additional demand potential. Available capacity will grow faster from 2015 onwards as the order book is large and previously planned deliveries were deferred. In 2015 the fleet should increase at a rate that is still below the growth in demand. Nonetheless, it is likely that the further recovery of charter rates and prices will peter out in 2015. The market situation should result in a slight decrease in charter rates and ship values in 2016.

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

The performance of the real estate markets in Germany should be largely positive in 2015. The excess demand in residential markets in large cities will continue thanks to the continued high influx of migrants and despite the increased construction activity. The retail sector will continue to benefit from the positive consumer sentiment and increasing household income. Nevertheless, an increase in construction activity will slow down sales density of retail stores. Relatively stable vacancy rates are to be expected in the office property markets on a marked increase in the number of completions and a slightly declining demand for space. This should noticeably dampen the rise of rentals for office premises. Rents for commercial and residential property should also increase at a markedly slower rate over the foreseeable future given the growing number of completions. If economic conditions in Germany were to worsen unexpectedly, this would also be reflected in developments in the real estate markets.

The outlook for the expansion of renewable energies in Europe is generally cautious. In the year 2015, the absolute build-up of installations in the solar energy sector should be at the past year's level. In the wind energy sector completions in 2015 are expected to be slightly below the previous year's level in Europe. The fear of further limits on government subsidy measures in some countries is still having a dampening effect. In Germany it is likely that the good figure for 2014 will not quite be achieved despite the pull forward effect due to the future reduction in the remuneration for wind power. In transport infrastructure the growth in transport demand on the one hand and rising maintenance requirement on the other are still generating positive stimulus for investment. Institutional investors will become still more important.

Corporate clients business in Germany should remain characterised in 2015 by a subdued level of investment activity against the backdrop of the healthy financial position of many companies, which should also continue to noticeably affect general loan demand at banks.

Ongoing challenging environment for banks

The results of the ECB's comprehensive assessment confirmed that the large German banks have overall a solid capital base, with which they have key requirements for existing in the difficult banking environment. The earnings side of banks is being adversely impacted by the low interest rate environment, intensive competition for German medium-sized clients and only a slow revival in loan demand. In addition, the comprehensive regulatory requirements, which are taking up increasingly more resources, are being translated into administrative expenses of the institutions. The European bank levy for the Single Resolution Fund will be felt noticeably from 2015 and is likely to be significantly higher than the bank levy previously payable.

New challenges result from the Supervisory Review and Evaluation Process (SREP) in the Banking Union, which already entails individual requirements, especially for capital and liquidity. In addition, individual minimum requirements for own funds and eligible liabilities (MREL) are specified for banks supervised by the ECB, which would be applied in the event of a bail-in.

Beyond 2015 additional requirements may arise from the further development of the Basel III Framework (Basel 3.5), for example for securitisations such as HSH Nordbank's second loss guarantee and capital backing under the credit risk standard approach. More focus will probably be placed on preparations for the new requirements for accounting for financial instruments under IFRS 9 that are expected to come into effect from 2018. They will be associated with changes in the classification of financial assets and determination of loan loss provisions. There is uncertainty regarding the scope of the loans that may have to be measured at fair value in the future, which could lead to substantial losses in the lending business in the future. Furthermore, the Basel Standard 239 (BCBS 239) gives rise, for example, to comprehensive future requirements regarding risk data aggregation including the IT architecture and risk reporting by banks. The introduction of a tax on trading in financial instruments (financial transaction tax), which is currently under discussion, would result in a significant reduction in income from the capital markets business.

In view of the various challenges and changing underlying conditions the Banks are required to continually review their business models and constantly improve efficiency to be able to ensure sufficient profitability and thereby maintain the ability to build up capital from their own resources.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

The following forecast is based on the plan for the Group. The planning of the key ratios and figures for the single entity under HGB is derived from the Group's plan by means of reconciliation. Similar developments are generally assumed for the single entity. Major variances in the forecasts between the Group and single entity are specified.

Sound basis for 2015

The business performance of the Core Bank in the past year provides a sound basis for the further expansion of client business in 2015 and successful implementation of the strategy. Of particular importance is the expected positive conclusion of the EU proceedings, including targeted structural measures to further strengthen the sustainability and resilience of the business model, which could not be reflected in the Bank's plan for 2015 due to the fact that the concrete terms are still outstanding. A key objective is a structurally high level of profitability so as to meet the requirements for building up capital from own resources. Furthermore, the programme initiated to reduce costs and increase efficiency will be driven forward in a consistent manner.

Earnings forecast

In 2015 HSH Nordbank expects to be able to build on the overall good performance of the Core Bank and moderately develop new business with clients further. HSH Nordbank is assuming risk-commensurate margins that reflect the competitive environment in the target markets. HSH Nordbank is assuming a slight increase in the volume of interest-bearing loans in the Core Bank taking into account principal repayments and loan loss provisions to be expected for 2015. At the same time, sales of the focused range of services offered is driven forward to exploit the business and earnings potential as well as possible. Overall, HSH Nordbank expects total income of the Core Bank to increase significantly in 2015 compared to 2014. Total income will be mainly sustained by the Real Estate Clients, Corporate Clients, Shipping as well as Energy & Infrastructure divisions.

A further significant reduction of the Restructuring Unit's balance sheet is planned in order to reduce risk positions. The focus will be placed on winding down measures and transactions in the shipping portfolio, for which the aim is the further reduction in risk. Total income in the Restructuring Unit will continue to decrease significantly as planned in 2015 and beyond through the continuous winding down of the portfolio.

The earnings side is strengthened by the increase in new business and product sales. This serves to offset the loss of income resulting from the winding down of non-strategic loan commitments, equity holdings and securities and an increase in impaired shipping loans. Overall, IFRS total income at Group level (key management indicator) is expected to be largely stable at the Group level compared to the previous year.

A significant increase in total income compared to the previous year is expected at the level of the single entity under HGB – influenced by improved result from the trading portfolio.

Reconciliation between IFRS Group total income and HGB single entity total income is performed to explain the net assets, financial position and earnings of the single entity and for the forecast report of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

Opportunities and risks in the earnings forecast

Opportunities

A sharper increase in income of the Core Bank may arise where new business with customers develops better than expected, for example as a result of higher margins achieved in the market, stronger than planned product sales or an unexpectedly high loan demand.

A sharper than planned increase in the US dollar viewed in isolation would have a positive impact on income generated by the US dollar business.

Risks

Any deterioration in the macroeconomic environment and conditions in relevant markets would probably result in a lower demand trend for loan financing than assumed. The competitive situation could also put more pressure on margins than expected. The assumed increase in net interest income could also be lower than expected as a result of a more marked rise in the amount of impaired loans.

Despite the significant reduction in the amount of high risk securities held in the IFRS Group higher measurement losses on debt instruments and derivatives held in portfolio arising as a consequence of market developments or tensions in the financial markets also cannot be ruled out. IFRS measurement effects resulting from movements in the US dollar or interest rates as well as basis swaps may have a more adverse impact than expected.

In addition, a further appreciation of the US dollar – as a result of the implementation of necessary measures – may also lead to a reduction in future planned results and thereby impact the remeasurement of hybrid financial instruments and deferred taxes.

Stronger negative effects could also result in the HGB single entity financial statements from the US dollar and interest rate trends. This could affect the participation of hybrid financial instruments in the profit or loss as well as the measurement of deferred taxes.

In the event that sales of asset positions should be more extensive than planned and the expansion of new business intentionally reduced. This could lead to a greater decrease in total income at the Group level due to the loss of interest income

Furthermore, a higher than expected employee turnover in sales divisions could make it more difficult to achieve new business and income objectives.

If the expected increase in interest rates does not occur as planned, this would lead viewed in isolation in lower income from the investment of the liquidity position.

Forecast for administrative expenses

The aim of HSH Nordbank on the cost side is to continue to gradually reduce administrative expenses (key management indicator) in the IFRS Group significantly to a maximum of € 500 million per year by 2018 and achieve an appropriate cost-income ratio on a sustained basis. The plan is based on the cost reduction programme initiated at the end of 2014, which is aimed, inter alia, at the further streamlining of the organisational structure, simplification of key processes, optimisation of the product portfolio and realignment of the Bank's IT, and which should start to show first results in the current year. HSH Nordbank is assuming a significant reduction in administrative expenses for 2015 compared to 2014.

Additional expenses arising from the consolidation of companies upon application of IFRS 10 have to be taken into account again in the IFRS Group in this context. These additional expenses are largely offset in the Group by income from these companies (Other operating income).

Both at single entity level under HGB and at Group level the Bank expects a clear decrease of administrative expenses.

Reconciliation between IFRS Group administrative expenses and HGB single entity administrative expenses is performed to explain the net assets, financial position and earnings of the single entity and for the forecast report of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

Further extraordinary restructuring expenses will be incurred in 2015 and subsequent years in implementing the cost reduction programme. After mainly provisions for the personnel measures implemented had to be recognised in the 2014 annual financial statements it is expected that in particular restructuring expenses will be incurred in operating expense categories, particularly in the IT area, based on the measures scheduled for 2015 that will be starting this year.

The bank levy, which is harmonised throughout Europe, will result in an appreciable additional cost burden (Other operating income) and will be substantially higher from 2015 than the levy previously payable in Germany.

The number of employees will be gradually reduced further by 2017 as part of the cost reduction measures. A moderate reduction is planned for the year 2015 for both the Group (key management indicator) and single entity. However, there remains the important task of retaining qualified staff at HSH Nordbank in order to secure key competences and limit operational risk.

Reconciliation of the number of employees between the IFRS Group and the HGB single entity is performed to explain the net assets, financial position and earnings of the single entity and for the forecast report of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

Opportunities and risks in the forecast for administrative expenses

Opportunities

HSH Nordbank is confident that the savings targets set will be achieved. These targets may also be exceeded if the measures are implemented consistently and additional savings are identified. Successful implementation of the programme would make a substantial contribution to increasing the efficiency of the Bank on a sustained basis.

The individual measures implemented, such as the organisational changes and the extensive adjustments in the IT area, will be continuously reviewed as part of the measures controlling process to ensure the successful implementation of the cost plan.

Also with regard to the expected reduction in the number of employees the Bank is assuming that measures initiated to reduce costs will be implemented successfully.

Risks

If the cost-saving measures are not implemented as planned, it cannot be ruled out that some costs cannot be reduced to the extent desired or not as quickly as planned. Unexpected cost increases in individual divisions could offset any cost reductions achieved in other areas.

It cannot be excluded that the reduction in headcount associated with the measures is not implemented as planned or results in higher operational risk. The risk of losing key expertise may also be increased as a result of the personnel measures taken.

Furthermore, the constantly increasing regulatory requirements could result in higher expenses than expected.

Forecast for loan loss provisions

HSH Nordbank expects that further loan loss provisions will be required for the legacy portfolios in 2015, although the amount should be lower than in 2014. In 2015 the focus of loan loss provisions will continue to be on problem shipping loan commitments in the Restructuring Unit and the Core Bank. HSH Nordbank's other core business fields should only require a relatively low level of loan loss provision expense in 2015 in view of the stable developments.

The currency translation gain or loss to be recorded in loan loss provisions of the IFRS Group is strongly influenced by the movement in the EUR/USD exchange rate and would have a significant impact on loan loss provisions before compensation under the second loss guarantee on an increasing weakness of the euro, although the effect of the exchange rate movement will be gradually reduced accordingly by the further reduction in the US dollar legacy portfolios.

If the currency translation relates to guaranteed portfolios, it is compensated for by the guarantee. For foreign exchange positions held in portfolios not covered by the guarantee hedging instruments continue to be used.

Loan loss provisions to be recognised for legacy portfolios will still be largely compensated for by the guarantee in 2015. The reversal through profit and loss of additional premiums resulting from the temporary debt waiver of the guarantors in particular will have a positive effect. This is recognised in accordance with the guarantee structure to ensure a CET1 capital ratio of 10% (capital protection clause).

Overall, it is expected at IFRS Group level (key management indicator) that the reduction in the loan loss provisions will be lower than in the previous year due to a lower compensation effect under the guarantee, including a lower debt waiver, both in the Core Bank and in the Restructuring Unit.

The reduction in the item Loan loss provisions/valuation at single entity level is expected to be stronger than in the previous year.

A reconciliation of IFRS Group loan loss provisions and the HGB single entity loan loss provisions is performed to explain the net assets, financial position and earnings of the single entity and for the forecast report of the single entity. Please refer to the "Management system" section in the part "Reconciliation" for more details.

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

In long-term risk provisions HSH Nordbank is still assuming that the payment defaults in the portfolio covered by the second loss guarantee will exceed the amount retained by the Bank of € 3.2 billion starting from 2019 and will then result in actual payments being made under the second loss guarantee. After deducting the amount retained by the Bank, the expected drawdown of the guarantee based on current estimates totals € 2.1 billion by 2025 and is therefore € 0.5 billion higher over the long term than previously expected.

This is mainly attributable to the expected movement in the EUR/USD exchange rate in the planning period and the reduced charter rate forecasts. This has an effect on the amount of the expected payment defaults, as the existing loan loss provisions for the guaranteed portfolio are partially held in US dollar. The largest share of the expected payment defaults is attributable to the Restructuring Unit's portfolios.

The loan loss provision plan is based on valuation models that also take into account the regulatory environment, risk parameters over time as well as the Bank's empirical values in critical situations in addition to portfolio developments and key macroeconomic data. In addition, a key driver of the amount of loan loss provisions is also the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of an individual valuation allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of a specific loan loss provision based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy and in particular HSH Nordbank's willingness to continue to finance problem loans, with the aim of achieving the planned significant potential for the reversal of impairment losses in the future. Details on the loan loss provision plan and expected payment defaults are set out in the "Default risk" ("Planning for loan loss provisions and losses") section in the "Risk report".

Opportunities and risks in the forecast for loan loss provisions

Opportunities

A lower need for loan loss provisions could be expected, if the relevant market parameters and the macroeconomic environment developed more favourably than assumed. It is conceivable that the world economy could grow more strongly in 2015 than forecast, which in turn could support a gradual recovery of the shipping markets.

The speedy winding down of the loan portfolios in the Restructuring Unit could reduce loan loss provisions in the future to a greater extent than expected.

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

Risks

Estimates regarding the long-term trend in loan loss provisions as well as loss planning and, consequently, the final drawdown of the second loss guarantee are subject to considerable uncertainty due to the very long planning horizon. This applies in particular to the movement in the 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.

In view of the existing or increasing overcapacity in the shipping markets, also due to low liquidity costs, it cannot be ruled out that the extent and timing of the market recovery and the recoverability of individual commitments may not be achieved in the planning period as assumed in the loan loss provision plan. In the long term, this could have a significant impact on the total expected payment defaults and thereby on the drawdown of the guarantee.

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

A sharper than planned depreciation of the EUR/USD exchange rate would tend to increase the amount of expected payment defaults, as the loan loss provisions for the guaranteed portfolio are partially held in US dollar.

It can also not be ruled out that the euro sovereign debt crisis in Europe will flare up more strongly again, which could lead to a weakening in the Bank's relevant markets. This in turn could result in additional impairment losses having to be recognised in the Bank's high-risk portfolios. Market turbulence in emerging countries as well as geopolitical risks, such as those surrounding Russia and Ukraine, could have a negative impact.

Unscheduled losses may be incurred, if additional assets were to be sold in an unfavourable environment as part of the targeted acceleration of the reduction of risk or the recovery strategy, particularly the Bank's willingness to continue to finance problem loans, is changed. A change in the recovery strategy and, as a result, the recognition of loan loss provisions based on the assumption of the resolution of loan commitments would restrict the recognition of planned future reversals of loan loss provisions due to the planned recovery in the shipping markets.

Other charges would result if the alternative structural solutions for the portfolio were not implemented as planned.

Capital and RWA forecast

The results of the ECB's comprehensive assessment showed that the Bank has a solid capital position and that the guarantee is achieving the intended compensation effect. HSH Nordbank is assuming that the capital ratios will also be at a solid level in 2015. As part of the gradual implementation of Basel III HSH Nordbank expects to be able to again disclose at the 2015 year-end a regulatory CET1 capital ratio in the IFRS Group (key management indicator) of 10% plus a buffer under the guarantee at Group level as well as at the level of the single entity – both under the applicable Basel III transitional rules (phase in) as well as under the assumption of full implementation of the Basel III rules (fully loaded) – despite the increased requirements. This demonstrates that HSH Nordbank is well prepared for any additional regulatory capital requirements in the current year, for example as a result of the Supervisory Review and Evaluation Process (SREP) in the Banking Union.

RWA in the IFRS Group (key management indicator) are influenced primarily by the increase in new business, winding down of portfolios in the Restructuring Unit and movement in the US dollar The amount of the guarantee facility also affects the RWA under the guarantee. Overall, HSH Nordbank expects that the increase in new business will have a slightly stronger impact than the further reduction in the portfolios. HSH Nordbank is therefore assuming for this year a slight increase in RWA after the guarantee effect for both the Group and the single entity.

Separate forecasts are not prepared for the CET1 ratio and RWA at the HGB single entity level.

A key objective of HSH Nordbank is to reduce the guarantee facility of € 10 billion against the backdrop of the ongoing winding down of the troubled assets on the balance sheet and high premium expense for provision of the guarantee. Gradual reductions up to 2017 are included in the planning period that take the progress made in winding down the high-risk legacy portfolios and the risk situation into consideration.

Opportunities and risks in the capital and RWA forecast

Opportunities

Opportunities for capital ratios and RWA result primarily from favourable trends in the relevant market and risk parameters, the speedy reduction in risk in the Restructuring Unit and a positive outcome of the EU proceedings.

Despite fluctuations in the EUR/USD exchange rate a stable CET1 ratio is expected for 2015 based on the assumed exchange rates. This is attributable to the additional premium buffer and the additional guarantee buffer resulting from the difference between the regulatory minimum risk weight and the significantly lower calculated risk weight, which together give rise to a protection effect for the capital ratio even on larger movements in exchange rates.

Reductions of the guarantee facility could occur at a later date than currently planned if this is required by the risk or capital situation. This would provide a relieving effect for RWA and strengthen the capital ratios.

A more extensive reduction in troubled assets and portfolio adjustments could enable HSH Nordbank to offset any higher capital requirements or reduce the guarantee facility even more in the planning period, if this were to be compatible with the capital and risk situation, for instance with regard to the US dollar trend and expiry of the guarantor's liability (Gewährträgerhaftung).

Risks

Material risks for the capital ratios and RWA result from a potential deterioration in market and risk parameters including the exchange rate trend, a lower than planned reduction in portfolios and the regulatory environment.

It can be expected that additional and changing capital requirements will result from the future SREP process in the Banking Union, given the fact that individual capital ratios have already been assigned to banks, including HSH Nordbank. The capital ratios may also be adversely affected by discretionary decisions made by the supervisory authorities.

The forecast of the medium-term CET1 ratio is also based on the assumption that the operation of the guarantee structure remains unchanged under the regulations currently applicable to securitisations. Any tightening of the regulatory securitisation framework under Basel 3.5, which is expected to be in force from 2018 onwards, may significantly reduce the effectiveness of the guarantee.

The movement in the EUR/USD exchange rate has a marked effect on the RWA trend. A lower than planned exchange rate would tend to reduce the protection effect of the guarantee buffer, as RWA would increase.

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

Funding forecast

Since HSH Nordbank fully achieved its overall refinancing objectives in the past year, the Bank is assuming that its diversified funding strategy will also be successfully implemented in 2015. The Bank's asset business will continue to be refinanced primarily by providing bond products for the client business of savings banks and also increasingly for other financial institutions as well as through the placement of bonds with institutional investors and the deposit business transacted with the Bank's corporate clients.

The funding plan is based on access to the relevant markets including the German Savings Banks Association and other financial networks as well as on a stable rating.

Another focus is on the issuing of covered bonds (Pfandbriefe) as private placements as well as on the public sector capital market, to the extent permitted by market conditions.

An additional form of potential funding is asset-based transactions, to which HSH Nordbank attaches great importance especially for the refinancing of the US dollar asset business.

The expiry of the guarantor's liability at the end of 2015 will pose a special, structural challenge. The significant volume of issues (€ 19 billion) covered by the guarantor's liability (Gewährträgerhaftung) that fall due in the period up to 2016 is to be continued to be refinanced on the one hand as planned via funding measures as part of the defined strategy and will be offset on the other by the ongoing reduction of the assets of the Restructuring Unit.

In this respect, HSH Nordbank has improved its liquidity structure in the past year. Starting from a high level HSH Nordbank expects the regulatory liquidity ratio as defined in the Liquidity Regulation (LiqV) to decrease moderately in the full year 2015 as part of the liquidity management process. At the same time the ratio is expected to be well above the required minimum values at all times. The movement in the EUR/USD exchange rate has a greater impact on the liquidity position. The current low exchange rate of EUR/USD 1.10 is reflected in the plan for 2015.

Opportunities and risks in the funding forecast

Opportunities

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

Access to capital markets which is currently not unlimited, would improve significantly by the expected positive outcome of the EU proceedings, since this would eliminate a significant factor of uncertainty. This is also of key importance for assessments made by the rating agencies. Like this, ratings that are continued to be confirmed as investment grade would significantly underpin the implementation of the funding targets.

Stable access also in unfavourable market conditions to refinancing sources that are not dependent for the most part on the performance of the capital markets such as the German Savings Banks Association and other financial networks as well as to secured refinancing sources such as Pfandbriefe and asset-based funding, which is also important for refinancing US dollar business, is paramount.

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

Risks

Should tensions in the financial markets, which may be caused by a wide range of factors such as geopolitical conflicts, increase again, this would tend to make funding measures more difficult. For example, a more restrictive central bank monetary policy originating from the USA could significantly limit the refinancing options and increase funding costs. Lastly, despite the refinancing successes achieved in the past year, there is no unrestricted access to the capital markets which is particularly due the fact that the EU proceedings have not yet been concluded.

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

Potential rating downgrades, which cannot be ruled out in view of the renewed scrutiny by Moody's and Fitch due to regulatory changes of numerous banks in Europe, including HSH Nordbank, would make it more difficult to take up funding through the capital markets and also trigger outflows of funds and increase the costs of funding. A rating downgrade by Moody's would result in a rating outside investment grade.

Most of the assets denominated in foreign currency are refinanced via derivatives (for example via EUR/USD basis swaps). An appreciation in the US dollar results in an increase in the cash collateral to be provided and therefore in pressure on the liquidity situation under similar conditions. In the event of an unfavourable exchange rate trend below the planned rate the Bank would have to take additional action to ensure an adequate liquidity position.

The Bank has prepared a series of options for this eventuality, which include, on the one hand, additional funding measures and, on the other, target a sharper reduction in the assets to be refinanced, for instance through the sales of loans and securities and reducing the expansion of new business. These possible measures could have a negative impact on earnings.

It is essential that the planned funding measures be implemented and that the balance sheet can be further reduced as planned in order to offset the issues covered under the guarantor's liability (Gewährträgerhaftung) that are falling due until 2015. In the worse-case scenario balance sheet assets would have to be reduced further at short notice, which could result in unscheduled losses.

The regulatory liquidity ratio of the German Liquidity Regulation (LiqV) would deteriorate as a result of, for example, a decrease in the short-term deposit volume regardless of conscious control decisions taken. Additional liquidity requirements could arise under the ECB's SREP process.

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

EU state aid proceedings

Since HSH Nordbank passed the comprehensive assessment, HSH Nordbank has focused particularly on the positive and speedy conclusion of the EU proceedings regarding the replenishment of the guarantee facility. The replenishment of the second loss guarantee from € 7 billion to € 10 billion executed by the federal state owners in June 2013 against the backdrop of changed underlying conditions and future regulatory requirements were provisionally approved by the EU Commission. This guarantee measure has considerably strengthened the Bank's CET1 capital ratio and made a decisive contribution to passing the stress test in the ECB's comprehensive assessment. The ECB and EBA fully recognised the second loss guarantee of € 10 billion for the purposes of the comprehensive assessment.

The provisional approval of the replenishment of the guarantee facility and change in the guarantee agreement is valid until the final decision of the EU Commission is issued. Whilst, in the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein as well as HSH Nordbank, the guarantee measure is in line with the framework, under which the provision of the guarantee to HSH Nordbank was approved by the EU Commission in 2011, the latter considers the replenishment of the guarantee facility to be new state aid that requires an assessment to be made of the updated corporate plan in the current market and competitive environment of HSH Nordbank.

Since the successful conclusion of the comprehensive assessment of the ECB discussions between the Management Board of the Bank and the Supervisory Board and the majority federal state owners, Schleswig-Holstein and Hamburg, as well as with the EU Commission are pursued intensively. These go beyond the Bank's current plan and address further structural measures, the aim of which is to improve the sustainability and resilience of the business model against the backdrop of the expected market and competitive conditions and to ensure final approval by the EU Commission of the replenishment of the guarantee. The objective upon conclusion of the EU state aid proceedings is to establish HSH Nordbank as a structurally profitable bank in the market, which can effectively meet current requirements regarding the building up of capital from its own resources.

The restructuring of the guarantee in order to thereby ease the burden on the expense side of HSH Nordbank's income statement and strengthen the capital base is one of the structural measures discussed with the EU Commission and the Bank's federal state owners. The objective is therefore to reduce the amount of the guarantee fees to an appropriate level in the future more in line with the continuing reduction of risk and not only by the planned gradual reduction of the guarantee facility. It is important to note in this connection that HSH Nordbank has already provided substantial compensation for state aid since 2009, which includes, in addition to the premiums paid to the guarantors, the reduction of total assets and discontinuation of business fields in accordance with the conditions imposed.

A further objective is to amend the existing guarantee agreement to facilitate the future reduction or restructuring of the troubled assets. Portfolio adjustments could be made that allow the Bank to reduce risk even more sharply. In this context, particular focus is placed on the shipping portfolio, which accounts for a large part of the remaining troubled assets.

HSH Nordbank should be prepared with the measures described for further increases in capital and liquidity requirements set by the new Supervisory Review and Evaluation Process (SREP) in the Banking Union.

The measures presented that serve to relieve the income statement as described above and/or to strengthen the capital base are supported by the federal states taking due account of their financial interests and actively discussed in the ongoing discussions with the EU Commission. Their implementation requires the consent of the Hamburg City Parliament (Bürgerschaft) and the Schleswig-Holstein Parliament.

In view of the tangible progress made in implementing the business model, rigorous implementation of the EU conditions, including the repayment of state aid in the form of the guarantee premiums paid as well as the recognition of the total amount of the guarantee in the ECB's comprehensive assessment, HSH Nordbank is generally confident that the EU proceedings can be brought to positive conclusion taking the further structural measures into account. HSH Nordbank is seeking final approval by the end of the first half of 2015, whereas the time frame is set solely by the EU Commission.

Opportunities and risks in the EU state aid proceedings

A successful conclusion of the EU state aid proceedings would end a period of uncertainty regarding the outcome of the proceedings for HSH Nordbank employees, clients and capital markets participants. At the same time this would make it possible for the Bank to continue to successfully implement its business model in order to be able to exist in the challenging market environment on a sustained basis.

In the event that the outcome of the EU proceedings should not be positive for HSH Nordbank, this would significantly jeopardise the further implementation of the business model and thereby the Bank's future prospects.

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

Net income forecast and overall appraisal

With the market successes achieved in the Core Bank, the ongoing winding down of troubled assets in the Restructuring Unit and increased cost savings HSH Nordbank has created an important base for further development. Over and above the Bank's current plan the objective is to implement further structural measures to improve the sustainability and resilience of the business model and Group earnings against the backdrop of the market and competitive conditions to be expected and to secure the final approval of the replenishment of the guarantee by the EU Commission.

Major challenges and uncertainties arise primarily from the ongoing difficult situation in the shipping industry, pending final approval of the replenishment of the guarantee facility within the EU state aid proceedings, changing assessments made by the rating agencies as well as structural challenges in the areas of capital and funding.

These give rise to corresponding uncertainties regarding the achievement of the forecast developments. HSH Nordbank is confident that it will further develop the Bank on a forward-looking basis in line with its demanding plan and be able to meet the challenges facing it.

The expected operating progress made on the income and cost side will make a considerable contribution to strengthening HSH Nordbank. Net income before taxes in the IFRS Group (key management indicator) will also be characterised in 2015 by the loan loss provision trend. It is expected that the debt waiver in particular will have a considerably lower relieving effect than in the previous year. It is nevertheless expected that the Core Bank will generate a significantly improved net income before taxes due to the advanced implementation of the business model. HSH Nordbank is assuming a significant net loss before taxes for the Restructuring Unit due to the lower amount of relief provided by the debt waiver and further reduction in the portfolios. A positive net income before taxes, albeit significantly lower compared to the high pre-tax income for 2014, is again planned for the Group based on these developments.

Return on equity for the Core Bank (key management indicator) calculated on the basis of the planned net income before taxes increases significantly, whilst a substantial decrease is expected for the Group (key management indicator) after the increase in the year 2014. The operating progress made on the income and cost side will be reflected in the cost-income ratio (key management indicator). A significant improvement in this ratio is expected for the Core Bank, whilst the ratio for the Group should improve slightly.

Following the substantial loss incurred in 2014 a slightly positive profit before taxes is expected for HSH Nordbank AG in 2015 based on HGB accounting standards. After taking the expected tax expense into account a close to breakeven result after taxes is expected.

Reconciliation of IFRS Group net income before taxes and the HGB single entity net income before taxes is performed to explain the net assets, financial position and earnings of the single entity and for the forecast report of the single entity. Please refer to the “Management system” section in the part “Reconciliation” for more details.

Based on current estimates it will be possible to replenish hybrid capital, which has been reduced by accumulated loss participations, by 2017. Against this backdrop it is expected that coupon payments on silent participations and profit participation capital will be paid again for the 2017 financial year. Risks in this respect remain from the pending conclusion of the EU proceedings. In addition, HSH Nordbank's plan needs to be implemented as intended and the risks described in this Management Report do not materialise.

Overall, HSH Nordbank is confident that a sustainably profitable business model can be established on the basis of the continuation of the successful client business, the restructuring measures initiated and targeted structural adjustments, which will enable the Bank to meet future capital requirements from its own resources.

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

RISK REPORT

RISKS WITHIN HSH NORDBANK GROUP

As the presentation of risks relevant to HSH Nordbank cannot be meaningfully separated for individual legal entities, we consider below the risks of the Group, i.e. of HSH Nordbank AG as well as subsidiaries identified as relevant for purposes of risk management.

RISK MANAGEMENT SYSTEM

Principles of risk management

Active risk management represents a core component of the overall bank management at HSH Nordbank. The current version of the Minimum Requirements for Risk Management (MaRisk) laid down by the Supervisory Authorities serves as the main framework for the design of our risk management system.

HSH Nordbank defines risk as the threat that unfavourable future developments may adversely affect the Bank's assets, earnings or financial position.

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

Risk management objectives and the measures used to achieve these objectives are defined in the risk strategy and sub-risk strategies on the basis of the planned development of the main business activities. The main focus is on ensuring the risk-bearing capacity and liquidity of the Bank. Specifically, this involves the allocation of scarce resources such as risk coverage potential and long-term liquidity taking into account risk tolerance, strategic business goals, the market environment and the existing portfolio. The risk strategy is supplemented by guidelines for granting loans (Credit Standards) and Investment Guidelines which contain detailed rules and regulations concerning the individual business areas of HSH Nordbank.

The major rules on the methods, processes and internal organisation used for risk management are documented in the Credit Manual of HSH Nordbank, in separate process descriptions for the individual risk types as well as in individual illustrations of the internal organisation and are published throughout the Bank.

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

Organisation of risk management

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

The Risk Committee of the Supervisory Board is responsible for reviewing HSH Nordbank's overall risk tolerance and strategy and supports the Supervisory Board in monitoring the implementation of this strategy. The Risk Committee is regularly informed of the Bank's risk position and risk management by the Management Board in meetings.

The responsibility for risk management of HSH Nordbank lies with the Management Board. This also includes the methods and procedures to be applied for measuring, managing and monitoring risk. As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling, including risk monitoring, as well as for the back office functions of the Core Bank. In detail this includes the divisions Group Risk Management, Credit Risk Management (I and II) as well as Loan and Collateral Management.

Group Risk Management develops the methods and tools for identifying, measuring, managing and monitoring risks and is responsible for a significant number of tasks of operative portfolio management.

Among the tasks of Credit Risk Management are the preparation of the credit risk analysis, including the determination of the internal rating and the drawing up of the credit application for normal and intensified loan management cases of the Core Bank as well as the structuring of the processes and regulations for the lending business of HSH Nordbank. Loan and Collateral Management is responsible for the settlement and administration of the lending business as well as for obtaining and ongoing valuation of loan collateral.

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

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

As an internal winding down unit of HSH Nordbank, the Restructuring Unit (RU) existing since 2009 is fully integrated into the Group's risk management process. The risk methods and processes of the Core Bank apply to the Restructuring Unit accordingly. The Restructuring Unit, which is established as a back office department in terms of organisational and operational structure, is responsible for the positions of business areas no longer of strategic importance and all restructuring activities of HSH Nordbank. It is in charge of preparing the credit risk analysis, including determining the internal rating and drawing up the credit application for the business assigned to it as well as for designing and documenting the processes for the securities, restructuring and workout business assigned to the Restructuring Unit. The Core Bank remains responsible for decisions on Core Bank restructuring cases.

Internal Audit reviews the effectiveness and appropriateness of risk management and of the internal control system.

The CRO and the board member responsible for the Restructuring Unit make decisions independently of the members of the Management Board responsible for the market or trading divisions. In this way the separation of functions required under the regulatory rules between the market and trading divisions on the one hand and risk controlling, settlement and control as well as back office on the other is taken into account at all levels of the Bank from an organisational perspective.

Business areas are managed in line with uniform Group standards on the basis of a global head principle. Based on this, the heads of the individual divisions as the respective Global Heads are responsible on a worldwide basis for the strategy of the business areas assigned to them and have the disciplinary responsibility for the employees active in their business area. The Global Heads are supported by the head of the respective foreign branch (General Manager) in the implementation of the strategy on-site in the foreign branches whilst maintaining the separation of duties in accordance with MaRisk. The General Manager is responsible for compliance with local legal and regulatory requirements. The global head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

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

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

Risk management by a central committee structure

The Management Board has established committees that support it in monitoring and managing all material risks. Besides the members of the Management Board the committees are composed of the heads of the risk and other departments in order to ensure that information regarding questions on risk is regularly exchanged. Insofar as internal or external regulations do not permit delegation of decisions to the committees, such decisions are prepared by these committees for approval by the Overall Management Board.

The Asset Liability Committee (ALCO) under the chairmanship of the Chief Financial Officer (CFO) is the central committee responsible for managing capital and liquidity resources. Its tasks include the management of capital, including limit management, as well as making decisions regarding measures for managing the short- and medium-term liquidity position and the strategic liquidity maturity transformation, among other things. This also includes the specification of internal liquidity transfer prices.

The Transaction Committee (TC) is a sub-committee of the ALCO. The utilisation of the resources liquidity, economic and regulatory capital as well as balance sheet volume at the level of material new transactions and principal prolongations is managed by the TC in terms of an active portfolio management process.

The Business Review Meeting (BRM), chaired by the Chairman of the Management Board and with the involvement of the other Board members as well as members of the management of the Bank, monitors on a quarterly basis the achievement of targets by the divisions with regard to new business, income and costs and discusses other general topics of strategic importance. The analysis is used as a basis for identifying any plan variances and initiating any possible measures at an early stage, such as the reallocation of income or cost targets.

The objective of the Group Risk Committee (GRC) is the monitoring and management of all significant risks to HSH Nordbank, in order to secure the risk-bearing capacity at all times, on the basis of the risk tolerance of the Bank. To implement this objective, the GRC under the chair of the CRO in particular deals with reports and analyses on the individual risk types, the results of the stress tests and methodical further development of the risk steering models.

The MaSan Committee formed in 2014 monitors the trend in recovery and early warning indicators defined in HSH Nordbank's recovery plan in accordance with MaSan (Minimum Requirements for the Design of Recovery Plans), performs an assessment of the overall financial situation and reports on this to the Overall Management Board. The objective is to enable the Management Board to take appropriate action if HSH Nordbank's situation deteriorates in order to ensure its financial stability.

The other key committees mainly include the Provisioning Meeting that deals with the loan loss provision trend and material loan loss provision cases (members: CRO, the chief representative (Generalbevollmächtigter, GBV) of the RU, heads of the relevant divisions), the NPNM decision-making committee (members: heads of the relevant divisions), the Project Portfolio Board (members: CFO, GBV of the COO division, heads of the relevant divisions), the OpRisk Committee (members: CRO, GBV of the COO division, heads of the relevant divisions), the Concentration Management Meeting (members: CRO as well as Management Board members/GBV and heads of the relevant divisions) and other committees of foreign branches.

Risk reporting and measurement systems

HSH Nordbank maintains a central data storage system, which takes into account supervisory requirements, for the purposes of analysing, monitoring and reporting risks. Risk reporting for the Restructuring Unit is generally carried out, as for the Core Bank, by means of the management and reporting systems of the Group Risk Management division. The risk management systems put in place ensure effective risk management and are adequate with regard to HSH Nordbank's profile and strategy.

The following key reports are prepared for the overall risk:

- The MaRisk Risk Report constitutes the core element of risk reporting to the Management Board and the Risk Committee. It is prepared quarterly and shows HSH Nordbank's overall risk position together with detailed information on the material risk types.
- Furthermore, the Management Board is informed monthly of HSH Nordbank's overall situation with respect to the key value drivers, especially income, costs, liquidity and risk in the Finance and Risk Report.
- The MaSan Committee and the Overall Management Board are informed of the development of the recovery and early warning indicators by way of regular MaSan reporting.

Other overall risk reports include the Disclosure Report under Part 8 of the Capital Requirements Regulation (CRR), the Risk Report in the Annual Report, the Solvency Report as well as the NPNM MaRisk Report. In addition to reports on the overall risk there are reporting tools based on the risk type, which are described in the following chapters.

Internal control system

Bank-wide internal control system

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

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

- prioritisation of (sub-)processes in accordance with inherent risk
- updating/collecting the process, risk and control documentation
- assessment of the appropriateness of the controls
- assessment of the effectiveness of the controls (testing)
- determination of measures to be taken with regard to weaknesses identified in the controls
- final assessment after implementation of the measures (re-testing)

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

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

In order to ensure that the system is functioning on a sustained basis, the process is closely monitored by means of continuous communication and governance throughout the Bank.

The bank prioritises the processes for running the control cycle annually based on their risk and their last cycle run. Approximately 73 % of the processes were prioritised for a run of the control cycle in 2014. It was possible to remedy all control weaknesses identified for these processes. The management of the outsourcing of material functions to external service providers by the ICS is reported to the Management Board on an annual basis. All defects reported as at 31 December 2013 in this regard were remedied on a timely basis.

Furthermore, subsidiaries of HSH Nordbank are classified annually as to the materiality of their respective processes for the Bank's ICS. The processes of all subsidiaries classified as material are integrated into the ICS management processes of the Bank.

Internal control system with regard to the accounting process

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

The accounting process is reviewed on a regular basis by the responsible member of staff in charge of the process and adjusted to the current framework conditions and requirements. The focus is on the identification of material risks and the implementation of measures to prevent these. In addition the accounting process is audited by the Internal Audit division from a process-independent perspective.

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

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

Regulatory requirements

HSH Nordbank determines the amount of regulatory capital backing required for default, market and operational risks as wells as for risks resulting from credit valuation adjustments (CVA) of OTC derivatives on the basis of the CRR. In this context the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. This means that the Bank takes consistent parameters into account for regulatory reporting and internal default risk management purposes. HSH Nordbank determines the amounts allocated to market risk positions in accordance with the predefined or optional standard procedures. HSH Nordbank takes account of operational risk under the standard approach. HSH Nordbank uses the standard method for CVA.

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

In accordance with the requirements of Part 8 CRR HSH Nordbank publishes material qualitative and quantitative information on equity capital and risks incurred in a separate Disclosure Report. As an institution that uses the IRB Advanced Approach, particular requirements apply to HSH Nordbank in this context. The document provides more information than statements made in this Annual Report on the basis of the accounting principles applied, as it provides a comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The Disclosure Report as at 31 December 2014 is available on our website, www.hsh-nordbank.de, about one month following publication of this Annual Report. With its publication HSH Nordbank complies with the third pillar of the Basel Accord (market discipline). The requirements regarding the disclosure of risk management objectives and policies in accordance with Article 435 (1) CRR and (2) (e) CRR are implemented in this Risk Report.

Risk-bearing capacity

HSH Nordbank has integrated a capital adequacy process (ICAAP) into its risk management pursuant to MaRisk in order to monitor and safeguard its risk-bearing capacity on a sustained basis. The management of the risk-bearing capacity takes place within the context of equity capital, risk and contribution margin management.

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. HSH Nordbank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

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

As at 31 December 2014, risk coverage potential amounted to € 7.7 billion (31 December 2013: € 8.7 billion). The main reason for the decrease is the maturity of subordinated liabilities at the end of 2015, which are no longer eligible as risk cover funds due to the low residual maturity.

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

Overall economic risk decreased by € 0.1 billion compared to the end of 2013 and amounted to € 2.8 billion as at the reporting date (31 December 2013: € 2.9 billion).

The utilisation of risk coverage potential amounted to 36 % as at the reporting date. The risk-bearing capacity was secured at all times during the period under review.

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

RISK-BEARING CAPACITY OF THE GROUP

(€ bn)	31.12.2014	31.12.2013
Economic risk coverage potential[1]	**7.7**	**8.7**
Economic capital required	**2.8**	**2.9**
of which for default risks[2]	1.5	1.5
for market risks	0.8	0.7
for liquidity risks	0.3	0.5
for operational risks	0.2	0.2
Risk coverage potential buffer	**4.9**	**5.9**
Utilisation of risk coverage potential (in %)	**36**	**33**

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

The risk tolerance of HSH Nordbank is determined as part of the annual preparation of the risk strategy and the Bank planning process. Amongst other things this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global limit). The buffer serves to cover any potential increase in the capital required in the event of adverse developments for HSH Nordbank as well as any non-quantified risks. The global limit and therefore the risk tolerance determined in the risk strategy were adhered to at all times during the course of the reporting year.

Stress tests

In addition to stress tests specific to risk types, we regularly conduct stress tests across all risk types in order to be able to better estimate the effects of potential crises on key parameters such as utilisation of the risk-bearing capacity, regulatory capital ratios and liquidity and thus HSH Nordbank's overall risk position. Both, integrated macroeconomic scenarios, such as a severe economic downturn, as well as historical scenarios are calculated in this connection. The results are incorporated in HSH Nordbank's internal reporting system every quarter and are analysed on a regular basis by the Management Board within the framework of an action-oriented management dialogue. Besides the review of the appropriateness of the buffer of risk coverage potential, regulatory capital and liquidity maintained to offset stress effects, this analysis serves to discuss the need for options to strengthen the financial stability of the institution.

The framework linked to HSH Nordbank's recovery plan under MaSan has a comparable objective. It serves both the purpose of the early identification of any resource bottlenecks using appropriate indicators and their elimination in crisis situations by means of predefined options. The effectiveness of the options identified, the selected recovery and early warning indicators and related processes are reviewed in the recovery plan by means of specific scenarios within stress analyses.

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, HSH Nordbank carries out inverse stress tests at least once a year to identify scenarios which could endanger the Bank's ability to survive. This information is also used by HSH Nordbank's Management Board to discuss and decide upon any action required to ensure that the Bank is adequately capitalised and has sufficient liquidity.

In addition to the stress tests across all risk types HSH Nordbank established procedures for the early identification of negative developments at the level of individual risk types, which are discussed in the following sections.

In November 2014 HSH Nordbank passed the Comprehensive Assessment carried out by the European Central Bank (ECB) prior to the establishment of the European Banking Union. The Bank exceeded the minimum capital ratios in both the Asset Quality Review and the stress test. Further information on the Comprehensive Assessment is set out in the section Business developments.

DEFAULT RISK

HSH Nordbank breaks down its default risk into credit, settlement, country and equity holding risk.

In addition to the traditional credit risk, credit risk also includes counterparty and issuer risk. The conventional credit risk is the risk of complete or partial loss in the lending business as a result of deterioration in the counterparty's credit standing. A counterparty default risk exists in the case of derivatives and refers to the risk that a counterparty defaults during the term of a transaction and HSH Nordbank must cover the shortfall for the residual term by means of a new contract on the market at the price prevailing at that time which might be less favourable. Issuer risk denotes the risk that a loss is incurred on a financial transaction as a result of the default or deterioration in the creditworthiness of the issuer.

Settlement risk consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due, have not been met by both parties. Advance performance risk arises where HSH Nordbank has performed its contractual obligations but consideration from the contracting party is still outstanding.

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

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

All elements of default risk referred to are taken into account within the context of equity capital management. For risk concentrations and equity holding risks additional management measures are in place.

Organisation of default risk management

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

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

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

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

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

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

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

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

Default risk management

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

Key default risk parameters are the expected and unexpected loss. The expected loss is equivalent to the default which is expected within one year on a given probability of default (PD), loss given default (LGD) and exposure at default (EaD) for a borrower. The EaD is the expected loan amount outstanding taking into account a potential (partial) drawdown of commitments and contingent liabilities, that will adversely impact the risk-bearing capacity in the event of a default. The maximum amount, by which an actual loss can exceed the expected loss with a specified probability (99.9%) within a specified time period (one year) is described as the unexpected loss. PD, LGD and EaD are also relevant risk parameters in this context. Economic capital required is determined for internal steering purposes on the basis of the calculation of the equity capital backing in accordance with CRR taking due account of any adjustments that are justified on economic grounds. In addition, institution-specific asset correlations, granularity surcharges for covering existing risk concentrations as well as surcharges for the CVA risk are taken into account in determining the economic capital required for default risks.

Economic capital required for default risks amounted to € 1.5 billion as at the reporting date after taking account of the second loss guarantee made available by the federal states of Hamburg and Schleswig-Holstein, and was almost unchanged compared to the previous year.

Rating procedures, LGD and CCF

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

HSH Nordbank uses rating modules for banks, corporate clients, international sub-sovereigns, country and transfer risk, insurance companies, leveraged finance, leasing and funds as well as for special financing for ships, real estate, projects and aircraft. These also use qualitative in addition to quantitative characteristics in determining the rating. The result is a probability at default (PD) for each borrower and hence an allocation to a concrete rating category. The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as EaD.

HSH Nordbank uses a differentiated LGD methodology for all rating procedures to forecast loss given default (LGD). Item-specific collateral recovery rates and borrower-specific recovery rates are estimated based on historic loss information. The respective default amount expected is determined from the EaD using the LGD.

As part of the annual validation process the predictive accuracy of the rating modules was reviewed in the reporting year with regard to the predicted probabilities of default using anonymous, aggregated data. In addition, the LGD and CCF processes were also validated and are being continually refined. All reviews have confirmed the full applicability of the models.

Risk concentrations

Within the framework of regular business segment analyses potential counterparty default risk concentrations, for example with regard to groups of connected clients (GcC), regions or industrial sectors in a broader sense, are identified and their systematic reduction is monitored. At the end of 2014 the material risk concentrations of HSH Nordbank were in the shipping portfolios of the Core Bank and Restructuring Unit which accounted for 23% of the overall portfolio as well as in the US dollar business which accounted for 34%. The shipping loan portfolios denominated in US dollars are included in both key figures.

An internal process, which reflects the regulatory requirements, was set up to monitor large exposure limits in accordance with Article 395 CRR. As a supplementary measure, the material counterparty concentrations in the portfolio are identified and reported quarterly to the Management Board and Risk Committee using risk-oriented parameters. Net rating-based upper limits are applied to new business to prevent future counterparty concentrations. Overdrafts under both procedures are discussed in the regular Concentration Management Meetings.

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

Equity holding risk

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

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

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

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

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

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

Default risk exposure

The figures in the following tables showing default risk exposure were converted from loan amount outstanding to EaD as the reporting date. For reasons of better comparability, the figures for the 31 December 2013 reference date were adjusted accordingly. The EaD corresponds to the volume of loan receivables, securities, equity holdings, derivative financial instruments (positive market values after netting) and off-balance-sheet transactions (taking credit conversion factors into account). The total loan amount outstanding was € 109,803 million as at 31 December 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 to 5) at Group level accounts for € 60,738 million or 55% of the total exposure (previous year: € 63,462 million or 55%). The loan amount outstanding for investment grade exposures amounts to € 46,690 million or 64% (previous year: € 46,802 million or 66%) for the Core Bank and € 14,048 million or 38% (previous year: € 16,660 million or 38%) for the Restructuring Unit. 48% of the Overall Bank portfolio is covered by the second loss guarantee (previous year: 54%). For the Core Bank a share of 29% is guaranteed (previous year: 34%) and for the Restructuring Unit 85% (previous year: 86%). At 92% (previous year: 91%) the share of the guaranteed portfolio is particularly high in the default categories 16 to 18.

DEFAULT RISK STRUCTURE BY RATING CATEGORY[1)]

(€ m)	**2014**				2013			
	Core Bank	Restructuring Unit	**Total**	of which guaranteed (in %)	Core Bank	Restructuring Unit	Total	of which guaranteed (in %)
1(AAAA) to 1 (AA+)	20,296	6,829	27,125	24	18,930	7,842	26,772	31
1(AA) to 1 (A–)	10,721	2,738	13,459	27	12,588	3,289	15,877	32
2 to 5	15,673	4,481	20,154	38	15,284	5,529	20,813	47
6 to 9	15,521	4,002	19,523	47	12,923	5,264	18,187	60
10 to 12	2,210	1,423	3,633	83	2,369	2,001	4,370	79
13 to 15	2,149	3,435	5,584	81	2,314	5,418	7,732	87
16 to 18 (default categories)	6,303	13,522	19,825	92	5,783	13,836	19,619	91
Other[2)]	395	105	500	–	603	670	1,273	–
Total	**73,268**	**36,535**	**109,803**	**48**	**70,794**	**43,849**	**114,643**	**54**

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

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

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

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	2014			2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Industry	8,095	1,597	9,692	7,558	2,293	9,851
Shipping	15,791	8,378	24,169	14,563	9,237	23,800
Trade and transportation	3,867	2,076	5,943	4,422	2,571	6,993
Credit institutions	8,993	1,397	10,390	9,716	2,486	12,202
Other financial institutions	2,884	5,988	8,872	2,948	7,720	10,668
Land and buildings	9,469	6,633	16,102	7,815	8,374	16,189
Other services	6,312	2,588	8,900	5,997	3,377	9,374
Public sector	16,963	7,196	24,159	16,181	6,825	23,006
Private households	894	682	1,576	1,593	966	2,559
Other	–	–	–	1	–	1
Total	**73,268**	**36,535**	**109,803**	**70,794**	**43,849**	**114,643**

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

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES

(€ m)	2014			2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Up to 3 months	11,872	3,373	15,245	9,843	3,588	13,431
> 3 months to 6 months	2,333	1,516	3,849	2,714	1,439	4,153
> 6 months to 1 year	3,882	3,240	7,122	4,200	2,603	6,803
> 1 year to 5 years	32,241	12,834	45,075	31,089	18,945	50,034
> 5 years to 10 years	17,529	7,104	24,633	16,661	8,047	24,708
> 10 years	5,411	8,468	13,879	6,287	9,227	15,514
Total	**73,268**	**36,535**	**109,803**	**70,794**	**43,849**	**114,643**

The following table provides an overview of the foreign exposure by region, which reached € 50,827 million as at 31 December 2014 (previous year: € 57,495 million).

FOREIGN EXPOSURE BY REGION

EaD (€ m)	2014			2013		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
Western Europe	15,229	13,772	29,001	15,906	17,338	33,244
of which eurozone countries	10,191	8,195	18,386	10,492	10,051	20,543
Central and Eastern Europe	1,083	465	1,548	1,098	543	1,641
of which eurozone countries	55	126	181	61	128	189
Africa	852	307	1,159	804	338	1,142
North America	5,636	5,083	10,719	6,675	6,323	12,998
Latin America	684	546	1,230	652	713	1,365
Middle East	56	949	1,005	64	868	932
Asia-Pacific region	3,178	2,046	5,224	2,772	2,411	5,183
International organisations	911	30	941	960	30	990
Total	**27,629**	**23,198**	**50,827**	**28,931**	**28,564**	**57,495**

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

Due to their unfavourable fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular Greece, Ireland, Italy, Portugal, Slovenia, Spain, Hungary and Cyprus. The exposure to Russia is also being monitored more closely as a result of the crisis concerning Ukraine.

The following table shows the EaD of the exposures in the European countries stated. HSH Nordbank's total exposure to these countries has decreased by 7% compared to the previous year and amounted to € 7,113 million in total as at 31 December 2014.

EXPOSURE AT DEFAULT IN SELECTED EUROPEAN COUNTRIES

(€ m)	Country		Banks		Corporates/Other		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Greece	6	7	–	–	1,224	1,118	1,230	1,125
Ireland	–	–	20	22	187	299	207	321
Italy	691	635	1	126	683	708	1,375	1,469
Portugal	270	266	3	3	51	58	324	327
Russia	–	–	6	8	128	102	134	110
Slovenia	90	90	–	–	16	18	106	108
Spain	211	216	134	534	1,592	1,660	1,937	2,410
Hungary	19	17	–	1	77	78	96	96
Cyprus	–	–	21	–	1,683	1,711	1,704	1,711
Total	**1,287**	**1,231**	**185**	**694**	**5,641**	**5,752**	**7,113**	**7,677**

The direct country exposure continues to be manageable. The commitments in the Corporates/Other sector for Greece and Cyprus relate primarily to ship financings, which do not entail transfer risk due to the existing collateral.

Note 72 includes more information on the selected European countries.

There is no exposure to Ukraine and there is no material exposure to Argentina, which has become the focus of public interest due to the current sovereign debt crisis.

Loan loss provisions

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

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

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

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

TOTAL LOAN LOSS PROVISIONS

(€ m)	**2014**	2013
Loans and advances to customers	65,787	65,586
Loans and advances to banks	7,473	5,810
Volume of impaired loans	14,954	15,525
Total specific loan loss provisions for loans and advances to customers	–6,109	–6,151
Total general loan loss provisions for loans and advances to customers	–399	–490
Total specific loan loss provisions for loans and advances to banks	–14	–125
Total general loan loss provisions for loans and advances to banks	–1	–9
Total loan loss provisions for balance sheet items	**–6,523**	**–6,775**
Provisions for individual risks in the lending business	–50	–107
Provisions for contingent liabilities (general loan loss provisions) in the lending business	–53	–62
Total loan loss provisions for off-balance sheet items	**–103**	**–169**
Total loan loss provisions (before compensation item)	**–6,626**	**–6,944**
Compensation item	4,145	2,911
Total loan loss provisions (including compensation item)	**–2,481**	**–4,033**

The loss rate in the Group increased to 0.93% in the reporting year (previous year: 0.61%). The loss rate is calculated based on the actually realised defaults as a ratio of the credit volume. The total amount of the actually realised defaults is calculated from the utilisation of the specific loan loss provisions plus direct write-downs less income from recoveries on loans and advances previously written-off. The total amount of actually realised defaults in 2014 was € 1,132 million (previous year: € 738 million) and the credit volume € 121,335 million (previous year: € 121,441 million).

Loan loss provisions for the Bank in the form of individual valuation allowances and provisions for default risks amounted to € –6,172 million in total as at 31 December 2014 (previous year: € –6,383 million). This corresponds to a ratio of 5.09% in relation to the credit volume (previous year: 5.26%). General loan loss provisions (including country-specific general loan loss provisions) amounted to € –454 million (previous year: € –560 million). Total loan loss provisions (including compensation item) amounted to € –2,481 million as at 31 December 2014 (previous year: € –4,033 million) due to the hedging effect of the second loss guarantee.

Planning for loan loss provisions and losses

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

In planning additions to individual valuation allowances HSH Nordbank mainly relies on models that simulate the expected loss at the individual transaction level over the planning period based on parameters specific to the transaction. Scenario analyses based on cash flows and historical data regarding changes in loan loss provisions based on the expected loss or migrations from portfolio valuation allowances to individual valuation allowances are also taken into account.

Utilisation and reversals of loan loss provisions are planned on the basis of a statistical model that determines the general probability of the case being closed in the loss, recovery and direct write-down categories, the average loss per category and the probability of the case being closed based on the length of time that a loan loss provision has been in place using historical loan loss provision and loss data and forecasts future losses. The model is recalibrated on a quarterly basis in line with the actual loss trend.

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

On this basis the payment defaults expected on the planned expiry of the guaranteed portfolio amount to a total of € 5.3 billion as the end of the year 2014, of which a first loss piece of € 3.2 billion remains with HSH Nordbank. Further details on the second loss guarantee can be found in Note 2.

A key driver of the amount of loan loss provisions is the breakdown of impaired loan commitments into “capable of recovery” (and therefore recognition of a specific loan loss provision based on the assumption of the continuation of the borrower’s business) or “not capable of recovery” (and therefore recognition of a specific loan loss provision based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a significant recovery in the shipping markets and the assumption of the continuation of the current recovery strategy, in particular HSH Nordbank’s willingness to continue to finance problem loans, with the aim of achieving the planned significant write-up potential in the future. Further information on the loan loss provision forecast and uncertainties associated with the long-term loan loss provision plan is set out in the Forecast, opportunities and risks report section.

Reports on default risk

The Management Board and Risk Committee are regularly informed regarding the risk content and future trend in the individual asset classes and sub-portfolios respectively by means of portfolio batch reports. In this context, particular importance is attached to risk concentrations.

Other regular reports on default risk include the capital and balance sheet assets limit utilisation report, problem loan report, new business and pipeline report, profit centre accounting, report on the rating validation results, rating migration report and the Solvency Report under CoRep (Common Solvency Ratio Reporting). These reports are supplemented with information on the monitoring and management of country risk.

MARKET RISK

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

Organisation of market risk management

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

Market risk was actively managed in the Capital Markets division in the year under review. The Strategic Treasury division performs the central management function for interest and foreign exchange risks in the banking book. The Asset Liability Committee is responsible for selected strategic positions exposed to market risk.

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

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

Market risk management

Market risk measurement and limitation

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

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

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

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

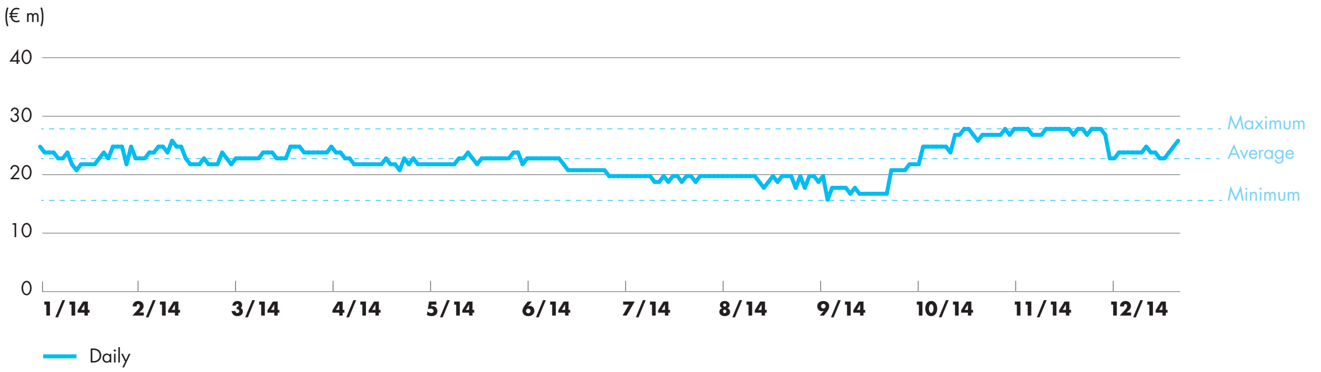
Market risks arising from the lending business and liabilities of the Bank are transferred to the trading divisions and taken into account in the corresponding risk positions. There they are managed as part of a proactive portfolio management process and hedged through external transactions.

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

Daily value-at-risk during the year under review

The following chart illustrates the movement in the daily VaR for the total trading and banking book positions of HSH Nordbank over the course of 2014.

DAILY VALUE-AT-RISK IN THE COURSE OF 2014



Market risk fluctuated between € 16 million and € 28 million. The key driver behind the reduction in the overall VaR in the first nine months of 2014 is the regular exclusion of volatile trading days from the historical simulation review period. The increase observed since October 2014 is attributable to the mapping of new volatile trading days in the historical simulation review period.

The VaR of the trading book positions amounted to € 1 million as at 31 December 2014, while that of the banking book transactions amounted to € 26 million. The overall VaR, which cannot be derived from the total VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 26 million as at the reporting date. This resulted in a limit utilisation of 74% based on a VaR limit of € 35 million.

The following table shows the change in overall VaR and the change in individual market risk types. The maximum and minimum represent the range over which the respective risk amount moved in the course of the year under review.

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]	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Average	9.1	30.6	18.4	31.5	11.3	7.2	2.3	3.2	0.2	0.2	22.7	28.8
Maximum	13.7	47.3	25.3	45.4	16.1	16.0	5.7	5.4	0.5	0.6	28.4	40.8
Minimum	6.2	7.4	15.3	19.0	8.0	2.2	0.8	1.3	–	0.1	16.2	19.9
Period end amount	12.1	7.4	18.4	19.2	9.9	12.2	1.1	4.3	0.1	0.2	26.0	26.0

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

Overall VaR remained virtually unchanged compared to the previous year's reporting date at € 26 million. With regard to the risk types there was an increase in the interest rate risk. The main reason for this is the mapping of new volatile trading days in the historical simulation review period.

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

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

The market risk that results on derivative positions from the change in the market's assessment of the creditworthiness of the counterparties is included for the first time in the VaR-amounts disclosed as at 31 December 2014. This did not have any material impact on the overall VaR.

Backtesting

HSH Nordbank performs regular backtests to verify the appropriateness of its VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecasted using historical simulation. Based on the assumption of the confidence level of 99% applied by HSH Nordbank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. In 2014 less than four outliers were recorded at the HSH Nordbank Group level at all times resulting in the quality of the Bank's market risk model being confirmed.

Stress tests

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

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

Instruments for managing market risk as part of hedge accounting

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

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

Reports on market risk

The Management Board is informed on a daily basis with regard to changes in market risk and results as well as limit utilisations and also receives detailed weekly and monthly market risk reports.

LIQUIDITY RISK

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

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

Liquidity maturity transformation risk refers to the risk that a loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge.

Organisation of liquidity risk management

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

The Group Risk Management division is responsible for the methods used to measure and limit liquidity risk within the Group and performs daily risk measurement and limit monitoring. The risk measurement results support Strategic Treasury in managing liquidity for all time buckets and enables it to counter possible risks at an early stage.

The ALCO is the central committee responsible for managing capital and liquidity resources. The utilisation of resources by material individual transactions is managed by the Transaction Committee in terms of an active portfolio management process.

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

Liquidity risk management

Measurement and limitation of liquidity risk

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

In addition to all on-balance-sheet business, loan commitments already granted, guarantees, transactions with forward value dates and other off-balance-sheet transactions are incorporated in the liquidity development report. Maturity scenarios are used for a number of positions to map economic maturities more effectively. In doing so any possible minimum levels of deposits as well as liquidation periods and realisation amounts of assets, for example, are modelled conservatively as a matter of principle. The modelling assumptions are regularly reviewed in accordance with MaRisk.

The liquidity potential available to close the gaps is composed of a securities portfolio held as a crisis precaution measure (liquidity buffer), further highly liquid and liquid securities, according to how liquid they are, unsecured funding options, secured funding potential from the issue of Pfandbriefe and industrial loans eligible for refinancing with central banks. In addition, the long-term funding potential from illiquid assets used as collateral is also taken into account. Most of the portfolio of securities and promissory notes is invested in liquid markets and can be liquidated via the refinancing channels, namely central banks, Eurex repo market, bilateral repo market or the cash market.

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

The liquidity-value-at-risk (LVaR) as a reflection of liquidity maturity transformation risk is calculated monthly through historical simulation (confidence level 99.9%) of the liquidity spreads and their present value effects on transactions, which would be necessary theoretically in order to immediately close the current maturity transformation position. In doing so, it is assumed that these hypothetical close-out transactions could actually be effected in the market and that full funding is therefore possible. LVaR limits are set at Group level and are part of the risk-bearing capacity concept.

Liquidity management

The short-term liquidity base and the regulatory liquidity ratios are operationally managed by the Capital Markets division based on general parameters specified by the Strategic Treasury division. In addition to the regulatory requirements the liquidity development reports are relevant amongst other things to determine these general parameters. Any setting of or change to the individual parameters or the framework requirements is decided by the ALCO. This places HSH Nordbank in the position to react flexibly to market developments.

The Strategic Treasury division bases its management of the medium-term liquidity base on the expected case liquidity development report, which includes the expected plan cash flows and is prepared for the over one year period.

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

Stress tests

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

Within the different stress modelling processes additional market-specific scenarios (e.g. severe economic downturn), institution-specific scenarios (e.g. rating downgrade of HSH Nordbank AG, capital market rumours) as well as a combined scenario (severe economic downturn and rating downgrade) are assessed for insolvency risk on a monthly basis in addition to the daily preparation of the stress liquidity development report. A stressed US dollar (gradual appreciation) is taken into account in the scenarios market liquidity crisis, severe economic downturn and the combined scenario.

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

Within the framework of a stress test for the liquidity maturity transformation risk it is analysed how the LVaR moves on increasing liquidity spreads. The stress LVaR serves as an indicator for the sensitivity of the LVaR to an increase in the spread/liquidity costs and constitutes an additional piece of management information.

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

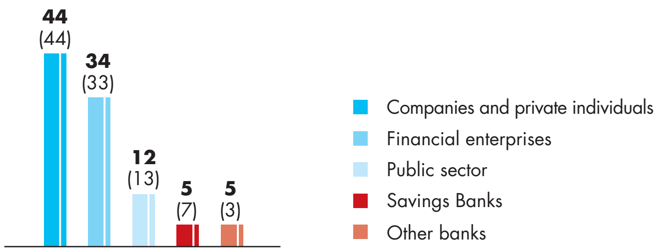
Risk concentrations

HSH Nordbank has established a monitoring system for managing concentrations of both asset and liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities) and deposit drain risk.

The following chart shows the structure of our deposits by sector:

DEPOSITOR STRUCTURE AS AT 31 DECEMBER 2014[1)]

% (previous year figures)



[1)] In addition to call and term deposits this illustration also includes demand deposits for the first time. For reasons of better comparability, the figures for the 31 December 2013 reference date were adjusted accordingly.

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

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

Quantification of liquidity risk

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 December 2014 as well as at the end of 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 (in %)	Normal case		Stress case	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013
1st day	22	12	28	16
7th day	29	26	42	36
14th day	32	30	45	40
3rd week	34	35	51	47
4th week	38	36	57	50
2nd month	45	51	72	71
3rd month	51	55	81	79
6th month	65	63	101	95
9th month	71	71	115	110
12th month	94	78	146	126

Risk tolerance of HSH Nordbank 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 that is based on the assumption of business development in an ordinary market environment, the liquidity potential had a peak utilisation of 94% in the 12th month as at the reporting date. All limits within the minimum survival period of 12 months defined by the Bank were thereby adhered to. The stress case liquidity development report (market liquidity crisis scenario – based on the assumption of a gradual increase in the US dollar, among other things) shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking Minimum Requirements for Risk Management (MaRisk) into account. In fact, the limits as at the end of 2014 are even adhered to for a period of five months. Compared to the end of 2013 there was no uniform trend in the utilisation levels in the normal case liquidity development report, whilst the utilisation ratios in the stress case liquidity development report increased across all maturity bands. The increase in utilisation in the 12th month is mainly attributable to the decreasing maturities of liabilities covered by the guarantor's liability (Gewährträgerhaftung). 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. Utilisation increased at the beginning of the year 2015 due to the appreciation of the US dollar against the euro, but did not reach a critical level.

The results of the market-specific and Bank-specific stress scenarios and the combined scenario determined in addition to the stress case liquidity development report show that as at December 2014 the liquidity requirement of HSH Nordbank was covered for four months up to 12 months despite the strict worst case assumptions for each scenario. A minimum survival period of one month is thereby maintained in all scenarios. The results show that HSH Nordbank is prepared accordingly for the crisis scenarios assessed.

In the year under review, the LVaR as an expression of the liquidity maturity transformation risk decreased to € 0.3 billion (31 December 2013: € 0.5 billion). The decrease is attributable to the elimination or reduction of long-term refinancing requirements as well as adjusted historical scenarios.

Regulatory liquidity ratios

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). With values between 1.82 and 2.15, HSH Nordbank's liquidity ratio remained above the regulatory minimum value at all times throughout the reporting year. The average value for 2014 was 1.96 (previous year: 2.06), and 1.99 at the reporting date (31 December 2013: 2.30).

Under Basel III the Liquidity Coverage Ratio (LCR) was specified as an additional ratio to ensure liquidity in an acute stress phase of 30 days. When calculating the LCR the amount of highly liquid assets is compared to the net outflows over the next 30 days. The ratio is to be complied with from October 2015, whereby the compliance rate increases from an initial 60% to 100% in 2018. As at the reporting date the LCR was 143% in the QIS (set of rules under Basel) and was therefore clearly above the future minimum limit.

The Net Stable Funding Ratio (NSFR), which must be adhered to from 2018 at the earliest, is calculated as the ratio of available funding resources across all maturities to the funding required and must also be at least 100% after full implementation. As at the reporting date the NSFR amounted to 96% in the QIS.

The LCR and NSFR figures are preliminary values.

Refinancing situation

The implementation of the funding strategy was successfully driven forward during the course of the year, resulting in the further strengthening of the liquidity profile. Besides the issuing activities a stable level of deposits contributed to the refinancing of the business. However, there exists no unrestricted access to the capital markets. This limitation is especially connected to the fact that the final decision concerning the new EU state aid proceedings is still pending. Future funding and HSH Nordbank's rating continue to be key challenges despite this positive development. The movement in the EUR/USD exchange rate is another influencing factor for the future liquidity situation. In the event of a sustained appreciation in the US dollar HSH Nordbank has prepared measures that, on the one hand, include additional funding activities and, on the other, aim at further reducing the asset volume to be refinanced.

Further information on HSH Nordbank's refinancing situation is set out in the Earnings, net assets and financial position and Forecast, opportunities and risks report sections.

Reports on liquidity risk

The CRO and divisions concerned are informed daily of the change in insolvency risk in the normal case and stress case. In addition, GRC and ALCO receive a liquidity risk report at least every month. In addition to the analysis of insolvency risk and maturity transformation risk in the normal case and stress case this includes an analysis of other stress scenarios, of liquidity risk arising on US dollar positions and depositor concentration risk.

OPERATIONAL RISK

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

Operational risks are determined in accordance with the regulatory standardised approach for the purposes of managing the risk-bearing capacity. The corresponding economic capital required amounted to € 0.2 billion as at 31 December 2014 (31 December 2013: € 0.2 billion).

Organisation of operational risk management

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

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

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

Operational risk management

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

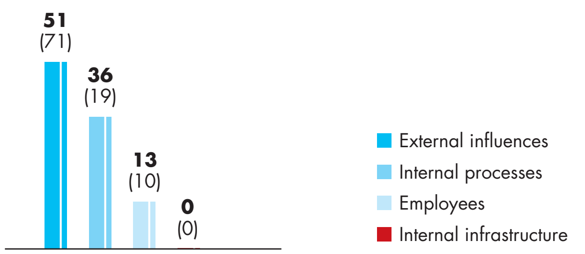
Loss event database

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

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

SHARE OF RISK CATEGORIES IN GROSS OPERATIONAL LOSSES 2014

% (previous year figures)



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

Risk inventory

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

Control of measures

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

Risk indicators

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

In addition to the methods mentioned above, specific procedures and responsibilities have been instituted within HSH Nordbank for the operational risk elements listed below.

Management of personnel risks

Personnel risk refers to the risk of losses that may occur as a result of the unplanned departure of key personnel of HSH Nordbank, shortage of skilled employees or poor motivation of employees. This risk could materialise particularly in light of the upcoming reduction in staff. The Human Resources division is therefore focusing increasingly on measures to reduce personnel risk. A large number of personnel management tools for employee retention are used to prevent the unscheduled departure of key personnel. In addition, headcount requirements are planned for a period of several years based on future operational needs to avoid bottlenecks by timely recruitment.

IT risk management

The IT division is responsible for IT risk management. In the IT strategy the division has defined as the primary objective of IT risk management to identify IT risks at an early stage, in order to be able to avert or reduce losses that may result, e.g. from an inadequate IT infrastructure on the basis of clear responsibilities. IT-specific risk tools are used by means of which risks are actively managed in projects and in the line functions and reduced by a monitored implementation of measures.

In 2014 IT risk reporting in the OpRisk committee was expanded. In addition it was possible to reduce IT risks further in the year under review by intensive project work.

Business continuity management

HSH Nordbank is exposed to risks arising from unforeseeable events such as severe natural disasters or terrorist attacks that may lead to an interruption of business operations and, as a result, losses and additional costs. Group Risk Management has established with the involvement of the relevant divisions processes to limit the risks arising from unforeseeable events. The objective of the business continuity plans to be prepared and periodically reviewed by each division is to ensure the functional capability of critical business processes and activities even in the event of an emergency. There are individual descriptions within the contingency plans to mitigate risks arising from the failure of IT systems and service providers and the shortfall of personnel.

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

Management of legal risks
Legal risks also fall under operational risks. Legal risks include economic risks arising as a result of non-compliance or incomplete compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law.

The Legal and Taxes divisions are responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff and external consultants.

HSH Nordbank recognised provisions of € 48 million (previous year: € 47 million) for litigation risks and costs as at the reporting date. In addition, contingent liabilities of € 41 million (previous year: € 41 million) arising from legal disputes are disclosed. A major portion of the provisions for litigation risks relates to the three legal proceedings mentioned below.

Since 2005 HSH Nordbank AG has been involved in legal proceedings with a Turkish shipping group and had to pay a total amount of 54 million US dollars in 2013 due to decisions of Turkish courts. The plaintiffs have now filed new claims under which damages are asserted based on the same facts. Appropriate provisions were recognised for this.

In a court judgement of 26 January 2015 HSH Nordbank AG lost a case against a Danish bank, which had sued HSH Nordbank AG for the repayment of a deposit plus interest. In this regard, HSH Nordbank AG recognised loan loss provisions of approximately € 13 million for the claim and approximately € 7 million for legal fees. The impact of the judgement has therefore been included in the consolidated financial statements. A review is currently being carried out to determine whether HSH Nordbank AG will file an appeal against the decision.

In addition, HSH Nordbank AG is being sued for damages in the amount of € 34 million by a service provider and is making a counterclaim thus far of approximately € 33 million in a cross-action.

Contingent liabilities relating to legal disputes result from several individual cases involving claims of up to € 9 million.

HSH Nordbank AG was also sued in January 2015 by a borrower for damages of approximately € 215 million. The underlying facts of the case had already been the subject of several court proceedings between the Bank and the borrower, in which the Bank has always succeeded before different courts apart from relatively small amounts. In the Bank's view, claims newly asserted by the borrower regarding the known facts of the case are unfounded. They do not contain any legally significant changes regarding the known facts and therefore do not provide any grounds for the previous legal assessment of this case to be revised. As the probability of success for the current legal action is assessed as small, no provision or contingent liability has been recognised.

HSH Nordbank AG recognised other provisions relating to legal risks in the amount of € 33 million on the basis of current German case law of the Federal Court of Justice (BGH) regarding the reimbursement of loan processing fees.

Tax risks are a component of legal risks and mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits have not yet been finalised for the years starting from 2003.

HSH Nordbank recognised provisions (including interest) totalling € 159 million (previous year: € 194 million) for tax risks as at the reporting date. A major portion of this relates to tax risks with respect to the tax audits (in connection with internal cost allocations to foreign entities, structured transactions, reimbursement of value-added tax on inputs, and risks resulting from the tax treatment of investment income).

There are also tax risks relating to the currently opposing view taken by the fiscal authorities regarding the deductibility of so-called final permanent establishment losses, which the Bank recognised in its 2012 tax returns in accordance with fiscal case law in connection with the closing down of the Copenhagen branch. A provision was not recognised for this, as it is currently considered to be highly probable that HSH Nordbank's interpretation of the law will prevail.

Management of compliance risk

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

The Compliance division is responsible for compliance risk management. Compliance with the different standards is also ensured by the respective divisions concerned. Compliance monitors adherence to strict codes of conduct with respect to the topics of capital markets compliance, prevention of money laundering, terrorism financing and other criminal offences in accordance with Section 25h KWG as well as compliance with financial sanctions and embargoes. In addition the division performs the compliance function as defined in AT 4.4.2 MaRisk and in this context strives to ensure that the essential legal regulations and HSH Nordbank standards are complied with.

The Code of Conduct summarises the requirements of different legal sources and internal guidelines. It applies to all employees, managers as well as the Management Board of HSH Nordbank AG and is a mandatory part of the target agreements. The behavioural requirements of the Compliance division are explained in detail in internal instructions.

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

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

Reports on operational risk

The OpRisk Committee under the chairmanship of the CRO receives a quarterly report regarding the development of the risk position, material loss events and management measures addressed. The Overall Management Board is informed once a year regarding the capital required, the loss event trend, and material loss events and loss potential as well as any measures required.

Material risk events are also reported on an ad hoc basis to the relevant Management Board member.

OTHER MATERIAL RISKS

Among other material risk types of HSH Nordbank are transformation risk and reputation risk.

Transformation risk

Transformation risk is the risk of a financial loss being incurred as a result of long-term decisions related to the performance of individual areas of business or the banking sector as a whole which are erroneous or based on incorrect assumptions and that could in particular place the whole ongoing restructuring process at risk. Should, for example, HSH Nordbank not be successful in identifying changes in markets relevant for it on a timely basis, this could have a negative impact on its competitiveness. Changes to laws and regulations or new regulatory requirements for instance could also jeopardise the implementation of HSH Nordbank's business model.

Transformation risk is managed via the periodic review and updating of the business strategy. The responsibility for the strategy rests with the Overall Management Board, while the Strategy division is responsible for the process. An action-oriented management dialogue, including on the strategic business objectives, is conducted during the year in the Business Review Meetings (BRM) that are held at least quarterly.

The strategic realignment of HSH Nordbank was successfully continued during the reporting year. It was possible to reduce the transformation risk further in the year under review by, inter alia, concentrating on the core business areas of the Bank in line with the conditions and commitments imposed under the EU decision, the continued separation and active wind-down of risk-bearing and non-strategic portfolios in the Restructuring Unit, the transfer of portfolios from our international locations to head office and the disposal of additional equity holdings.

The second loss guarantee was replenished to the original amount of € 10 billion as at 30 June 2013 following a partial cancellation in 2011 in order to comply with the increasingly strict regulatory conditions and the requirements of the capital markets concerning capital ratios in a sustainable manner. As the replenishment of the guarantee constitutes a case relevant under state aid law, the European Commission instituted new state aid proceedings. In the event that the outcome of the second EU proceedings is other than the expected positive decision for HSH Nordbank, this would significantly jeopardise the further implementation of the current business model and thereby the Bank's future prospects. Further information on the EU state aid proceedings are set out in the Forecast, opportunities and risks report section.

Reputation risk

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

Damage to reputation can be directly caused by the behaviour of internal staff, external stakeholders or by the social environment as a whole or indirectly in connection with another risk type. HSH Nordbank can suffer adverse consequences in both cases, for instance due to a loss of clients.

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

SUMMARY OF RISK ASSESSMENT AND OUTLOOK

The 2014 financial year was characterised by the continuing winding down of high-risk, non-strategic lending and capital markets transactions held in the Restructuring Unit portfolio as well as by the progress made in implementing the new “Bank for Entrepreneurs” business model.

The risk-bearing capacity of HSH Nordbank was maintained at all times during the year under review with a maximum utilisation of the risk coverage potential of 36%. The guarantee facility of € 10 billion as well as the ongoing winding down of risk positions as part of the implementation of the EU conditions made a positive contribution in this regard.

In November 2014 HSH Nordbank passed the Comprehensive Assessment carried out by the ECB prior to the establishment of the European Banking Union. The Bank exceeded the minimum capital ratios in both the Asset Quality Review and stress test.

There are still some challenges facing the Bank in particular with regard to risk concentrations in the shipping loan portfolios and the US dollar business of HSH Nordbank. The ongoing difficult conditions on the shipping markets had a particular negative impact in this regard.

The implementation of the new supervisory requirements will continue to be a focus of our activities in 2015. The Basel Standard 239 (BCBS 239) gives rise, for example, to comprehensive future requirements regarding the capacity to aggregate risk data including the IT architecture and risk reporting by banks, which are to be implemented as part of projects.

The risk and bank management systems described in this report are aligned to take account of risk on a systematic basis. This also applies to our expectations regarding future market and business developments. We believe that we have appropriately presented the overall risk profile as well as the opportunities and risks inherent in the future development of our business activities in the Forecast, opportunities and risks report section and in this Risk report in an appropriate and comprehensive manner.

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

In accordance with Section 312 of the Geman Securities Act (AktG), the Managment Board of HSH Nordbank AG ist obliged to submit a report on relations with affiliated companies (Dependent Company Report) for the financial year 2014.

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

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

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

Hamburg/Kiel, 24 March 2015

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

ANNUAL ACCOUNTS OF HSH NORDBANK AG

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2014

ASSETS

(€ k)	(Note)				**31.12.2014**	31.12.2013
1. Cash reserve						
a) Cash on hand				11,865		14,228
b) Balances with central banks				5,530,443		4,450,436
thereof:					**5,542,308**	**4,464,664**
with Deutsche Bundesbank		2,070,638				
	(previous year	1,593,460)				
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks						
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions				350,576		337,043
thereof: eligible for refinancing at the Deutsche Bundesbank		343,109		–		
	(previous year	330,156)			**350,576**	**337,043**
3. Loans and advances to banks	(5, 6, 22–26)					
a) Payable on demand				4,433,448		3,165,717
b) Other loans and advances				3,039,814		2,644,194
					7,473,262	**5,809,911**
4. Loans and advances to customers	(5, 6, 23–26)				**65,787,016**	**65,585,528**
thereof: secured by mortgages		12,076,541				
	(previous year	12,047,370)				
public-sector loans		6,761,184				
	(previous year	6,750,406)				
secured by ship mortgages		9,402,647				
	(previous year	8,449,084)				
5. Debentures and other fixed-interest securities	(8, 23–26, 28, 29, 37)					
a) Money market instruments						
aa) from other issuers			65,978			69,694
				65,978		
b) Bonds and debentures						
ba) from public-sector issuers			7,837,955			8,048,790
thereof:						
eligible as collateral at the Deutsche Bundesbank		7,220,147				
	(previous year	7,548,124)				
bb) from other issuers			10,174,280			12,482,346
thereof:				18,012,235		
eligible as collateral at the Deutsche Bundesbank		6,078,667				
	(previous year	7,569,536)				
c) Own debentures				2,690,085		2,811,354
Nominal value		2,679,389			**20,768,298**	**23,412,184**
	(previous year	2,806,016)				
To be carried forward					**99,921,460**	**99,609,330**

ASSETS

(€ k)	(Note)				31.12.2014	31.12.2013
	Carried forward				**99,921,460**	**99,609,330**
6. Shares and other non-fixed-interest securities	(8, 28, 29, 30, 37)				**299,131**	**336,543**
6a. Trading portfolio	(9, 27)				**9,440,930**	**9,052,437**
7. Equity holdings in non-affiliated companies	(14, 28, 37, 68)				**125,033**	**163,401**
thereof: in banks		42,257				
	(previous year	45,342)				
8. Interests in affiliated companies	(14, 28, 37, 68)				**622,826**	**1,550,951**
thereof: in banks		57,000				
	(previous year	57,000)				
in financial services institutions		206				
	(previous year	181)				
9. Trust assets	(31)				**8,706**	**12,652**
thereof: trust loans		8,706				
	(previous year	11,662)				
10. Intangible fixed assets	(15, 37)					
a) Industrial property rights acquired in-house and similar rights and assets				3,543		4,160
b) Licences, industrial property rights and assets as well as licenses to use such rights and assets purchased				12,727		15,879
					16,270	**20,039**
11. Tangible fixed assets	(16, 37)				**94,124**	**108,317**
12. Other assets	(32)				**206,435**	**394,851**
13. Prepaid expenses	(5, 18, 33)				**268,141**	**409,549**
14. Deferred tax assets	(17, 34)				**1,685,803**	**1,215,032**
Total assets					**112,688,859**	**112,873,102**

LIABILITIES

(€ k)	(Note)				31.12.2014	31.12.2013
1. Liabilities to banks	(18, 38–41)					
a) Payable on demand				1,253,662		1,126,172
b) With agreed maturities or notice periods				13,812,904		18,168,950
					15,066,566	**19,295,122**
2. Liabilities to customers	(18, 39–41)					
a) Savings deposits						
aa) with agreed notice period of three months			26,319			34,238
ab) with agreed notice period of more than three months			170			1,663
				26,489		35,901
b) Other liabilities						
ba) Payable on demand			13,570,053			10,934,413
bb) With agreed maturities or notice periods			32,325,617			32,213,314
				45,895,670		43,147,727
					45,922,159	**43,183,628**
3. Securitised liabilities	(18, 41, 71)					
a) Debentures issued				28,152,629		29,279,414
b) Other securitised liabilities				42,661		101,778
thereof:					**28,195,290**	**29,381,192**
money market instruments		42,661				
	(previous year	101,778)				
3a. Trading portfolio	(9, 42)				**8,884,520**	**6,902,733**
4. Trust liabilities	(43)				**8,706**	**12,652**
thereof: trust loans		8,706				
	(previous year	11,662)				
5. Other liabilities	(44)				**1,292,904**	**1,738,932**
6. Deferred income	(5, 18, 45)				**180,696**	**204,557**
6a. Deferred tax liabilities	(17, 46)				**1,032,094**	**348,160**
7. Provisions	(19)					
a) Provisions for pensions and similar obligations				720,737		686,697
b) Tax provisions				121,944		183,178
c) Other provisions	(47)			632,367		610,383
					1,475,048	**1,480,258**
8. Subordinated debt	(48)				**4,097,910**	**4,079,242**
9. Profit participation capital	(49)				**28,920**	**31,737**
thereof: maturing in less than two years		14,866				
	(previous year	16,314)				
10. Funds for general banking risks	(50)				**2,081,858**	**1,409,216**
of which special items under Section 340e (4) HGB		29,523				
	(previous year	29,523)				
To be carried forward					**108,266,671**	**108,067,429**

LIABILITIES

(€ k)	(Note)			**31.12.2014**	31.12.2013
	Carried forward			**108,266,671**	**108,067,429**
11. Equity capital	(51)				
a) Subscribed capital					
aa) Share capital		3,018,225			3,018,225
ab) Silent participations		1,227,394			1,298,486
			4,245,619		4,316,711
b) Capital reserves			488,961		595,804
c) Retained earnings Other retained earnings		–	–		317,877
d) Accumulated loss			–312,392		–424,719
				4,422,188	**4,805,673**
Total liabilities				**112,688,859**	**112,873,102**
1. Contingent liabilities	(63)				
a) Liabilities from guarantee and indemnity agreements				**4,518,937**	**4,243,223**
2. Other commitments	(63)				
a) Irrevocable loan commitments				**7,277,021**	**7,067,520**

INCOME STATEMENT OF HSH NORDBANK AG
FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2014

(€ k)	(Note)			2014	2013
1. Interest income from	(52, 53)				
a) lending and money market transactions		4,772,339			5,188,693
b) fixed-interest securities and book-entry securities		495,063			557,112
			5,267,402		5,745,805
2. Interest expenses			4,440,586		4,744,593
				826,816	**1,001,212**
3. Current income from	(53)				
a) shares and other non-fixed-interest securities			9,768		9,644
b) equity holdings in non-affiliated companies			11,757		12,051
c) interests in affiliated companies			69,995		67,936
				91,520	**89,631**
4. Income from profit pooling, profit transfer and partial profit transfer agreements	(52)			**-**	**12,699**
5. Commission income	(52, 54)		180,102		166,931
6. Commission expenses	(54)		572,919		488,771
				-392,817	**-321,840**
7. Net income/Net expenses from the trading portfolio	(52)			**-229,735**	**265,682**
8. Other operating income	(52, 55)			**155,763**	**221,453**
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		216,976			226,089
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		74,267			64,957
			291,243		291,046
thereof: for retirement pensions	43,937				
	(previous year 29,716)				
b) Other administrative expenses	(60)		318,250		352,882
				609,493	**643,928**
10. Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets				**14,613**	**16,448**
11. Other operating expenses	(56)			**247,341**	**189,176**
12. Depreciation and impairments on loans and advances and certain securities and additions to provisions in the lending business				**-**	**1,571,749**
13. Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business				**905,481**	**-**
To be carried forward				**485,581**	**-1,152,464**

(€ k)	(Note)			2014	2013
	Carried forward			485,581	-1,152,464
14. Additions to the fund for general banking risks				672,642	-
15. Reversals from the fund for general banking risks				-	652,382
16. Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets				18,455	136,707
17. Expenses from the transfer of losses				4,071	23,445
18. Profit on ordinary activities				-172,677	-386,820
19. Extraordinary income			50,581		19,421
20. Extraordinary expenses			124,932		71,995
21. Extraordinary result	(57)			-74,351	-52,574
22. Income tax expenses	(58)		184,049		142,415
23. Other taxes not shown under item 11			1,991		2,013
				186,040	144,428
24. Income from the assumption of losses	(59)			120,676	159,103
25. Annual net loss				-312,392	-424,719
26. Loss carried over from the previous year				-424,719	-390,515
27. Withdrawals from the capital reserve				106,842	-
28. Withdrawals from the retained earnings					
a) other retained earnings				317,877	390,515
29. Accumulated loss				-312,392	-424,719

NOTES FOR THE 2014 FINANCIAL YEAR

GENERAL INFORMATION AND NOTES

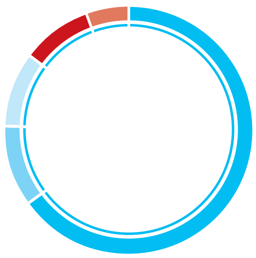
1. HSH NORDBANK AG AND ITS SHAREHOLDERS

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

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

HSH NORDBANK AG AND ITS SHAREHOLDERS

(%)



65.00 %	HSH Finanzfonds AöR
10.80 %	Free and Hanseatic City of Hamburg
9.58 %	Federal State of Schleswig-Holstein
9.31 %	Nine trusts advised by J.C. Flowers & Co LLC
5.31 %	Savings Banks Association for Schleswig-Holstein

2. PROVISION OF A GUARANTEE FACILITY

Basics of the effect of the second loss guarantee

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

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

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

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee case for the full amount. Since 2014 HSH Nordbank AG may cancel the guarantee in full.

In 2011 the guarantee was reduced by a total of € 3 billion to € 7 billion. The guarantee facility was replenished as at 30 June 2013 by € 3 billion to the original amount of € 10 billion. The guarantee agreement was adjusted by way of an appropriate amendment agreement. Under this agreement the fee provisions for the replenished guarantee remain essentially unchanged. However, a one-off payment of € 275 million for the re-increased amount became payable on the coming into force of the amendment agreement. Through this the guarantor is put in a position as if the guarantee had never been reduced. The one-off payment represents a fee for a time-related service and is amortised over the period of the expected benefit. In 2014 € 116 million (previous year: € 69 million) has been recognised through profit or loss in the commission expense line item. The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process, which will probably be concluded in 2015.

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 (both from an ex-post and ex-ante perspective) would have the effect of decreasing the Tier 1 capital ratio 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. According to the revised rules, the debtor warrant is subject to specific conditions. The obligation under the debtor warrant only arises if these conditions are met. A debt waiver was recognised as at 31 December 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 € 673 million.

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

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

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

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

If, during the restructuring and workout programme, measures consistent with the guarantee are implemented in respect of hedged commitments that conflict with recognition of the hedging instrument in the financial statements as a financial guarantee under IAS 39.9, commitments may be transferred to a partial guarantee Two under the framework agreement, subject to approval from the trustee appointed by the guarantor. The maximum guarantee amount is not altered by the revival of partial guarantee Two and the respective partial amounts offset each other. The hedging effect of the partial guarantee Two amounted to € 13.9 million as at 31 December 2014.

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

Accounting impact of the second loss guarantee in the 2014 financial year

The guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR which had a hedging effect for the first time as at 31 December 2010, amounted to € 5,028 million as at 31 December 2014 (previous year: € 4,147 million).

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion. Future expected fees (base and additional premium) for the second loss guarantee were recognised for the first time starting in the 2012 reporting year in loan loss provisions on the basis of this. These amounted to € 418 million at the end of the 2014 financial year and are offset against the compensation item. € 278 million (previous year: € 267 million) is attributable to the future additional premium (ex-ante additional premium) and € 140 million (previous year: € 192 million) to the future basic premium (ex-ante base premium).

The common equity ratio fell below 10% in the financial year 2014 with the effect that a debt waiver was recognised.

€ 5,028 million was initially offset in the loan loss provisions line item as at 31 December 2014. An additional premium of 3.85% p.a. was calculated on this amount for the period between 1 April 2009 to 31 December 2014 and an amount of € 1,130 million recognised as an expense in loan loss provisions (€ 360 million of which is attributable to the financial year 2014). In addition a claim for compensation of interest of € 8 million was determined. The future premiums of € 418 million (of which € 41 million is attributable to the 2014 financial year) were also determined. As settlement would be made on a net basis with HSH Finanzfonds AöR in the event of an actual drawdown of the guarantee, the compensation item and the attributable additional postings under the additional premium (ex-post and ex-ante), the claim for compensation of interest, the base premium (ex-ante) and the debt waiver are netted. After taking into account all components to be offset under the agreement, the compensation item in the loan loss provisions on the balance sheet is € 4,145 million (previous year: € 2,911 million). The corresponding compensation effect in loan loss provisions in the income statement amounts to € 1,246 million (previous year: € 132 million).

HEDGING EFFECT OF THE GUARANTEE ON LOAN LOSS PROVISIONS

(€ m)	**2014**	2013	**2014**		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	5,028	4,147	881	–	1,244	–
Additional premium ex-post	–1,130	–770	–360	–	–345	–
Debt waiver	673	–	673	–	–649	–3
Base and additional premium ex-ante	–418	–459	52	–11	–118	8
Claim for compensation of interest	–8	–7	–	–1	–	–4
Compensation under the second loss guarantee	**4,145**	**2,911**	**1,246**	**–12**	**132**	**1**

Since the 2009 reporting year the Bank has recorded premium expense totalling € 3,629 million for the provision of the second loss guarantee. € 2,733 million has been paid to date, of which € 1,958 million is attributable to the current base premium and € 775 million to one-off payments.

3. DEPOSIT GUARANTEE FUND, GUARANTEE OBLIGATION (GEWÄHRTRÄGERHAFTUNG) AND MAINTENANCE OBLIGATION (ANSTALTSLAST)

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

The transitional agreement reached in the understanding with the EU Commission dated 17 July 2001 on the expiration of the maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) mechanisms on 18 July 2005 also applies to HSH Nordbank AG pursuant to Section 2 of the treaty signed by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on 4 February 2003 concerning the merger of the predecessor institutions. Liabilities entered into on or before 18 July 2001 are therefore covered by the guarantee obligation, regardless of their maturities. The guarantee obligation similarly covers liabilities created after this date but before 18 July 2005 if they do not mature after 31 December 2015.

As previous owner of Landesbank Schleswig-Holstein Girozentrale, Landesbank Baden-Württemberg, Stuttgart is liable within the scope of the guarantee obligation described above for the liabilities agreed upon prior to its withdrawal effective 23 May 2003 and transferred to HSH Nordbank AG by way of the merger. Westdeutsche Landesbank, Düsseldorf, and/or its legal successor are liable for liabilities entered into before the expiry of the guarantee obligation.

4. ACCOUNTING STANDARDS APPLIED

We prepared the annual financial statements and the management report of HSH Nordbank AG as at 31 December 2014 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association – IDW.

ACCOUNTING AND VALUATION PRINCIPLES

Accounting and measurement are based on the assumption that the Bank is a going concern. The Bank's corporate planning as well as additional structural measures form the basis for the going concern assumption. Assessments, which form the basis for the corporate planning and in particular the planning for the movement in loan loss provisions over the long-term, the payment default plan and the resultant actual drawdown of the second loss guarantee, take information available to us at this point in time into account. These assessments are dependent on factors that are mostly outside the control of the Bank and are therefore subject to a significant degree of uncertainty. This applies, for example, to expectations regarding macroeconomic trends, exchange rates, freight and charter rates or changes in the regulatory framework. Furthermore, the very long planning horizon for the long-term loan loss provision planning is causing significant uncertainty. Additional assumptions, uncertainties, opportunities and risks of corporate planning as well as the structural measures are discussed in the Management Report in the section Forecast, opportunities and risks report.

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

5. LOANS AND ADVANCES

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

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

6. VALUATION ALLOWANCES AND PROVISIONS IN THE LENDING BUSINESS (LOAN LOSS PROVISIONS)

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

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

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

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

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

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

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

7. DETERMINING FAIR VALUE

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

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

The mark-to-matrix method is used to determine fair value where the fair value cannot be determined on the basis of market or transaction prices of an identical financial instrument. For this purpose, prices of comparable financial instruments or indices, which are representative for the financial instrument, are used as an alternative and adjusted where necessary.

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

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

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

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

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

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

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

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

8. SECURITIES

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

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

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

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

Interest resulting from the Bank's own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on securities held in the investment portfolio are allocated to Net income from financial investments (item 16 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 13 in the income statement).

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

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

9. FINANCIAL INSTRUMENTS HELD IN THE TRADING PORTFOLIO

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

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

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

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

For every year in which HSH Nordbank AG reports Net income for the trading portfolio, we will state 10% of such net income under the special item Funds for general banking risks (liability item 10). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or as far as the item exceeds 50% of the average of the past five years net income in the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expense of the trading portfolio. In the year under review we did not add items from the net income for the trading portfolio to the special item Funds for general banking risks.

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

We recognise credit derivatives held in the non-trading portfolio in accordance with IDW AcPS BFA 1 new version. The rules for loan collateral provided apply in principle to credit default swaps in which HSH Nordbank AG takes the position of a collateral provider and which are not allocated to a valuation unit within the meaning of Section 254 HGB. A provision is recognised in the amount of the negative fair value to take account of the default risk as at the reporting date.

As at 31 December 2014, accounting for internal derivatives resulted in interest income in the amount of € 2,123 million (previous year: € 2,242 million), interest expense in the amount of € 1,883 million (previous year: € 1,936 million), Other operating income of € 8 million (previous year: € 13 million) and Other operating expense of € 2 million (previous year: € 7 million). Reverse effects are reported in the Net income from the Trading portfolio.

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

To the extent a margin system is used in the case of financial instruments, the initial margin payments are recognised as assets or liabilities.

Variation margin payments in the trading portfolio are recognised for income purposes directly in trading portfolio net income or loss. Variation margins outside of the trading portfolio are recognised as assets or liabilities.

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

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

11. STRUCTURED PRODUCTS

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

12. HEDGE ACCOUNTING VIA VALUATION UNITS

We account for hedging relationships with regard to which the clear assignment of hedged items to hedging instruments is documented in a comprehensible manner in risk management as valuation units within the meaning of Section 254 of the German Commercial Code (HGB) in accordance with the IDW AcPS HFA 35, in cases where the requirements for the application of Section 254 HGB are met. Hedged items included in valuation units are assets and liabilities in the form of receivables, securities, liabilities as well as derivative financial instruments. Hedging instruments are derivative financial instruments. All types of market risks may be hedged. However, by far the largest share of valuation units has the purpose of hedging interest rate risk.

The clear assignment of the hedged item to the related hedging instrument, the determination of the risk hedged as well as the risk management strategy, information as to the prospective effectiveness and to the methods for determining effectiveness are documented for balance sheet hedging relationships. In addition, the intention to retain or the period of time for which the hedging relationship is to remain in place is included in the documentation. In principle, the intention is to maintain all hedging relationships for the full residual maturity of the hedged transaction. In individual cases, hedging relationships are designated only for a certain term of hedged items and/or hedging instruments.

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

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

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

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

Amount of hedged items and hedging instruments included in valuation units

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

HEDGED ITEMS

(€ k)	**31.12.2014**		31.12.2013	
	Micro valuation units	**Portfolio valuation units**	Micro valuation units	Portfolio valuation units
Assets				
Loans and advances to banks	5,175	–	25,951	–
Loans and advances to customers	871,641	–	907,017	–
Debentures and other fixed-interest securities	1,483,824	10,172,938	1,881,906	10,922,642
Liabilities				
Liabilities to banks	195,747	–	213,272	–
Liabilities to customers	2,374,432	–	2,578,828	–
Securitised liabilities	1,730,801	–	2,943,175	–
Positive market values of derivatives	211,509	–	229,456	–
Negative market values of derivatives	635,999	–	654,018	–

HEDGING INSTRUMENTS

(€ k)	**31.12.2014**		31.12.2013	
	Micro valuation units	**Portfolio valuation units**	Micro valuation units	Portfolio valuation units
Positive market values of derivatives	1,117,876	895	1,165,356	28,921
Negative market values of derivatives	1,536,191	803,042	1,137,106	562,971

In relation to the underlying nominal values, interest rate risk is being hedged in approximately 93% of the valuation units. The other risks largely involve currency and equity risks.

Amount of the risks hedged in valuation units

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

HEDGED ITEMS

(€ k)	31.12.2014				31.12.2013			
	Micro valuation units		Portfolio valuation units		Micro valuation units		Portfolio valuation units	
	Positive change in value	**Negative change in value**	**Positive change in value**	**Negative change in value**	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Loans and advances to banks	8	–	–	–	3,071	–	–	–
Loans and advances to customers	427,832	–	–	–	226,151	628	–	–
Debentures and other fixed-interest securities	670,003	–	545,305	–	501,205	–	200,961	–
Liabilities								
Liabilities to banks	249	6,335	–	–	99	10,189	–	–
Liabilities to customers	–	292,654	–	–	2,710	208,556	–	–
Securitised liabilities	–	28,114	–	–	16	64,041	–	–
Derivatives	132,289	77,308	–	–	129,178	80,049	–	–

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

13. ACCOUNTING FOR INTEREST-RELATED FINANCIAL INSTRUMENTS HELD IN THE BANKING BOOK

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

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation no provisions needed to be created as at 31 December 2014.

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

14. EQUITY HOLDINGS IN NON-AFFILIATED COMPANIES AND INTERESTS IN AFFILIATED COMPANIES

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

15. INTANGIBLE FIXED ASSETS

We account for internally developed and purchased software under Intangible fixed assets. Internally developed software is recognised in the amount of the production costs incurred in its development. Production costs include expenses directly attributable to the development of the software (so-called development costs). Expenses which cannot be directly allocated to the development of the software (so-called research costs) are not included in production costs but are expensed against income for the year incurred. During the financial year, software development costs in the amount of € 4 million (previous year: € 2 million) and no research costs were incurred as in the previous year.

Purchased software is valued at acquisition cost.

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

16. TANGIBLE FIXED ASSETS

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

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

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

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

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

17. DEFERRED TAXES

Deferred taxes are calculated based on the different carrying amounts of assets and liabilities in the balance sheet drawn up for accounting and tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax expenses or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the realisation of the tax benefit from the losses carried forward is expected to occur within the next five years. The Overall Bank is subject to an overall tax rate of 31.69%. Deferred taxes are not discounted in accordance with the regulations. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6a).

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

18. LIABILITIES

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

19. PROVISIONS

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

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

	2014	2013
Salary growth	2.0 %	2.0 %
Personnel growth	0.5 %	0.5 %
Pension growth		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules	2.0 %	2.0 %
Employment contract 4	2.0 %	2.0 %
Staff turnover		
Age 30	6.0 %	6.0 %
Age 30–55	linear decline to zero	linear decline to zero
Age above 56	0.0 %	0.0 %
Retirement age	pursuant to the 2007 AGAnpassG	pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted using the applicable average market interest rate which results from the assumption of a residual maturity of 15 years. The discount rate applied as at the balance sheet date was 4.58 % p.a. (previous year: 4.89 % p.a.).

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets), are recognised at their fair value of € 7 million (previous year: € 7 million), which is also equivalent to the acquisition cost of the assets. Fund assets in the same amount have been offset against provisions for pensions and similar obligations. The amount required to meet the resultant liability was € 10 million as at 31 December 2014 (previous year: € 10 million). Please refer to Note 7 for information concerning the determination of fair value.

20. CURRENCY TRANSLATION

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

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

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

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

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

21. ACCOUNTING TREATMENT APPLIED TO THE RESTRUCTURING

HSH Nordbank AG set up a new restructuring programme in November 2014 with the aim of further reducing the cost of banking operations over the next few years. Provisions recognised under earlier restructuring programmes were partially reversed in the 2014 annual accounts. If this has resulted in obligations or pending obligations for the Bank, from which the Bank cannot escape, provisions have been recognised in accordance with the regulations of Section 249 (1) Sentence 1 HGB in conjunction with Section 253 (1) Sentence 2 and Section 253 (2) HGB for the current restructuring programme. The Bank discloses provisions for announced personnel measures as well as provisions for administrative cost measures under Other provisions.

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

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

NOTES ON BALANCE SHEET ASSETS

22. LOANS AND ADVANCES TO ASSOCIATED SAVINGS BANKS

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

(€ k)	**31.12.2014**	31.12.2013
Loans and advances to associated savings banks	222,028	405,024

23. AFFILIATED COMPANIES

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

(€ k)	**31.12.2014**	31.12.2013
Loans and advances to banks	589,432	771,709
Loans and advances to customers	717,340	655,005
Debentures and other fixed-interest securities		
Bonds and debentures	591,619	146,335

24. NON-AFFILIATED COMPANIES

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

(€ k)	**31.12.2014**	31.12.2013
Loans and advances to banks	528	2,897
Loans and advances to customers	575,934	775,348
Debentures and other fixed-interest securities		
Bonds and debentures	3,028	–

25. SUBORDINATED ASSETS

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

(€ k)	31.12.2014	31.12.2013
Loans and advances to banks		
Other receivables	100,908	104,129
Loans and advances to customers	209,326	235,746
Debentures and other fixed-interest securities		
Bonds and debentures	114,777	254,177

26. RESIDUAL MATURITIES

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

(€ k)	31.12.2014	31.12.2013
Loans and advances to banks		
Other receivables		
Up to 3 months	1,298,724	592,170
Between 3 months and 1 year	585,746	812,213
Between 1 year and 5 years	447,043	641,451
More than 5 years	708,301	598,360
Loans and advances to customers		
Up to 3 months	14,795,809	12,754,690
Between 3 months and 1 year	9,728,934	9,106,238
Between 1 year and 5 years	26,191,288	28,623,535
More than 5 years	15,070,985	15,101,065
Debentures and other fixed-interest securities		
Due in the following year	2,858,085	2,189,384

27. TRADING PORTFOLIO (ASSETS)

The trading portfolio is comprised of the following:

(€ k)	**31.12.2014**	31.12.2013
Derivative financial instruments	7,649,783	6,519,937
Loans and advances	–	29,730
Debentures and other fixed-interest securities	1,786,148	2,502,221
Shares and other non-fixed-interest securities	2,080	4,200
Other assets	9,106	4,326
Risk discount	–6,187	–7,977
Total	**9,440,930**	**9,052,437**

28. NEGOTIABLE SECURITIES

(€ k)	Listed		Unlisted		Total	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Debentures and other fixed-interest securities	18,411,367	21,566,485	2,356,931	1,845,699	20,768,298	23,412,184
Shares and other non-fixed-interest securities	5,322	12,639	139,055	316,027	144,377	328,666
Equity holdings in non-affiliated companies	1,461	2,424	80,051	93,412	81,512	95,836
Interests in affiliated companies	–	–	32,700	32,700	32,700	32,700

29. NEGOTIABLE SECURITIES NOT VALUED USING THE LOWER-OF-COST-OR-MARKET PRINCIPLE

(€ k)	**31.12.2014**	31.12.2013
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	6,377,553	8,055,603
Carrying amount of securities reported above their fair value	3,184,911	4,270,628
Market value of securities reported above their fair value	3,072,926	4,004,238
Unrealised losses	**111,985**	**266,390**
of which unrealised losses on securities which are not part of a valuation unit	110,073	261,121
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	280,785	312,879
Carrying amount of securities reported above their fair value	14,772	175,475
Market value of securities reported above their fair value	11,613	163,972
Unrealised losses	**3,159**	**11,503**

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

Unrealised losses relating to securities held in valuation units, which are not to be allocated to the hedged risk (resulting for the most part from the creditworthiness of the issuer), amounted to € 142 million as at 31 December 2014 (previous year: € 197 million). The unhedged risk is not recorded, as the valuation is based on the moderate lower-of-cost-or-market principle. These also include unrealised losses on securities relating to the unhedged risk, which would show an unrealised loss without taking the valuation unit into account.

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

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

(€ k)	Securities rating	**31.12.2014**	31.12.2013
No “trigger events” have occurred		**66,051**	**94,313**
	Rating investment grade or better	54,566	78,921
	Rating lower than investment grade	11,485	15,392
“trigger events” have occurred		**49,094**	**183,594**
	Rating investment grade or better	38,730	106,932
	Rating lower than investment grade	10,364	76,662
Total		**115,145**	**277,907**

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

30. INVESTMENT ASSETS

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

(€ k) Name of the fund	Investment objectives	Carrying amount	Unit value within the meaning of Section 36 InvG	Difference	Distributions in the financial year
RE-Fundmaster	Special funds (mixed assets)	14,772	11,613	–3,159	430

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

31. TRUST ASSETS

Trust assets are comprised of the following balance sheet items:

(€ k)	**31.12.2014**	31.12.2013
Loans and advances to banks	–	990
Loans and advances to customers	8,706	11,662
Total	**8,706**	**12,652**

32. OTHER ASSETS

The major components of other assets are:

(€ k)	**31.12.2014**	31.12.2013
Receivables on fiscal authorities	85,176	59,075
Tenant loans	26,277	22,953
Adjustment item for currency translation	23,452	218,546
Premiums paid from options trading and from interest limitation agreements	15,319	17,297
Receivables from profit and loss transfer agreements and from dividends	7,471	34,141

33. PREPAID EXPENSES

The major items disclosed here are:

(€ k)	**31.12.2014**	31.12.2013
Accrual of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee (cf. Note 2)	90,889	206,565
Discount accruals from issuing business	99,891	103,079
Prepaid expenses from interest rate swaps, swaptions and options	41,498	53,336
Premium accruals from claims	16,557	20,386
Discount accruals from liabilities	7,524	10,722

34. DEFERRED TAX ASSETS

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

(€ k)	**31.12.2014**	31.12.2013
Assets		
Loans and advances to customers	1,347,090	998,898
Debentures and other fixed-interest securities	42,879	33,064
Equity holdings in non-affiliated companies	5,186	1,815
Interests in affiliated companies	33	67
Intangible fixed assets	180	892
Tangible fixed assets	12,258	12,659
Other assets	6,036	1,067
Deferred income	2,130	2,628
Liabilities		
Other liabilities	383	477
Deferred income	8,127	3,272
Provisions	188,359	160,193
Losses carried forward	73,142	–
Total	**1,685,803**	**1,215,032**

Deferred tax assets on tax losses carried forward relate to the federal as well as New York City & state tax of the New York branch. These are offset by deferred tax liabilities on measurement differences in the same amount.

35. GENUINE REPURCHASE AGREEMENTS

As a borrower under genuine repurchase agreements, we have sold assets with a carrying amount of € 2,302 million (previous year: € 2,961 million) and simultaneously contracted to repurchase the same assets. The assets continue to be carried on our balance sheet; the consideration received in return for the assets is disclosed under the corresponding liability items.

36. ASSETS TRANSFERRED AS COLLATERAL

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

(€ k)	**31.12.2014**	31.12.2013
Assets transferred as collateral	9,558,719	10,471,261
thereof for Liabilities to banks	4,380,329	6,433,555
Liabilities to customers	341,258	344,205
Trading portfolio (liabilities)	4,728,369	3,541,315
Contingent liabilities	108,763	152,186

37. STATEMENT OF CHANGES IN FIXED ASSETS

(€ k)	01.01.2014	2014			31.12.2014	2014	31.12.2014	31.12.2013
	Historical cost of acquisition	Additions[1]	Disposals[1]	Transfers	Accumulated depreciation[1]	Writeups/ Depreciation	Carrying amount	Carrying amount
Securities	8,516,073	1,065,943	2,610,415	–	278,466	71,647	6,693,135	8,295,376
Equity holdings in non-affiliated companies	285,852	–	38,462	–	122,357	3,691	125,033	163,401
Interests in affiliated companies	2,228,733	167	926,925	–	679,149	155	622,826	1,550,951
Land and buildings	84,160	43	–	–	5,266	1,622	78,937	80,517
Plant and equipment	68,242	3,422	4,018	–	54,962	4,011	12,684	14,581
Assets under construction	154	2,349	–	–	–	–	2,503	154
Leasing assets	22,638	–	11,378	–	11,260	355	–	13,065
Intangible fixed assets	165,859	5,214	2,800	–	152,003	6,884	16,270	20,039
Total	**11,371,711**	**1,077,138**	**3,593,998**	**-**	**1,303,463**	**88,365**	**7,551,388**	**10,138,084**

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

Real estate includes land and buildings used for the Bank's own business activities at a carrying amount of € 78 million (previous year: € 80 million).

NOTES ON BALANCE SHEET LIABILITIES

38. LIABILITIES TO ASSOCIATED SAVINGS BANKS

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

(€ k)	**31.12.2014**	31.12.2013
Liabilities to associated savings banks	394,988	255,167

39. AFFILIATED COMPANIES

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

(€ k)	**31.12.2014**	31.12.2013
Liabilities to banks	750,195	919,353
Liabilities to customers	2,981,194	2,714,378

40. NON-AFFILIATED COMPANIES

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

(€ k)	**31.12.2014**	31.12.2013
Liabilities to banks	501	2,028
Liabilities to customers	174,147	158,437

41. RESIDUAL MATURITIES

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

(€ k)	31.12.2014	31.12.2013
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	2,931,535	2,183,664
Between 3 months and 1 year	5,616,367	4,845,440
Between 1 year and 5 years	3,651,355	9,579,142
More than 5 years	1,613,647	1,560,704
Liabilities to customers		
Savings deposits with agreed notice period of more than 3 months		
Between 3 months and 1 year	143	683
Between 1 year and 5 years	27	980
Other liabilities with an agreed maturity or notice period		
Up to 3 months	11,175,870	10,751,164
Between 3 months and 1 year	7,053,278	4,507,472
Between 1 year and 5 years	6,529,026	9,221,703
More than 5 years	7,567,443	7,732,975
Securitised liabilities		
Debentures issued		
Due in the following year	11,655,688	6,205,678
Other securitised liabilities		
Up to 3 months	28,725	2,172
Between 3 months and 1 year	13,936	99,606

42. TRADING PORTFOLIO (LIABILITIES)

The trading portfolio is comprised of the following:

(€ k)	31.12.2014	31.12.2013
Derivative financial instruments	8,884,185	6,902,669
Liabilities	335	64
Total	**8,884,520**	**6,902,733**

43. TRUST LIABILITIES

Trust liabilities are reported under the following balance sheet items:

(€ k)	**31.12.2014**	31.12.2013
Liabilities to banks	166	1,190
Liabilities to customers	8,540	11,462
Total	**8,706**	**12,652**

44. OTHER LIABILITIES

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

(€ k)	**31.12.2014**	31.12.2013
Security deposits for assumption of debt	763,360	839,732
Adjustment item for currency valuation	269,537	143,423
Outstanding payments for the second loss guarantee	102,222	102,222
Pro rata interest on subordinated debt, profit participation rights and silent participations	50,419	328,451
Premiums received from options trading and from interest limitation agreements	13,272	15,194
Liabilities from profit and loss transfer agreements and from dividends	4,689	588
Principal repayments received in advance	–	176,706

45. DEFERRED INCOME

The major components of deferred income are the following:

(€ k)	**31.12.2014**	31.12.2013
Deferred income from interest rate swaps, swaptions and options	61,412	70,236
Deferrals from advance loan fees	89,381	79,531
Discount deferrals from receivables	7,701	14,029
Premium deferrals from issuing business	7,387	10,032

46. DEFERRED TAX LIABILITIES

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

(€ k)	**31.12.2014**	31.12.2013
Assets		
Loans and advances to customers	968,508	336,889
Equity holdings in non-affiliated companies	–	669
Intangible fixed assets	1,122	1,318
Tangible fixed assets	61,692	9,224
Other assets	772	53
Liabilities		
Provisions	–	7
Total	**1,032,094**	**348,160**

47. OTHER PROVISIONS

Other provisions primarily relate to the following items:

(€ k)	**31.12.2014**	31.12.2013
Provisions for restructuring measures	156,301	122,053
Provisions for securities trading and financial derivatives	116,146	91,196
Provisions in the lending business	102,611	168,288
Provisions for interest on corporate tax and trade tax	49,422	35,059
Provisions for litigation risks and costs	47,550	46,972
Provisions for personnel expenses	46,667	57,002
Provisions for the reimbursement of loan processing fees	33,000	–
Provisions for invoices outstanding	25,807	43,038
Assumption of costs of associated companies and discretionary benefits in the customer business	16,564	15,187
Provisions for archiving costs	5,500	5,500

€ 108 million (previous year: € 77 million) of the provisions for restructuring measures relate to personnel expenses and € 48 million (previous year: € 45 million) to operating expenses.

48. SUBORDINATED DEBT

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

Individual items exceeding 10 % of total subordinated debt:

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

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

In principle subordinated debt meets the requirements of Article 63 of the Capital Requirements Regulation (CRR) for recognition as Tier 2 capital. Subordinated debt in the amount of € 2,043 million (previous year: € 2,039 million) will mature in less than two years.

Interest expense on subordinated debt amounted to € 90 million for the 2014 financial year (previous year: € 90 million).

49. PROFIT PARTICIPATION CAPITAL

The terms and conditions of the profit participation capital also fulfil the requirements of Article 63 CRR for recognition as Tier 2 capital. This includes in particular, that the claims of profit participation certificate holders to repayment of capital are subordinate to other claims. Profit participation capital in the amount of € 15 million (previous year: € 16 million) will mature in less than two years.

Registered profit participation certificates with a total nominal value of € 54 million have original maturities between 13 and 17 years and bear interest between 6.55 % p.a. and 7.35 % p.a. Payment of interest on the profit participation capital is tied to the distributable profits of HSH Nordbank AG. No current interest was payable for the 2014 financial year due to the net loss.

The profit participation rights bear a loss of € 3 million for the 2014 financial year.

50. FUND FOR GENERAL BANKING RISKS

An amount of € 673 million was allocated to the fund for general banking risks in accordance with Section 340g HGB during the reporting period (previous year: reversal of € 652 million). These allocations result from income arising from the waiver by HSH Finanzfonds AöR of the additional premium in connection with the provision of the guarantee facility and have been used to strengthen Tier 1 capital (cf. Note 2). € 0 million (previous year: € 30 million) from the net result of the trading portfolio were added to the fund for general banking risks.

51. EQUITY CAPITAL

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

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

As at the reporting date, HSH Finanzfonds AöR, Hamburg, was the largest shareholder with 65.00 % of the voting rights. The voting rights held by the Free and Hanseatic City of Hamburg including the indirect shareholding held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH amounted to 10.80 %. The Federal State of Schleswig-Holstein holds voting rights of 9.58 %. The share of voting rights held by the Sparkassen- und Giroverband für Schleswig-Holstein (Savings Bank Association for Schleswig-Holstein) equals 5.31 %. As at 31 December 2014, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31 % of the voting rights. The ownership structure has not changed compared to the previous year.

HSH Finanzfonds AöR, with its registered offices in Hamburg, has notified us in previous years in accordance with Section 20 (1) of the German Stock Corporation Act (AktG) that it directly owns more than one-quarter of the shares of HSH Nordbank AG, and at the same time owns a majority interest in accordance with Section 20 (4) AktG. The shares of HSH Nordbank AG held by Finanzfonds AöR are apportioned to the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in accordance with Section 16 (4) AktG. Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG.

Neither HSH Nordbank AG itself nor any affiliated or majority-owned company hold treasury stock of HSH Nordbank AG. There are no cross-shareholdings as defined by Section 19 AktG.

The terms and conditions for Silent participations fulfil the requirements of Article 484 (4) CRR in conjunction with Article 486 (3) and (5) CRR in conjunction with Section 31 of the German Solvency Regulation (SolvV) and can therefore be counted as additional Tier 1 capital during the transition periods and up to the upper limits stated there. Furthermore, some of the Silent participations fulfil the requirements of Article 63 CRR for recognition as Tier 2 capital. Among other things, the terms and conditions provide for the silent participations to be subordinate to other liabilities.

If a net loss is incurred for the current financial year, no distributions related to the silent participations can be made. In addition, these equity instruments must participate in the net loss for the year. For the 2014 financial year, the silent participations shared in the Bank's loss to the amount of € 118 million (previous year: € 155 million). The silent participations have been placed on the international capital markets (€ 897 million) as well as with the Bank's domestic institutional investors (€ 330 million).

NOTES ON THE INCOME STATEMENT

52. BREAKDOWN OF INCOME ITEMS BY GEOGRAPHICAL MARKETS

(€ k)	2014				2013			
	Germany	Rest of Europe	Asia	America	Germany	Rest of Europe	Asia	America
Interest income	4,941,864	208,940	61,707	54,891	5,335,939	262,945	68,374	78,547
Current income from shares and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	83,234	8,286	–	–	80,377	7,269	–	1,985
Income from profit pooling, profit transfer or partial profit transfer agreements	–	–	–	–	12,699	–	–	–
Commission income	166,172	8,069	3,472	2,389	151,999	6,928	1,286	6,718
Net income from the trading portfolio	–235,524	–	1,803	3,986	249,109	–	4,035	12,538
Other operating income	126,091	21,295	457	7,920	179,430	34,753	789	6,481

53. NET INTEREST INCOME

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

Net interest income also includes one-time expenses from the disposal of promissory notes in the amount of € 70 million (previous year: € 27 million).

54. NET COMMISSION INCOME

Net commission income is comprised of the following:

(€ k)	2014	2013
Lending business	90,541	63,112
Payment transactions and foreign business, documentary business	17,983	18,051
Securities business	176	1,221
Guarantee business	–509,568	–402,132
Other	8,051	–2,092
Total	**–392,817**	**–321,840**

Net commission income for the year ended 31 December 2014 includes expenses for the guarantee from HSH Finanzfonds AöR in the amount of € 521 million (previous year: € 414 million).

55. OTHER OPERATING INCOME

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

(€ k)	2014	2013
Income from the reversal of other provisions	33,376	42,911
Cost allocations and reimbursement of expenses	31,321	33,948
Interest income from claims against tax authorities	25,129	246
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 12)	17,669	24,599
Income from legal disputes	15,212	34,693
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	11,245	40,967
Income from the disposal of leasing assets	4,682	–

56. OTHER OPERATING EXPENSES

Other operating expenses primarily include the following items:

(€ k)	2014	2013
Loss on exchange from transactions not specifically hedged	91,310	3,504
Expenses from the creation of provisions for contingent losses from valuation units (cf. Note 12)	38,211	44,670
Interest expenses pursuant to Section 233 AO	33,856	39,059
Expenses from the creation of provisions for processing fees due to a judgment of the Federal Court of Justice	33,000	–
Expenses from additions to other provisions	24,461	34,675
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	7,479	13,878
Expenses from the creation of provisions for litigation risks and costs	7,181	21,096

57. EXTRAORDINARY RESULT

The Extraordinary result includes restructuring expenses connected to the strategic realignment of the Bank in the amount of € 125 million (previous year: € 72 million). These were offset by income arising from the reversal of provisions from previous restructuring programmes. Please refer to Note 21 for information concerning the accounting treatment applied to the restructuring.

Income arising from the recognition of deferred tax assets of € 16 million is attributable to the restructuring provisions recorded in Extraordinary expenses in the reporting year and the related increase in the assessment basis for deferred tax assets.

58. INCOME TAXES

Income tax expense comprises the following:

(€ k)	**2014**	2013
Deferred income taxes	213,163	– 51,546
Deferred income taxes on temporary differences	286,305	– 206,942
Deferred income taxes on loss carryforwards	– 73,142	155,396
Current income taxes	– 29,114	193,961
Total	**184,049**	**142,415**

Total tax expense for the reporting year results primarily from the disproportionate increase in Deferred tax liabilities compared to Deferred tax assets arising from temporary differences. This expense is partially offset by the recognition of tax income for tax receivables relating to previous years.

59. INCOME FROM THE ASSUMPTION OF LOSSES

Income from the assumption of losses resulted from participation in losses attributable to profit participation capital (€ 3 million, previous year: € 4 million) as well as from participation in losses attributable to Silent participations (€ 118 million, previous year: € 155 million).

60. FEES FOR WORK BY THE STATUTORY AUDITORS

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

61. NON-DISTRIBUTABLE AMOUNTS

A total of € 657 million (previous year: € 871 million) of the reserves available for distribution are barred from being distributed. Of this amount, € 2 million (previous year: € 3 million) relates to the recognition of internally generated intangible fixed assets less the Deferred tax liabilities created in relation thereto. € 655 million (previous year: € 868 million) represents the amount by which the Deferred tax assets recognised on the balance sheet exceed the other Deferred tax liabilities.

OTHER DISCLOSURES

62. LEASING BUSINESS

Assets relating to the leasing business include € 111 million (previous year: € 107 million) shown under Loans and advances to customers and € 0 million (previous year: € 13 million) shown under Tangible fixed assets. Liabilities from the leasing business amount to € 42 million (previous year: € 43 million) and are disclosed under Liabilities to customers.

63. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

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

As was the case in the previous year, there are no placement or underwriting commitments as at 31 December 2014.

Please refer to Note 2 for more details.

64. LETTERS OF COMFORT

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

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

65. OTHER FINANCIAL OBLIGATIONS

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

There are shareholder liabilities of € 2 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 15 million). These liabilities are due to affiliated companies.

The maximum funding obligation that would result from membership of the Haftungsverbund (joint liability scheme) of the Sparkassen-Finanzgruppe, if a case occurs where support is needed, is € 31 million (previous year: € 139 million). If the resources of the savings bank guarantee fund are insufficient for the financial rescue, the additional funding can be claimed immediately.

Further obligations in the amount of € 66 million (previous year: € 78 million) result from long-term leases for land and buildings used for business purposes. Additional obligations amounting to € 172 million (previous year: € 212 million) result from leasing agreements for IT services.

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

Under a sale of an equity holding the Bank has undertaken to purchase fund units at the market price up to a nominal amount of € 22 million (previous year: € 44 million) and to provide indemnities up to a maximum amount of € 47 million (previous year: € 62 million).

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

The obligation disclosed in the previous year to make additional capital contributions up to a maximum of € 17 million resulting from an equity holding in the Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, no longer exists.

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

66. OTHER FINANCIAL OBLIGATIONS DUE TO THE BANK LEVY (BANKENABGABE)

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

67. OTHER TRANSACTIONS NECESSARY FOR AN ASSESSMENT OF THE BANK'S FINANCIAL SITUATION

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

68. NOTES ON SHAREHOLDINGS

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

AFFILIATED COMPANIES – FOREIGN BANKS

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	177,525,248.68	13,832,476.86

AFFILIATED COMPANIES – OTHER DOMESTIC COMPANIES

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
2	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	3,545,857.13	859,211.77
3	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	17,013.30	1,548.42
4	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	3,689.95	–3,045.24
5	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	3,637.14	–3,045.21
6	CAPCELLENCE Holding GmbH & Co. KG (former: Capcellence Private Equity Beteiligungen GmbH & Co. KG), Hamburg[1]	100.00	100.00	EUR	122,678,731.72	1,976,288.33
7	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.91	EUR	–31,633.13	–32,833.13
8	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	8,046.62	44,798.66
9	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.90	EUR	3,687.11	–10,828.57
10	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.90	EUR	–6,296.91	–10,843.67
11	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.99	EUR	14,264,336.99	295,743.83
12	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH, Hamburg[1]	100.00	100.00	EUR	15,817.42	–1,444.35
13	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.95	EUR	18,041.02	–11,752.43
14	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.47	EUR	15,242.74	–384,925.14
15	CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG, Hamburg[1]	83.33	99.00	EUR	[5]	[5]
16	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg[1]	100.00	100.00	EUR	3,712.56	–3,045.28
17	CHIOS GmbH, Hamburg	100.00	100.00	EUR	13,624.24	–11,930.49
18	GODAN GmbH, Hamburg	100.00	100.00	EUR	–936,511.24	–12,962.46
19	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	–2,019,284.49	31,767.08
20	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekt London St. Georges House KG i.L., Hamburg[8]	62.42	61.22	EUR	239,710.17	5,442.63
21	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	22,461,023.15	3,167,029.66
22	HSH Care+Clean GmbH, Hamburg[1, 3]	51.00	51.00	EUR	25,000.00	11,481.43
23	HSH Facility Management GmbH, Hambur[2]	100.00	100.00	EUR	205,600.00	239,186.19
24	HSH Gastro+Event GmbH, Hamburg[1, 3]	100.00	100.00	EUR	25,000.00	215,922.62
25	HSH Move+More GmbH, Kiel[1, 3]	51.00	51.00	EUR	25,000.00	109,319.76
26	HSH Private Equity GmbH, Hamburg[2]	100.00	100.00	EUR	550,000.00	–23,431,308.33
27	Ilex Integra GmbH (former: DMS Beteiligungs GmbH), Hamburg[1]	100.00	100.00	EUR	–17,420,978.05	–15,313,330.42
28	Kontora Family Office GmbH, Hamburg	75.02	75.02	EUR	784,259.77	–152,372.29
29	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart[1, 8]	80.00	–	EUR	–192,138.73	198,186.39
30	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	18,810.25	3,423.80
31	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	32,312.77	–1,354,744.88

AFFILIATED COMPANIES – OTHER FOREIGN COMPANIES

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
32	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	34,309,790.00	3,246,149.00
33	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland	99.60	99.60	USD	27,525,682.00	1,578,415.00
34	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong[1)]	51.00	51.00	USD	115.00	–
35	Avia Management S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	–34,159.22	23,750.28
36	Aviation Leasing OpCo France III, Paris, France[1)]	100.00	100.00	EUR	–66,489.00	–39,063.00
37	Aviation Leasing OpCo France IV, Paris, France[1)]	100.00	100.00	EUR	–8,554.00	–30,402.00
38	Bach Holdings LLC, Wilmington, USA	100.00	100.00	USD	539,439.00	89,121.00
39	DEERS Green Power Development Company, S.L., Madrid, Spain[1)]	100.00	100.00	EUR	–31,078,557.00	132,295.00
40	European Capital Investment Opportunities Limited, St. Helier, Jersey[1)]	51.00	51.00	EUR	90.00	6.00
41	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	94,310.00	5,634.00
42	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	425,931.00	–22,880.00
43	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	3,423,789.71	–382,649.21
44	HSH N Funding I, George Town, Cayman Islands	100.00	100.00	EUR	1,003,617,222.00	37,077,760.00
45	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	654,305,988.00	36,276,800.00
46	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,792,273.00	–108,222.00
47	HSH N Structured Situations Limited, St. Helier, Jersey[7)]	100.00	100.00	USD	351,241.00	10,805.00
48	ISM Agency, LLC, New York, USA[1)]	100.00	100.00	USD	[6)]	[6)]
49	ISP Angered Development 1 AB, Stockholm, Sweden[1)]	100.00	100.00	SEK	–19,732.00	–13,025.00
50	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg[11)]	100.00	100.00	USD	13,311.83	–
51	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	–
52	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	–
53	Neptune Ship Finance (Luxembourg) S.à.r.l. & CIE, S.e.c.s., Luxembourg, Luxembourg[4)]	100.00	100.00	USD	–216,561,991.90	–144,730,514.57
54	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg[1)]	49.00	49.00	EUR	–3,560,630.00	–1,666,707.00
55	Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg[1)]	49.00	49.00	EUR	–5,191,154.00	–3,361,930.00
56	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		[6)]	[6)]
57	Solar Holdings S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	–20,311,108.98	–11,694,234.94

SHARE OF 20 % OR MORE

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
58	4Wheels Management GmbH, Düsseldorf[1), 9)]	68.75	40.00	EUR	13,966,235.44	– 190,190.40
59	AGV Irish Equipment Leasing No. 4 Limited, Dublin, Ireland[13)]	100.00	100.00	USD	– 106,959,942.00	– 67,948,335.00
60	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland[1)]	49.00	49.00	USD	– 4,544,418.00	– 274,812.00
61	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland[1)]	49.00	49.00	USD	– 11,086,567.00	– 1,032,971.00
62	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland[1)]	49.00	49.00	USD	1,413,073.00	1,045,654.00
63	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland[1)]	49.00	49.00	USD	– 10,680,076.00	– 1,011,269.00
64	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland[1)]	49.00	49.00	USD	– 3,663,131.00	– 1,191,837.00
65	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland[1)]	49.00	49.00	USD	– 13,686,505.00	– 195,298.00
66	Belgravia Shipping Ltd., London, Great Britain[1)]	33.33	33.33	USD	54,250,000.00	– 24,927.00
67	BRINKHOF Holding Deutschland GmbH, Erfurt[1)]	100.00	0.00	EUR	[12)]	[12)]
68	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg[1)]	33.33	33.33	EUR	372.44	– 10,827.56
69	Fosse Way Shipping Limited, London, Great Britain[14)]	58.85	58.85	EUR	– 20,030,801.00	– 135,705.00
70	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,511,050.71	212,547.02
71	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden[1)]	50.00	50.00	EUR	– 261,221.72	862,931.04
72	ISP Angered Development 2 AB, Stockholm, Sweden[1)]	100.00	0.00	SEK	[6)]	[6)]
73	KAIACA LLC, New York, USA[14)]	55.30	55.30	USD	100,000.00	0.00
74	Lagan Viking Limited, Hong Kong, Hong Kong[8), 14)]	58.85	58.85	EUR	– 15,913,376.00	789,953.00
75	LUCKON Servicegesellschaft mbH, Munich[1)]	40.00	40.00	EUR	[5)]	[5)]
76	Mersey Viking Limited, Hong Kong, Hong Kong[8), 14)]	58.85	58.85	EUR	– 15,319,963.00	744,951.00
77	PRIME 2006-1 Funding Limited Partnership, St. Helier, Jersey[10)]	47.50	0.00	EUR	– 2,955,516.00	9,145,675.00
78	Relacom Management AB, Stockholm, Sweden	21.17	21.17	SEK	1,302,165,000.00	– 338,759,000.00
79	SITUS NORDIC SERVICES ApS, Copenhagen, Denmark	40.00	40.00	DKK	4,573,256.00	2,784,740.00
80	Watling Street Shipping Limited, London, Great Britain[14)]	58.85	58.85	EUR	– 36,449,309.00	– 169,085.00

1) Indirect holding.
2) A profit transfer agreement with the company is in place.
3) There is a profit transfer agreement with HSH Facility Management GmbH.
4) Both direct and indirect holdings.
5) No information available due to newly established company.
6) No data available.
7) Only data as at 31 December 2010 is available.
8) Only data as at 31 December 2012 is available.
9) Only data as at 31 December 2013 is available.
10) Only data as at 30 September 2013 is available.
11) Only data as at 9 December 2013 is available.
12) No information available due to insolvency of the company.
13) Based on the contractual arrangement this is not an affiliated company, although HSH Nordbank AG holds 100 % of the voting rights.
14) This is not an affiliated company due to the requirement for a qualified majority of voting rights for important decisions.

FOREIGN EXCHANGE RATES FOR € 1 AS AT 31 DECEMBER 2014

Denmark	DKK	7.4453
Sweden	SEK	9.3930
USA	USD	1.2141

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

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

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

69. NOTES ON FOREIGN CURRENCIES

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

(€ k)	**31.12.2014**	31.12.2013
Assets	41,292,664	40,974,832
Liabilities	17,167,204	14,773,969

70. DERIVATIVES BUSINESS

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

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

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

I. Presentation of volumes and market values

TRADING PORTFOLIO

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Interest rate swaps	199,489	211,435	6,677	5,593	5,835	5,065
FRA	2,059	881	–	–	–	–
Interest rate options	–	–	–	–	–	–
Swaptions						
Long positions	3,953	2,882	168	81	34	4
Short positions	4,939	3,716	2	9	328	152
Caps, floors	7,515	9,007	64	104	47	75
Exchange-traded contracts	1,130	1,504	–	–	–	–
Other forward interest rate transactions	563	397	20	22	37	32
Interest rate risks	**219,648**	**229,822**	**6,931**	**5,809**	**6,281**	**5,328**
Interest rate/currency swaps	24,904	25,661	182	330	529	62
Interest rate and foreign exchange risks	**24,904**	**25,661**	**182**	**330**	**529**	**62**
Forward exchange transactions	2,309	2,545	72	57	72	44
Currency options						
Long positions	396	647	25	20	–	–
Short positions	622	620	–	–	38	35
Foreign exchange risks	**3,327**	**3,812**	**97**	**77**	**110**	**79**
Equity options						
Long positions	88	88	55	78	–	–
Short positions	91	91	–	–	56	78
Forward equity transactions	–	–	–	–	–	–
Exchange-traded contracts	1	–	–	–	–	–
Equity/index-based swaps	–	–	–	–	–	–
Commodity-based transactions	789	743	84	34	41	50
Equity and other price risks	**969**	**922**	**139**	**112**	**97**	**128**
Collateral provider	23	23	–	–	–	–
Collateral taker	146	143	27	18	–	–
Credit derivatives	**169**	**166**	**27**	**18**	**–**	**–**
Structured products	**3,216**	**3,492**	**207**	**174**	**166**	**131**
Total	**252,233**	**263,875**	**7,583**	**6,520**	**7,183**	**5,728**

NON-TRADING PORTFOLIO

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Interest rate swaps	7,165	8,179	362	361	1,142	878
FRA	–	–	–	–	–	–
Interest rate options	–	–	–	–	–	–
Swaptions						
Long positions	–	–	–	–	–	–
Short positions	–	–	–	–	–	–
Caps, floors	146	121	2	2	–	–
Exchange-traded contracts	–	–	–	–	–	–
Other forward interest rate transactions	26	26	–	–	–	–
Interest rate risks	**7,337**	**8,326**	**364**	**363**	**1,142**	**878**
Interest rate/currency swaps	1,355	1,475	1	126	135	126
Interest rate and foreign exchange risks	**1,355**	**1,475**	**1**	**126**	**135**	**126**
Forward exchange transactions	9,108	7,695	22	46	137	15
Currency options						
Long positions	75	74	20	19	–	–
Short positions	101	113	–	–	27	28
Foreign exchange risks	**9,284**	**7,882**	**42**	**65**	**164**	**43**
Equity options						
Long positions	22	5	1	1	–	–
Short positions	–	–	–	–	–	–
Equity/index-based swaps	–	–	–	–	–	–
Commodity-based transactions	–	27	–	–	–	–
Equity and other price risks	**22**	**32**	**1**	**1**	**–**	**–**
Collateral provider	64	50	–	–	–	1
Collateral taker	530	443	3	2	–	–
Credit derivatives	**594**	**493**	**3**	**2**	**–**	**1**
Structured products	**1,256**	**1,177**	**47**	**40**	**261**	**156**
Total	**19,848**	**19,385**	**458**	**597**	**1,702**	**1,204**

II. Breakdown by counterparty

TRADING AND NON-TRADING PORTFOLIO

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
OECD banks	173,899	210,828	4,080	4,130	7,060	5,942
Non-OECD banks	120	201	4	9	–	–
Non-banks (incl. stock exchanges)	90,431	65,129	3,665	2,835	1,454	677
Public authorities	7,631	7,102	292	143	371	313
Total	**272,081**	**283,260**	**8,041**	**7,117**	**8,885**	**6,932**

III. Breakdown by maturity

TRADING AND NON-TRADING PORTFOLIO

(€ m)	Interest rate risks		Credit risks		Foreign exchange risks		Equity and other price risks		Structured products	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Residual maturity										
Up to 3 months	21,289	26,126	–	–	10,320	9,457	251	280	2	190
Up to 1 year	45,826	33,860	300	–	1,399	1,521	449	421	643	300
Up to 5 years	132,615	147,718	109	395	819	642	285	248	1,841	1,560
Over 5 years	53,514	57,580	354	264	73	74	6	5	1,986	2,619
Total	**253,244**	**265,284**	**763**	**659**	**12,611**	**11,694**	**991**	**954**	**4,472**	**4,669**

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

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where HSH Nordbank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the recognition of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As of 31 December 2014, the net amount of reconciliation items shown under Other assets amounted to € 23 million (previous year: € 219 million) and the reconciliation items shown under Other liabilities amounted to € 270 million (previous year: € 143 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013
Interest rate contracts	3	2	2	2
Currency contracts	10	11	11	13
Equity and other contracts	3	4	–	–
Total	**16**	**17**	**13**	**15**

We have created provisions for contingent losses in the amount of € 29 million (previous year: € 19 million) for derivative financial instruments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown.

71. INFORMATION IN ACCORDANCE WITH SECTION 28 OF THE MORTGAGE BOND ACT (PFANDBRIEFGESETZ)

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

(€ m)	Nominal value		Net present value		Risk-adjusted net present value	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Mortgage bonds	4,580	4,586	4,880	4,837	4,940	4,964
Cover funds	5,057	5,260	5,446	5,606	5,432	5,629
thereof derivatives	–	–	–	–	–	–
Surplus coverage	**477**	**674**	**566**	**769**	**492**	**665**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Public-sector mortgage bonds	5,401	5,527	6,853	6,499	6,382	6,048
Cover funds	6,108	6,446	7,664	7,263	7,030	6,704
thereof derivatives	–	–	–	–	–	–
Surplus coverage	**707**	**919**	**811**	**764**	**648**	**656**

(€ m)	Nominal value		Net present value		Risk-adjusted net present value	
	31.12.2014	31.12.2013	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Ship mortgage bonds	1,981	2,041	2,016	2,061	2,016	2,070
Cover funds	2,743	2,810	2,900	2,968	2,678	2,683
thereof derivatives	–	–	–	–	–	–
Surplus coverage	**762**	**769**	**884**	**907**	**662**	**613**

COMPOSITION OF THE ADDITIONAL COVER ASSETS

(€ m)		Receivables within the meaning of Section 19 (1) No. 2 PfandBG			Mortgage bonds
Registered receivables **2014**	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) No. 3 PfandBG	**Total**
Germany	–	20	–	445	465
Total	**–**	**20**	**–**	**445**	**465**

As in the previous year, there were no receivables that exceeded the limits set out in Section 19 (1) of the German Mortgage Bonds Act (Pfandbriefgesetz – PfandBG).

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

(€ m)	Receivables within the meaning of Section 19 (1) No. 2 PfandBG				Mortgage bonds
Registered receivables 2013	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) No. 3 PfandBG	Total
Germany	–	–	–	573	573
Total	**–**	**–**	**–**	**573**	**573**

(€ m)	Receivables within the meaning of Section 20 (2) No. 2 PfandBG			Public-sector mortgage bonds
Registered receivables **2014**	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	22	–	22
Total	**–**	**22**	**–**	**22**

As in the previous year, there were no receivables that exceeded the limits set out in Section 20 (2) PfandBG.

(€ m)	Receivables within the meaning of Section 20 (2) No. 2 PfandBG			Public-sector mortgage bonds
Registered receivables 2013	Equalisation claims	Total	thereof covered debentures	Total
Germany	–	42	–	42
Total	**–**	**42**	**–**	**42**

(€ m)	Receivables within the meaning of Section 26 (1) No. 3 PfandBG				Ship mortgage bonds
Registered receivables **2014**	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) No. 4 PfandBG	Total
Germany	–	–	–	105	105
Austria	–	–	–	10	10
Total	**–**	**–**	**–**	**115**	**115**

As in the previous year, there were no receivables that exceeded the limits set out in Section 26 (1) PfandBG.

(€ m)		Receivables within the meaning of Section 26 (1) No. 3 PfandBG			Ship mortgage bonds
Registered receivables 2013	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) No. 4 PfandBG	Total
Germany	–	–	–	90	90
Austria	–	–	–	–	–
Total	**–**	**–**	**–**	**90**	**90**

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

(€ m)	Mortgage bonds		Cover funds	
Nominal value	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Up to 6 months	320		447	
Between 6 and 12 months	204	1,227	654	981
Between 12 and 18 months	644		127	
Between 18 months and 2 years	186	404	443	1,135
Between 2 years and 3 years	687	829	899	547
Between 3 years and 4 years	602	692	565	787
Between 4 years and 5 years	898	573	475	473
Between 5 years and 10 years	1,039	851	1,367	1,250
Over 10 years	–	10	80	87
Total	**4,580**	**4,586**	**5,057**	**5,260**

(€ m)	Public-sector mortgage bonds		Cover funds	
Nominal value	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Up to 6 months	321		423	
Between 6 and 12 months	240	144	362	801
Between 12 and 18 months	823		274	
Between 18 months and 2 years	131	468	378	698
Between 2 years and 3 years	419	984	568	619
Between 3 years and 4 years	732	465	356	465
Between 4 years and 5 years	297	707	152	323
Between 5 years and 10 years	793	977	977	869
Over 10 years	1,645	1,782	2,618	2,671
Total	**5,401**	**5,527**	**6,108**	**6,446**

(€ m)	Ship mortgage bonds		Cover funds	
Nominal value	**31.12.2014**	31.12.2013	**31.12.2014**	31.12.2013
Up to 6 months	505		695	
Between 6 and 12 months	255	905	277	1,015
Between 12 and 18 months	300		248	
Between 18 months and 2 years	200	510	264	488
Between 2 years and 3 years	403	500	387	381
Between 3 years and 4 years	245	28	332	302
Between 4 years and 5 years	35	35	244	236
Between 5 years and 10 years	38	63	277	358
Over 10 years	–	–	19	30
Total	**1,981**	**2,041**	**2,743**	**2,810**

The proportion of fixed-interest-bearing cover assets in the corresponding cover funds and the ratios of fixed-interest-bearing bonds to the liabilities to be covered are as follows:

(in %)	Mortgage bonds	
	31.12.2014	31.12.2013
Proportion of fixed-interest-bearing cover funds	37	n/a
Ratio of fixed-interest-bearing bonds	88	n/a

(in %)	Public-sector mortgage bonds	
	31.12.2014	31.12.2013
Proportion of fixed-interest-bearing cover funds	80	n/a
Ratio of fixed-interest-bearing bonds	93	n/a

(in %)	Ship mortgage bonds	
	31.12.2014	31.12.2013
Proportion of fixed-interest-bearing cover funds	5	n/a
Ratio of fixed-interest-bearing bonds	8	n/a

The following tables show the net present value for each foreign currency:

(€ m)	Mortgage bonds	
Foreign currency	**31.12.2014**	31.12.2013
CHF	55	n/a
GBP	95	n/a
JPY	8	n/a
SEK	50	n/a
USD	312	n/a

(€ m)	Public-sector mortgage bonds	
Foreign currency	**31.12.2014**	31.12.2013
CHF	–	n/a
JPY	134	n/a
USD	36	n/a

(€ m)	Ship mortgage bonds	
Foreign currency	**31.12.2014**	31.12.2013
CHF	30	n/a
JPY	35	n/a
USD	2,474	n/a

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

(A) MORTGAGE BOND REGISTER

(€ m)	Covering mortgages	
Nominal value	**31.12.2014**	31.12.2013
Up to € 300,000	30	33
Between € 300,000 and € 1 million	142	151
Between € 1 million and € 10 million	1,550	1,621
Over € 10 million	2,869	2,693
Total	**4,591**	**4,498**

(B) SHIP REGISTER

(€ m)	Covering mortgages	
Nominal value	**31.12.2014**	31.12.2013
Up to € 500,000	4	7
Between € 500,000 and € 5 million	430	540
Over € 5 million	2,194	2,173
Total	**2,628**	**2,720**

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

(€ m)	**31.12.2014**	31.12.2013
Used for residential purposes	1,079	1,252
Used for commercial purposes	3,512	3,246

(€ m) 2014	Apart-ments	Single dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new-buildings and building plots	thereof building plots	**Total**
Germany	1	7	1,055	937	607	2	601	7	10	3,227
Finland	–	–	–	14	–	–	15	–	–	29
France	–	–	–	580	5	–	–	–	–	585
Great Britain/ Northern Ireland/ Brit. Channel Islands	–	–	–	91	–	–	–	–	–	91
Netherlands	–	–	14	185	57	–	45	–	–	301
Austria	–	–	–	11	–	–	–	–	–	11
Sweden	–	–	3	–	32	4	6	–	–	45
USA	–	–	–	302	–	–	–	–	–	302
Poland	–	–	–	–	–	–	–	–	–	–
Total	**1**	**7**	**1,072**	**2,120**	**701**	**6**	**667**	**7**	**10**	**4,591**

(€ m) 2013	Apart-ments	Single dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new-buildings and building plots	thereof building plots	**Total**
Germany	1	7	1,105	607	383	7	736	37	14	2,897
Finland	–	–	–	39	–	–	16	–	–	55
France	–	–	–	650	5	–	–	–	–	655
Great Britain/ Northern Ireland/ Brit. Channel Islands	–	–	–	86	–	–	–	–	–	86
Netherlands	–	–	38	305	51	–	77	–	–	471
Austria	–	–	–	11	–	–	–	–	–	11
Poland	–	–	–	52	–	–	–	–	–	52
Sweden	–	–	100	–	39	5	6	–	–	150
USA	–	–	–	121	–	–	–	–	–	121
Total	**1**	**7**	**1,243**	**1,871**	**478**	**12**	**835**	**37**	**14**	**4,498**

(€ m)	**31.12.2014**	31.12.2013
Total of payments at least 90 days in arrears	**–**	**–**

Other key figures relating to the regular cover assets of the mortgage bonds:

		31.12.2014	31.12.2013
Total amount of receivables that exceed the limits set out in Section 13 (1) PfandBG	€ m	–	n/a
Volume-weighted average age of the receivable	in years	6	n/a
Average weighted loan-to-value ratio	in %	52	n/a

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

(€ m) **2014**		Country	Regional public authority	Local public authority	Other	**Total**
Germany	Nominal value	366	2,836	209	1,288	4,699
	Arrears	–	–	–	–	–
Belgium	Nominal value	250	14	–	–	264
	Arrears	–	–	–	–	–
Great Britain/Northern Ireland/	Nominal value	–	–	–	10	10
Brit. Channel Islands	Arrears	–	–	–	–	–
Italy	Nominal value	–	23	–	–	23
	Arrears	–	–	–	–	–
Japan	Nominal value	–	–	50	–	50
	Arrears	–	–	–	–	–
Luxembourg	Nominal value	–	–	–	13	13
	Arrears	–	–	–	–	–
Poland	Nominal value	21	–	–	–	21
	Arrears	–	–	–	–	–
Switzerland	Nominal value	–	212	–	–	212
	Arrears	–	–	–	–	–
Slovenia	Nominal value	90	–	–	–	90
	Arrears	–	–	–	–	–
Austria	Nominal value	449	–	–	277	726
	Arrears	–	–	–	–	–
Total	Nominal value	**1,176**	**3,085**	**259**	**1,588**	**6,108**
	Arrears	**–**	**–**	**–**	**–**	**–**

(€ m) 2013		Country	Regional public authority	Local public authority	Other	Total
Germany	Nominal value	338	2,941	257	1,447	4,983
	Arrears	–	–	–	–	–
Belgium	Nominal value	250	16	–	–	266
	Arrears	–	–	–	–	–
Great Britain/Northern Ireland/	Nominal value	–	–	–	10	10
Brit. Channel Islands	Arrears	–	–	–	–	–
Italy	Nominal value	–	25	–	–	25
	Arrears	–	–	–	–	–
Japan	Nominal value	–	–	50	–	50
	Arrears	–	–	–	–	–
Canada	Nominal value	–	–	–	–	–
	Arrears	–	–	–	–	–
Luxembourg	Nominal value	–	–	–	13	13
	Arrears	–	–	–	–	–
Poland	Nominal value	21	–	–	–	21
	Arrears	–	–	–	–	–
Switzerland	Nominal value	–	208	–	–	208
	Arrears	–	–	–	–	–
Slovenia	Nominal value	90	–	–	–	90
	Arrears	–	–	–	–	–
Austria	Nominal value	449	20	29	282	780
	Arrears	–	–	–	–	–
Total	Nominal value	**1,148**	**3,210**	**336**	**1,752**	**6,446**
	Arrears	**–**	**–**	**–**	**–**	**–**

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

(€ m)	**31.12.2014**		31.12.2013	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Bahamas	30	–	15	–
Germany	1,176	–	1,436	–
Greece	58	–	61	–
Hong Kong	114	–	140	–
Liberia	369	–	301	–
Malta	246	–	202	–
Marshall Islands	335	–	300	–
Norway	9	–	16	–
Panama	90	–	61	–
Singapore	97	–	109	–
Turkey	–	–	8	–
Cyprus	104	–	71	–
Total	**2,628**	**–**	**2,720**	**–**

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

Number **2014**	Commercial	Residential	Ocean-going vessels	Inland water vessels	**Total**
Pending foreclosures and judicially enforced receiverships	–	–	–	–	–
Foreclosures completed	–	–	–	–	–
Land and ships acquired to prevent losses	–	–	–	–	–

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

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

(€ m) **2014**	Commercial	Residential	Ocean-going vessels	Inland water vessels	**Total**
Total amount of arrears on interest to be paid	–	–	–	–	–

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

Of loans and advances to banks, the amount of € 559 million (previous year: € 1,021 million), and € 16,460 million of loans and advances to customers (previous year: € 16,635 million) are used to cover debentures issued.

72. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED STATES

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

(€ m) 31.12.2014	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	Fair value of assets
Portugal	**324**	**6**	**318**	**319**
Country	280	–	280	283
Banks	5	–	5	3
Corporates/Other	39	6	33	33
Ireland	**233**	**61**	**172**	**171**
Banks	54	–	54	54
Corporates/Other	179	61	118	117
Italy	**1,127**	**25**	**1,102**	**1,204**
Country	485	–	485	639
Banks	1	–	1	1
Corporates/Other	641	25	616	564
Greece	**1,126**	**206**	**920**	**941**
Country	6	–	6	6
Corporates/Other	1,120	206	914	935
Russia	**125**	**6**	**119**	**118**
Corporates/Other	125	6	119	118
Spain	**1,818**	**97**	**1,721**	**1,760**
Country	168	–	168	170
Banks	102	–	102	104
Corporates/Other	1,548	97	1,451	1,486
Slovenia	**105**	**–**	**105**	**104**
Country	90	–	90	89
Corporates/Other	15	–	15	15
Hungary	**94**	**–**	**94**	**97**
Country	17	–	17	19
Corporates/Other	77	–	77	78
Cyprus	**1,699**	**506**	**1,193**	**1,195**
Banks	21	–	21	22
Corporates/Other	1,678	506	1,172	1,173
Total	**6,651**	**907**	**5,744**	**5,909**

(€ m) 31.12.2013	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	Fair value of assets
Portugal	**331**	**5**	**326**	**266**
Country	281	–	281	225
Banks	5	–	5	3
Corporates/Other	45	5	40	38
Ireland	**330**	**44**	**286**	**285**
Banks	57	–	57	57
Corporates/Other	273	44	229	228
Italy	**1,286**	**17**	**1,269**	**1,309**
Country	488	–	488	579
Banks	137	–	137	138
Corporates/Other	661	17	644	592
Greece	**1,029**	**186**	**843**	**841**
Country	6	2	4	5
Corporates/Other	1,023	184	839	836
Russia	**97**	**7**	**90**	**90**
Corporates/Other	97	7	90	90
Spain	**2,306**	**53**	**2,253**	**2,274**
Country	174	–	174	142
Banks	513	1	512	541
Corporates/Other	1,619	52	1,567	1,591
Slovenia	**108**	**–**	**108**	**102**
Country	90	–	90	85
Corporates/Other	18	–	18	17
Hungary	**95**	**–**	**95**	**94**
Country	17	–	17	18
Banks	1	–	1	1
Corporates/Other	77	–	77	75
Cyprus	**1,705**	**409**	**1,296**	**1,292**
Corporates/Other	1,705	409	1,296	1,292
Total	**7,287**	**721**	**6,556**	**6,553**

73. AVERAGE NUMBER OF EMPLOYEES

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

	2014			2013		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,339	545	1,884	1,386	618	2,004
Part-time employees	120	502	622	113	459	572
Total	**1,459**	**1,047**	**2,506**	**1,499**	**1,077**	**2,576**
Apprentices/trainees	29	9	38	32	11	43

74. CORPORATE GOVERNANCE

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have given a declaration of conformity pursuant to Section 161 AktG and have made it available to the shareholders. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2014 Annual Report.

75. REMUNERATION PAID TO MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

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

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

The following table shows the remuneration of active and former members of executive bodies. Total remuneration for members of the Management Board includes short-term benefits as well as payments to pension schemes.

REMUNERATION OF EXECUTIVE BODIES

(€ k)	**2014**	2013
Total remuneration of active members of executive bodies		
Management Board	3,309	3,261
Supervisory Board	462	453
Total	**3,771**	**3,714**
Total remuneration of former members of executive bodies and their surviving dependants		
Management Board	2,734	2,868

As at 31 December 2014, a total of €k 42,151 (previous year: €k 41,939) was added to provisions for pension obligations relating to former members of the Management Board and their surviving dependants.

As was the case in the previous year, there were no advances, loans and other liabilities to members of the Management Board as at 31 December 2014. Advances, loans and other liabilities to members of the Supervisory Board amounted to €k 499 (previous year: €k 231). In the 2014 financial year no new loans were granted to members of the Supervisory Board. The increase over the previous year is based on the change in the composition of the Supervisory Board.

The loans granted to members of the Supervisory Board relate to real estate financings. Loans to members of the Supervisory Board were granted with maturities from variable to final maturity in 2036. Loans to members of the Supervisory Board were at arm's length conditions with interest rates between 4.45 % and 6.9 %.

Collateral for loans is in the form of land charges for real estate financing. Repayments of loans by members of the Supervisory Board amount to €k 28 in total in 2014 (previous year: €k 4).

76. SEATS ON SUPERVISORY BODIES

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

(a) Members of the Management Board

No seats were held as at the reporting date.

(b) Employees

Peter Axmann
Sprinkenhof AG, Hamburg
Member of the Supervisory Board

Torsten Heick
Nobis Asset Management S.A., Luxembourg
Deputy Chairman of the Administrative Board

Dr. Dirk Lammerskötter
HSH Nordbank Securities S.A., Luxembourg
Member of the Administrative Board

Boris Matuszcak
GEWOBAG Wohnungsbau-AG, Berlin
Member of the Supervisory Board

Dr David Mbonimana
Hamborner Reit AG, Duisburg
Member of the Supervisory Board
HSH Nordbank Securities S.A., Luxembourg
Member of the Administrative Board

Wolfgang Topp
HSH Nordbank Securities S.A., Luxembourg
Chairman of the Administrative Board

Katrin Wächter
Technosis AG, Hamburg
Member of the Supervisory Board

77. THE SUPERVISORY BOARD OF HSH NORDBANK AG

Dr Thomas Mirow, Hamburg
Chair
Former President of the European Bank for Reconstruction and Development, London

Olaf Behm, Hamburg
Deputy Chair
Employee of HSH Nordbank AG

Dr Jürgen Allerkamp, Hamburg
(from 23 May 2014 until 31 December 2014)
Former Chairman of the Management Board of Deutsche Hypothekenbank AG

Stefanie Arp, Norderstedt
Employee of HSH Nordbank AG

Sabine-Almut Auerbach, Neumünster
District secretary, ver.di Southern Holstein district

Hans-Werner Blöcker, Helmstorf
(until 23 May 2014)
Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG

Berthold Bose, Hamburg
(until 23 May 2014)
Regional financial services representative, ver.di Hamburg district

Oliver Dircks, Kiel
(until 23 May 2014)
Employee of HSH Nordbank AG

Simone Graf, Altenholz
(from 23 May 2014)
Employee of HSH Nordbank AG

Silke Grimm, Reinbek
(from 23 May 2014)
Member of the Board of Euler Hermes Deutschland AG

Torsten Heick, Rellingen
Employee of HSH Nordbank AG

Oke Heuer, Kiel
(until 23 May 2014)
Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein

Stefan Jütte, Bonn
Former Chairman of the Management Board of Deutsche Postbank AG

Sabine Kittner-Schürmann, Kiel
(until 23 May 2014)
Employee of HSH Nordbank AG

Dr Rainer Klemmt-Nissen, Hamburg
Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH

Lutz Koopmann, Altenholz
(until 23 May 2014)
Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein

Dr Joachim Lemppenau, Korschenbroich
(until 23 May 2014)
Former Chairman of the Management Board, Volksfürsorge Versicherung AG

Manfred Lener, Eckernförde
(until 23 May 2014)
Employee of HSH Nordbank AG

Thomas Losse-Müller, Kiel
(until 27 November 2014)
Chief of the State Chancellery of the Minister-President of Land Schleswig-Holstein

Rieka Meetz-Schawaller, Kiel
Employee of HSH Nordbank AG

Dr David Morgan, London
Managing Director J.C. Flowers & Co UK Ltd.

Dr Philipp Nimmermann, Kiel
(from 27 November 2014)
Secretary of State at the Schleswig-Holstein Ministry of Finance

Dieter Randau, Pinneberg
(from 23 May 2014 until 29 October 2014)
Head of Planning, Controlling and Finance ver.di Hamburg district

Edda Redeker, Kiel
(until 23 May 2014)
ver.di Northern district

Stefan Schlatermund, Hamburg
(from 23 May 2014)
Employee of HSH Nordbank AG

Klaus-Dieter Schwettscher, Reinbek
(from 10 January 2015)
Representative of ver.di's federal management board

Elke Weber-Braun, Hamburg
(from 23 May 2014)
Independent chartered accountant

Bernd Wrede, Hamburg
(until 23 May 2014)
Former Head of the Executive Board of Hapag Lloyd AG

Jörg Wohlers, Rellingen
(from 1 January 2015)
Former Member of the Board of Hamburger Sparkasse AG and HASPA Finanzholding

(a) Members of the Risk Committee

Stefan Jütte
Chair

Olaf Behm

Simone Graf
(from 23 May 2014)

Torsten Heick

Sabine Kittner-Schürmann
(until 23 May 2014)

Dr Rainer Klemmt-Nissen

Manfred Lener
(until 23 May 2014)

Rieka Meetz-Schawaller
(until 23 May 2014)

Dr Thomas Mirow

Dr David Morgan

Stefan Schlatermund
(from 23 May 2014)

Bernd Wrede
(until 23 May 2014)

(b) Members of the Audit Committee

Elke Weber-Braun
Chair (from 23 May 2014)

Dr Joachim Lemppenau
Chair (until 23 May 2014)

Dr Jürgen Allerkamp
(from 23 May 2014 until 31 December 2014)

Stefanie Arp

Olaf Behm

Oliver Dircks
(until 23 May 2014)

Oke Heuer
(until 23 May 2014)

Thomas Losse-Müller
(until 27 November 2014)

Rieka Meetz-Schawaller

Dr Thomas Mirow
(until 23 May 2014)

Dr Philipp Nimmermann
(from 11 December 2014)

Jörg Wohlers
(from 23 January 2015)

(c) Members of the Executive Committee

Dr Thomas Mirow
Chair

Dr Jürgen Allerkamp
(from 23 May 2014 until 31 December 2014)

Olaf Behm

Simone Graf
(from 23 May 2014)

Oke Heuer
(until 23 May 2014)

Dr Rainer Klemmt-Nissen

Thomas Losse-Müller
(until 27 November 2014)

Rieka Meetz-Schawaller
(until 23 May 2014)

Dr David Morgan

Dr Philipp Nimmermann
(from 11 December 2014)

Jörg Wohlers
(from 23 January 2015)

(d) Members of the Remuneration Monitoring Committee (from 6 February 2014)

Dr Thomas Mirow
Chair

Olaf Behm

Simone Graf
(from 23 May 2014)

Silke Grimm
(from 23 May 2014)

Oke Heuer
(until 23 May 2014)

Dr Rainer Klemmt-Nissen

Thomas Losse-Müller
(until 27 November 2014)

Rieka Meetz-Schawaller
(until 23 May 2014)

Dr Philipp Nimmermann
(from 11 December 2014)

(e) Members of the Mediation Committee

Dr Thomas Mirow
Chair

Olaf Behm

Dr Rainer Klemmt-Nissen

Manfred Lener
(until 23 May 2014)

Rieka Meetz-Schawaller
(from 23 May 2014)

78. THE MANAGEMENT BOARD OF HSH NORDBANK AG

Constantin von Oesterreich
Born in 1953
Chair

Stefan Ermisch
Born in 1966
Chief Financial Officer

Torsten Temp
Born in 1960
Shipping, Project & Real Estate Financing

Edwin Wartenweiler
(until 31 May 2015)
Born in 1959
Chief Risk Officer

Matthias Wittenburg
Born in 1968
Corporates & Markets

Hamburg/Kiel, 24 March 2015

Constantin von Oesterreich   Stefan Ermisch

Torsten Temp   Edwin Wartenweiler

Matthias Wittenburg

AUDITOR'S REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the HSH Nordbank AG, Hamburg and Kiel, for the business year from 1 January to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we wish to point out to the comments in the management report in the section "Opportunities and risks related to the EU state aid proceedings". It is stated there that the going concern assumption for accounting and measurement purposes is based in particular on the presumed approval by the EU commission, under consideration of further structural measures to be implemented, of the replenishment of the capital relief guarantee and the final clearance to the amendment of the guarantee agreement following the preliminary approval given in June 2013. Furthermore, it is based on the assumption that approval will only be connected to requirements that can be implemented within the framework of a viable business plan. It is further required that the acceptance necessary for the successful implementation of HSH Nordbank AG`s business model by market participants and other relevant stakeholders be maintained.

Hamburg, 24 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz	Thiede
Wirtschaftsprüfer	Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

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

Hamburg/Kiel, 24 March 2015

Constantin von Oesterreich

Stefan Ermisch

Torsten Temp

Edwin Wartenweiler

Matthias Wittenburg

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