



# LOOKING AHEAD

EMBARKING ON A SUCCESSFUL FUTURE

# HSH NORDBANK GROUP AT A GLANCE

## INCOME STATEMENT

in (€ m)

|                                 | 2015 | 2014 |
|---------------------------------|------|------|
| Net income before restructuring | 954  | 883  |
| Net income before taxes         | 450  | 278  |
| Group net result                | 98   | 160  |

## BALANCE SHEET

in (€ bn)

|                 | 31.12.2015 | 31.12.2014 |
|-----------------|------------|------------|
| Equity          | 4.9        | 4.7        |
| Total assets    | 97.0       | 110.1      |
| Business volume | 106.2      | 119.9      |

## CAPITAL RATIOS<sup>1)</sup>

in (%)

|                          | 31.12.2015 | 31.12.2014         |
|--------------------------|------------|--------------------|
| CET1 ratio               | 12.3       | 10.0 <sup>2)</sup> |
| Tier 1 capital ratio     | 16.4       | 14.4               |
| Regulatory capital ratio | 20.6       | 18.7               |

## EMPLOYEES

(computed on full-time equivalent basis)

|         | 31.12.2015 | 31.12.2014 |
|---------|------------|------------|
| Total   | 2,384      | 2,579      |
| Germany | 2,264      | 2,422      |
| Abroad  | 120        | 157        |

## LONG-TERM RATINGS

|         | Unguaranteed liabilities | Guaranteed liabilities <sup>3)</sup> | Public-sector Pfandbriefe | Mortgage Pfandbriefe | Ship Pfandbriefe |
|---------|--------------------------|--------------------------------------|---------------------------|----------------------|------------------|
| Moody's | Baa 3                    | Aa 1                                 | Aa 2                      | Aa 3                 | Baa 1            |
| Fitch   | BBB-                     | AAA                                  | -                         | -                    | -                |

<sup>1)</sup> According to the same period calculation under the CRR rules.

<sup>2)</sup> Plus a buffer of 2.6 percentage points, which arose effective 31 December 2014 from the way in which the second-loss guarantee works.

<sup>3)</sup> Liabilities covered by guarantor's liability (Gewährträgerhaftung).

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

## OUR WAY TO A SUCCESSFUL FUTURE

2015 was a pivotal year for **HSH NORDBANK**. The agreement with the European Commission is a strong signal for the viability of the Bank. We now have time until the autumn of 2018 to dedicate ourselves completely and resolutely to working towards a clear target: the privatisation of our Bank. **THE COURSE FOR THE COMING YEARS HAS BEEN SET** and we will do everything in our power to make use of this opportunity. Again in 2015 we worked hard on ourselves, and we did not cease questioning ourselves in order to keep getting better. Our aim is to be a dependable, competent and fast-acting partner for our clients – now and in the future. We will continue along this path.

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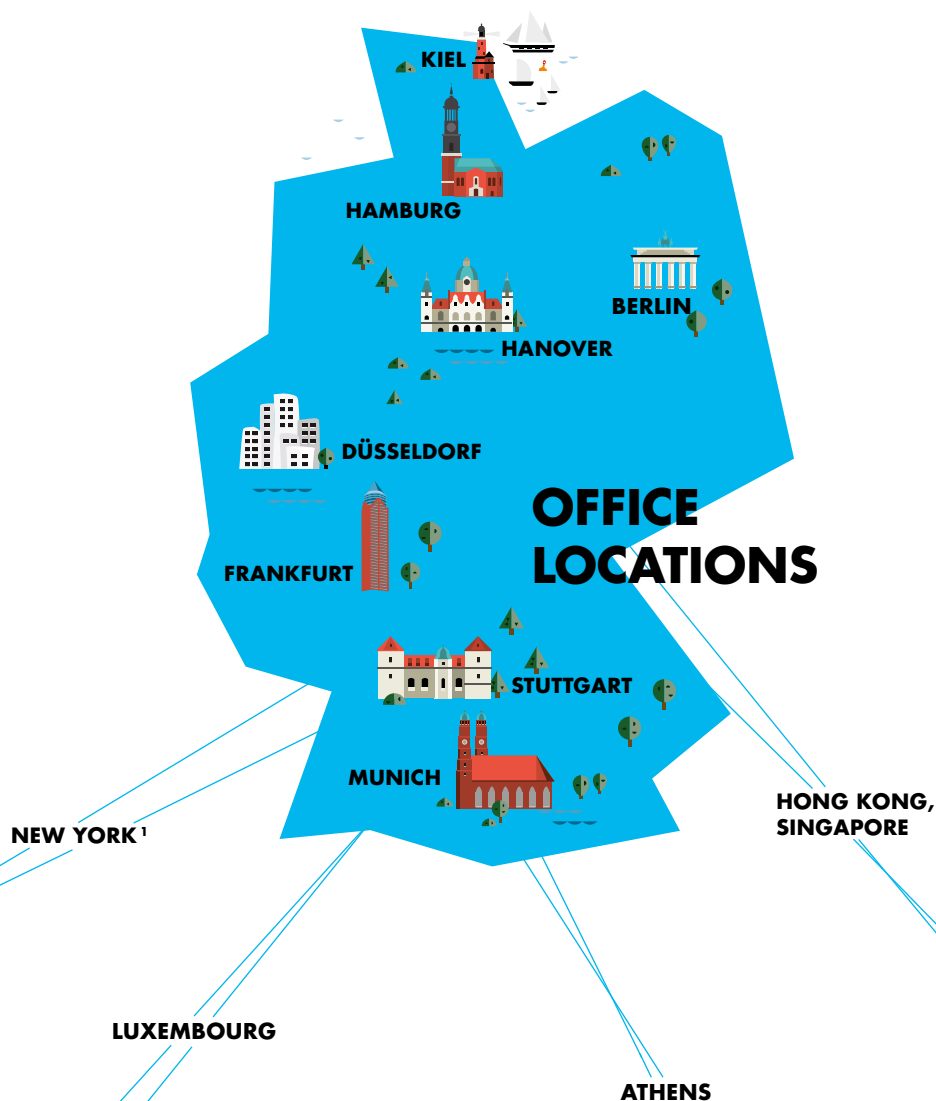
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## WE ARE ...

... the 'bank for entrepreneurs' – the Bank for people with foresight, passion and initiative. We are where our clients are: in our home region of North Germany, in the metropolitan regions of Germany and in selected foreign locations. Here we offer companies tailor-made finance solutions and assist them with our broad-based sector expertise.

**HSB NORDBANK** is one of the leaders in Germany for real estate financing. We are among the top players in Europe when it comes to realising renewable energy projects while we have a long tradition of expertise in the maritime industry. The Corporate Client business is an important pillar of our Bank, which we aim to strengthen further: through commitment, single-minded determination and reliability. We seek to convince through performance because we are **STRONG FOR ENTREPRENEURS**.

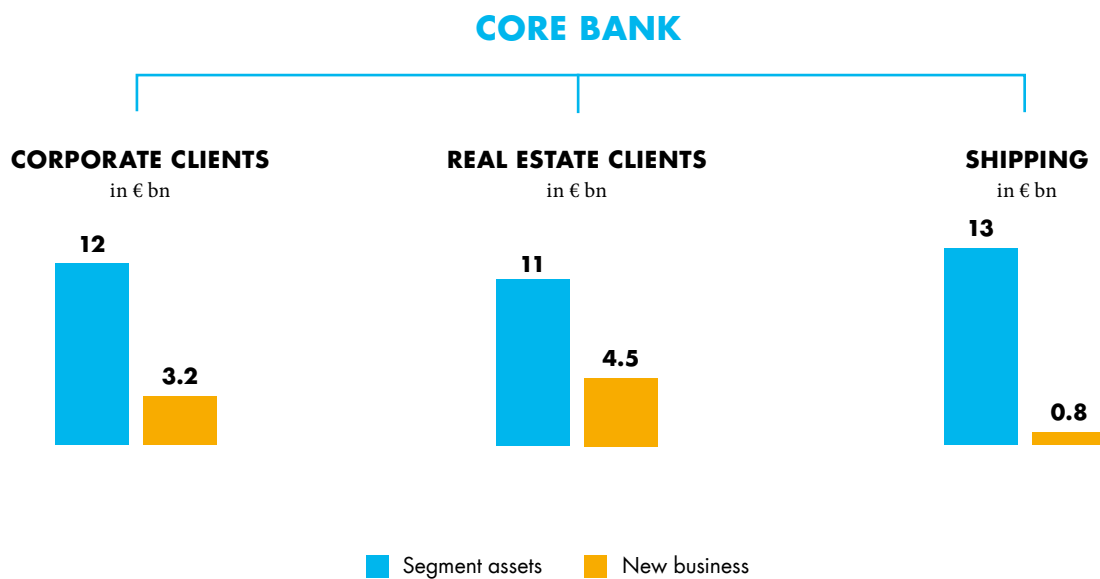


<sup>1</sup> A representative office only since the end of 2015

# MILESTONES 2015

- ◇ **POSITIVE PERFORMANCE CONTINUED:** Following the turnaround in the previous year, in 2015 too we made a profit in a demanding market.
- ◇ **A PLAN DRAWN UP FOR THE FUTURE:** In the EU state aid proceedings there is a solution; our Bank has been set on course for privatisation.
- ◇ **A MAJOR STEP FORWARD:** In 2016, we shall transfer the main portfolios with non-performing loans to our owners, taking us a big step forward in reducing risks.
- ◇ **FOCUS SHARPENED:** We have realigned our business with corporate clients, thereby moving even closer to the market.

## A BALANCED PROFILE – THE BANK’S THREE PILLARS



## FOREWORD BY THE MANAGEMENT BOARD

### **Ladies and gentlemen,**

The EU Commission's favourable decision in the state-aid proceedings characterised the year 2015 to a major extent for HSH Nordbank. Two years of negotiations were followed in October 2015 by the green light from Brussels. We therefore now have planning certainty and a clear outlook on the future. The agreement reached with the EU gives HSH Nordbank the opportunity to sell legacy assets of up to EUR 6.2 billion to an institution under public law that the states of Hamburg and Schleswig-Holstein established in December 2015. The plan is to make a transfer of initially EUR 5 billion in the summer of 2016. HSH Nordbank will thereafter be able to dispose of further critical assets worth up to EUR 3.2 billion on the market. The losses on these disposals will be charged to the existing guarantee. The Bank will thus be liberated from at least some of the massive legacy assets that stem from the time prior to 2009. It should not go unmentioned, however, that we would have wished for more substantial relief. The non-performing loans stemming from the past continue to weigh on HSH Nordbank to a major extent and conceal its actual ability to perform as they tie capital and are – to put it briefly – negatively reflected on the balance sheet. Ultimately, they will diminish the potential price to purchase HSH Nordbank. Everyone involved must be aware of that.

The change of ownership planned for 2018 will present HSH Nordbank with tremendous challenges – but it simultaneously means a great opportunity. These are the poles between which the Bank will be moving in the next two years. We must now establish the conditions for the change of ownership in order to make it a success. Potential investors will be interested in HSH Nordbank only if they are convinced by its structure, ability to perform as well as its long-term potential. Alongside a solid client base that has grown over time and a good market position, this also includes efficient processes in sales and back-office operations accompanied by a cost-income ratio that is appropriate overall.

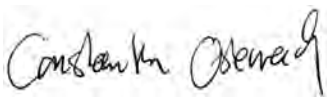
A glance at our results of the past year underscores HSH Nordbank's operating strength and shows its potential to generate steady income over the medium and long term. In 2015, HSH Nordbank generated a positive result with pre-tax income of EUR 450 million. However, this profit was heavily affected by technical factors that are directly connected with the complex guarantee structure. The Bank performed well in operating terms and increased its total income by nearly 70 per cent to EUR 995 million. That is particularly notable given a difficult market setting and the protracted uncertainty until the informal agreement was reached with EU Commission in October 2015. The amount of new business was, in accordance with projections issued during the year, down slightly on good margins and high disbursement ratios. However, following a very strong 2014, the figure of EUR 8.8 billion was well above the 2013 level. The crucial factor is that we are getting better and better at balancing our loan portfolio between the Shipping, Corporate Clients and Real Estate Clients divisions, with each accounting for about one third of the volume. Whereas we are intentionally reducing the portfolio in the Shipping division, which continues to be marked by the persistently weak shipping markets, our Real Estate Clients and Corporate Clients divisions are gaining in significance. In 2015, we were particularly successful in, amongst other areas, financing renewable energies – a future sector where we are amongst the market leaders in both Germany and Europe.

At the same time, we resolutely and extensively equipped ourselves to confront the risks in the portfolio: given the still deteriorating shipping markets and the effects already taken into account of the impending transfer of non-performing loans to the federal states' domain, the Bank has made very large risk provision of some EUR 3 billion before guarantee effects. By far the largest proportion of this concerns the legacy shipping portfolio. After guarantee effects, including the considerable reversal of premiums previously allocated, there was a positive balance for risk provisioning of EUR 304 million. We will continue to keep a very close eye on the remaining risks, which still stem from the legacy shipping portfolio. As was already the case in the preceding years, HSH Nordbank also showed a very solid, 12.3 per cent common equity ratio with its 2015 financial statements. That is testament to the Bank's stability. Total assets dipped – due above all to the planned wind-down in the Restructuring Unit – from EUR 110 to 97 billion.

All told, HSH Nordbank looks back on 2015 as a year that was as challenging as it was successful. The conclusion of the EU state-aid proceedings is a key milestone – and simultaneously the starting point for a new era. We are convinced that HSH Nordbank will be a bank of interest to investors. It has a strong market position, already well-functioning processes on which we continue to work, as well as skilled, motivated employees. Its position in the northern German market is excellent, but it is also present in the rest of Germany. The preconditions for a new owner are consequently favourable, especially given that such a new owner will, in the future, be able to fully develop the Bank's potential, i.e. without the EU Commission-stipulated restrictions that currently constrain our business opportunities.

HSH Nordbank is facing two crucial years that will be characterised by major effort and possibly unpopular decisions. We will do everything we can for a successful change of ownership and are convinced that this will be a step towards a thriving future.

Yours sincerely,



Constantin von Oesterreich  
*Chairman of the Management Board*



Stefan Ermisch  
*Deputy Chairman of the Management Board*



Torsten Temp  
*Member of the Management Board,  
Shipping Project & Real Estate Finance*



Ulrik Lackschewitz  
*Chief Risk Officer*



Matthias Wittenburg  
*Member of the Management Board,  
Corporates & Markets*





*f. l. t. r.: Constantin von Oesterreich,  
Chairman of the Management Board  
HSH Nordbank, Stefan Ermisch,  
Deputy Chairman of the Management  
Board HSH Nordbank*







# CONSTANTIN VON OESTERREICH AND STEFAN ERMISCH IN CONVERSATION

## START OF A NEW ERA

**After more than two years of scrutiny under the state-aid proceedings against HSH Nordbank, the EU Commission gave the green light in October 2015. What does this decision mean for the Bank?**

**Constantin von Oesterreich:** It established clarity and planning certainty, and it sets out unambiguous prospects with the change of ownership targeted for 2018. Everyone – our clients, investors and rating agencies, but also our colleagues – now knows where they stand.

**Stefan Ermisch:** I regard this change of ownership as a great opportunity. We can now dispose of at least some of our legacy assets and offset this against the existing guarantee. At the same time, the guarantee premiums in the operating part of the Bank will drop from 4 to 2.2 per cent of the unutilised portion of the guarantee. That provides palpable relief for the future.



**Are you also satisfied with the details of the EU decision?**

**Stefan Ermisch:** The decision is a political compromise. Although the Bank will be relieved of some of the legacy assets from the years prior to 2009, it will still retain a considerable proportion of such legacy and unhealthy business. That doesn't make it any easier – I'm quite realistic about that, especially so given that the final decision of May 2016 deviates in some parts from the outcome indicated in October 2015 – and rather more so to our detriment.

**Waiting for the EU decision entailed uncertainty. What impact did that have on business in 2015?**

**Constantin von Oesterreich:** Clients and investors don't like a lack of clarity. We know that, and felt it. The months preceding the EU decision cost us business. There was a significant increase in the deals closed once we had the green light from Brussels. The fourth quarter was by far the strongest last year. Our Bank must now continue to prevail in the marketplace, and we are well on our way to doing just that. Our 2015 total income exceeded the budget target and we have a good grip on our costs.

**Despite these difficult underlying conditions, HSH Nordbank reported a respectable profit for 2015 with pre-tax income amounting to EUR 450 million. How did that come about?**

**Stefan Ermisch:** We see major benefits from the EU decision on our 2015 balance sheet. We previously made substantial provision for future premium payments. Much of that no longer applies, which on balance equated to non-recurring relief of more than EUR 650 million for 2015. Secondly, we generated a solid amount of new business in the Core Bank, with decent margins and better cross-selling. That would not have been possible without the big effort we put in together, and for which I would like to express my sincere thanks to all staff members. The solid capital ratios shown on our balance sheet also reflect how stable our Bank is meanwhile. That's good news. But we must not forget: the result was a positive one thanks only to exceptional factors.

**What conclusions do you draw from that?**

**Stefan Ermisch:** We must not rest on our laurels. Standing still would mean the end. It must be our objective to hand over an outstanding base, i.e. a high-performing organisation, to any new owner.

**What is especially important about that?**

**Stefan Ermisch:** We have to keep our focus on our capital base and continue to improve our efficiency. Given that competition is fierce right now, we must continue to reduce costs even if that entails cuts. That's painful, but unavoidable. Our Bank furthermore needs – like every other one, too – efficient and resilient processes in both sales and back office operations as well as fast execution. That, in turn, assumes clear, straightforward decision-making channels. We are working on becoming even stronger in operational terms. That is tremendously important because we are now establishing the basis for a new owner to fully release the Bank's potential under what will then be liberated conditions. We are working on the Bank's future success.



**The agreement with the EU Commission provides that HSH Nordbank may initially transfer assets worth EUR 5 billion to the states of Hamburg and Schleswig Holstein. How far has this progressed?**

**Stefan Ermisch:** The federal states have established the “hsh portfoliomanagement AöR” company in Kiel to which the assets can be transferred and have met all the other conditions for these transactions. The plan is to transfer the assets in the summer of 2016. This involves NPL portfolios from the Shipping division, which will be transferred at “market value” and charged to the guarantee. Given that there is no liquid market for these severely marred assets, the EU Commission has commissioned an appraiser to establish transfer prices that are neutral with respect to state aid legislation and described these as market prices.

**HSH Nordbank may sell further assets worth EUR 3.2 billion at market prices. How far has the planning progressed?**

**Constantin von Oesterreich:** The respective assets have been identified. They stem not only from the Shipping division, but also from others. We have more time to sell those. Our prime objective is to achieve adequate prices. There are investors who are prepared to take a certain amount of risk if they see opportunity for a good return.

**How do you rate the prospects for HSH Nordbank’s planned privatisation?**

**Constantin von Oesterreich:** I was always convinced that HSH Nordbank is viable for privatisation. Even though the EU decision did not turn out to be an ideal one for us – our Bank now has an opportunity that it will take.

**What about the Shipping division, which has suffered so badly in recent time from ship overcapacity?**

**Stefan Ermisch:** The Shipping division will be liberated from numerous legacy assets by 2018, although they will continue to weigh on the Bank’s result. We estimate an annual loss of about EUR 200 million, which is the price for the comparatively minor relief. This will make the change of ownership more difficult – or it will squeeze the price.


**How do you rate the potential of the Bank’s healthy part?**

**Stefan Ermisch:** The healthy part of the Core Bank should have potential for earning about EUR 300 million before taxes. In the long term, the Bank’s new owners will be able to expand the Bank’s strengths further, also because they – unlike HSH right now – will not be subject to any business restrictions. All told, HSH Nordbank is set up in a smart and balanced way. It has a strong market position, well-functioning processes and employees who are as skilled as they are motivated. This is a promising combination for investors. The Bank commands a very good position in northern Germany and is also represented in the rest of the country. Particularly the metropolitan region around Hamburg is very strong economically. The Bank has an excellent market position in its Real Estate Clients, Energy & Utilities as well as Corporate Clients divisions. With our Capital Markets, Wealth Management and Transaction Banking divisions, we support our client-related activity in a prudent manner.

**Who would be a potential buyer for HSH Nordbank?**

**Stefan Ermisch:** First, the important thing is that creative solutions are called for and that’s why I think much is conceivable: starting with the involvement of a strategic investor, then the possibility of an IPO and through to another Landesbank, which wants to extend or round off its business, buying a stake. Besides, it should be remembered that the states of Hamburg and Schleswig-Holstein might, even after 2018, continue to hold stakes of up to 25 per cent in the Bank for another four years.





“Even though we realise projects throughout the whole of Germany, our roots are here on the Elbe river. We are a Hanseatic company through and through, just like HSH Nordbank. This might be why our collaboration works so well. We treat each other as partners and equals, we communicate efficiently and there is a deep understanding of our – not always easy – business area. These are factors of immense importance to us. This is why we feel we are in very safe hands with the experts at HSH Nordbank.”

*Thorsten Testorp, Managing Partner B&L Group*

*Torsten Temp,  
Member of the Management Board, Shipping,  
Project & Real Estate Finance HSH Nordbank*



**B&L GROUP**

Back in 1970, Albert H. K. Büll and Dr Cornelius Liedtke in Hamburg laid the foundations for what was to become the B&L Group. Since then the owner-run company has realised more than 170 projects across Germany. Be it as developer, investor, manager or lessor – today the B&L Group with a staff of 80 is among the top names in Hamburg's real estate industry.

“I am a regular guest at HSH Nordbank’s events, both on the panel and in the audience. Current topics are discussed here specifically from the business point of view and above all with representatives of SMEs.”

*Dietrich Scheder-Bieschin, Managing Director MACS Maritime Carrier Shipping*



*Dietrich Scheder-Bieschin,  
Managing Director MACS  
Maritime Carrier Shipping*



*Prof. Dr Horst Köhler,  
former President of the Federal Republic of Germany*



### HSH NORDBANK EVENTS

Macroeconomic developments, political conditions, trends in society and technology: all matters crucial to SMEs are discussed at our events. What impact will there be on businesses; where are the opportunities; where the risks? Our objective is to illuminate these topics in a short space of time and from various angles, thereby giving participants different perspectives. The setting is intentionally informal: the emphasis is on discussion and an exchange of ideas across business sectors.

# UP<sup>o</sup>


UNTERNEHMER  
POSITIONEN NORD



*Pinar Atalay,  
Moderator*

*Matthias Wittenburg,  
Member of the Management Board,  
Corporates & Markets HSH Nordbank*



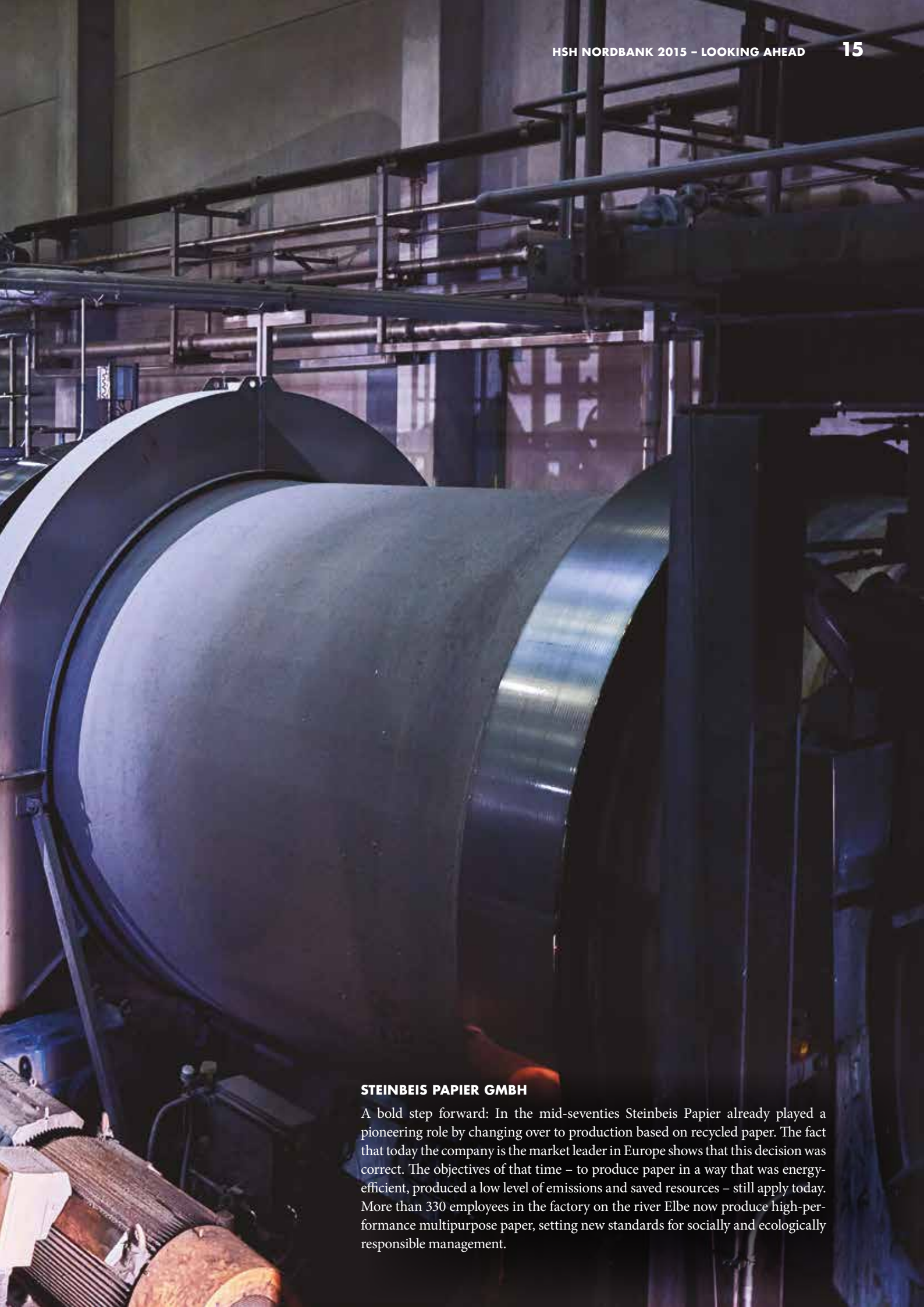


“We are a mid-sized company with a long tradition. Our group of partners still includes members of the fifth and sixth generation of the Steinbeis family. Perhaps this is why long-term thinking, dependability and of course a commitment to the region are so important for us. During our collaboration with HSH Nordbank for years now we have seen that they really understand SMEs and take their claim of being a ‘bank for entrepreneurs’ very seriously.”

*Ulrich Feuersinger, CEO Steinbeis Papier GmbH*

*Ulrik Lackschewitz,  
Chief Risk Officer  
HSH Nordbank*



**STEINBEIS PAPIER GMBH**

A bold step forward: In the mid-seventies Steinbeis Papier already played a pioneering role by changing over to production based on recycled paper. The fact that today the company is the market leader in Europe shows that this decision was correct. The objectives of that time – to produce paper in a way that was energy-efficient, produced a low level of emissions and saved resources – still apply today. More than 330 employees in the factory on the river Elbe now produce high-performance multipurpose paper, setting new standards for socially and ecologically responsible management.

# CORPORATE CLIENTS NEW STRUCTURE



ENERGY &  
UTILITIES

**LARS QUANDEL**



LOGISTICS &  
INFRASTRUCTURE

**ROLAND SCHWAB**



TRADE

**MICHAEL  
ROTHERHÜSER**



FOOD  
INDUSTRY

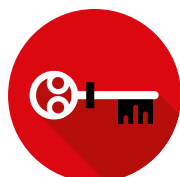


INDUSTRY &  
SERVICES

**CHRISTIAN ALPERT**



HEALTH  
CARE



WEALTH  
MANAGEMENT

**OLIVER NECKEL**



*“In a fiercely contested market we must distinguish ourselves from the competition. That is also why we realigned our Corporate Clients division in 2015, directing its focus on sectors with which we are particularly familiar so we can apply all our know-how for the benefit of our clients.”*



**PATRICK MILJES,**  
HEAD OF  
CORPORATE CLIENTS

As a bank for entrepreneurs we focus mainly on upper medium-sized companies in Germany: owner-managed companies with annual sales above € 100 million. In 2015, we restructured our Corporate Client business with a view to continuing to offer first-class service in a highly competitive market. By concentrating on the sectors of **ENERGY & UTILITIES, INFRASTRUCTURE & LOGISTICS, TRADE & FOOD, HEALTH CARE, INDUSTRY & SERVICES AS WELL AS WEALTH MANAGEMENT**, we are focussing on the areas we are particularly familiar with. Here, we have many years of experience and see good prospects. Our former Corporates, Renewable Energies, Infrastructure and Wealth Management divisions have now been pooled in the new Corporate Clients division in order to further strengthen their cooperation.

ALMOST  
**3,000**  
CLIENTS ACROSS GERMANY

200 EMPLOYEES AT **7** LOCATIONS IN GERMANY





*f. l. t. r. : Inka Klinger, Head of Energy & Utilities Sales Germany HSH Nordbank,  
Markus Lesser, Chief Operating Officer PNE WIND AG*





Strong for entrepreneurs

## **ENERGY & UTILITIES**

**UNDERSTAND** The markets are characterised by technical, legal and structural changes.

**RECOGNISE** You can depend on our experience as pioneers in the sector and on our keen sense for trends. We will deploy our expertise and comprehensive financial solutions in the execution of your projects.

**SHAPE** Whether your business is a utility focusing on solar, hydro or wind; offshore or onshore: we support you with all our energy.



“We can rely on HSH Nordbank completely. The Bank has assisted us constructively with several wind farms we have realised, not only in project financing but also during the subsequent selling phase.”

*Markus Lesser, Chief Operating Officer  
PNE WIND AG*

*f.l.t.r.: Lars Quandel, Head of Energy & Utilities HSH Nordbank,  
Markus Lesser, Chief Operating Officer PNE WIND AG*

## **PNE WIND AG**

PNE WIND AG is a listed wind farm project manager with international operations based in Cuxhaven. The company, established in 1995, plans and realises wind projects both onshore and offshore – more than 200 wind farms with total rated output of 2,300 megawatts have been realised to date in Germany, Poland, Italy, France, Spain and the USA. The company has about 380 employees. Once a farm has been developed and established, PNE usually sells it and offers to handle its technical and commercial management.

HSH Nordbank is **NUMBER THREE IN EUROPE** when it comes to the financing of wind and solar projects. In 2015, we surpassed our new business targets in this segment for the third consecutive time. Our clients include manufacturers, project developers, investors and utilities. We are now also successful in Scandinavia. After entering the Finnish market in 2014, we have further expanded our presence there: In 2015, we financed six wind farms

in this northern European country. The business we signed in France, Ireland and Sweden has not only helped us expand our portfolio but also broadened our regional footprint. The volume of our more than 250 projects in the wind and solar business alone totals around € 5 billion, which means that we are in the first rank when it comes to renewable energies.

**NEW BUSINESS TOTTALING MORE THAN**  
**€ 1 BILLION** **FOR PROJECTS AND UTILITIES**  
**IN TOTAL WE REPRESENT**  
**5.4** **GIGAWATTS IN INSTALLED CAPACITY**

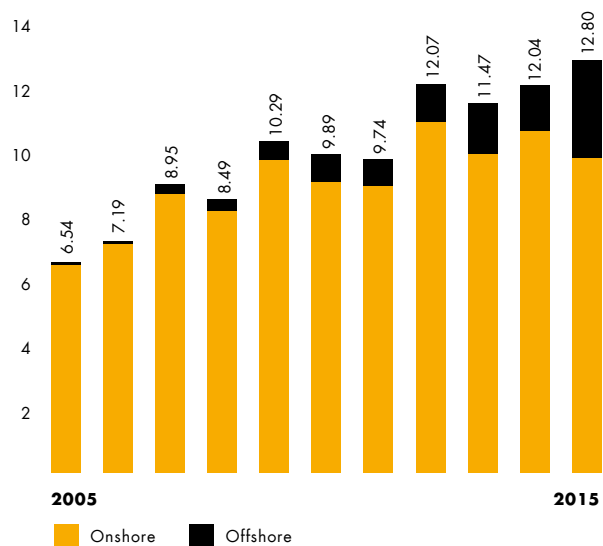
## 2015: A RECORD YEAR FOR THE EUROPEAN WIND ENERGY SECTOR

Increasingly stringent emission limits and climate targets defined by policymakers: renewable energy has become a major sector of the European economy in recent years. According to the European Wind Energy Association (EWEA), a good 77% of new power plant capacity related to renewable energy in 2015. Wind energy accounted for the lion’s share, whereas net new capacity in the photovoltaic segment dropped considerably. In the wind energy segment, the EU-wide newly installed capacity rose to a record 12.8 gigawatts in 2015: this equates to annual growth averaging 9.7% since 2000. This trend was boosted by considerable new capacity, particularly in Germany. A look at the renewable energy sector as a whole shows how significant this energy source is to European electricity supplies today. Whereas in 2005, renewable energy only accounted for 15% of electricity consumption in the EU, this figure had almost doubled to 28% by 2014. Wind power alone now supplies around 16% of the required electricity – which represents a sixfold increase over the past 15 years. What is more, the positive trend is expected to continue in the long term, especially in international terms. Although growth is expected to slow in individual markets, the further expansion of renewable energy is the only way to achieve the long-term objective of largely replacing fossil energy sources that are harmful to the environment with “clean” energy. Despite constant changes in the overall

framework, national subsidy schemes and expansion plans offer project planners and investors in the EU countries sufficiently reliable conditions to ensure that the increase in capacity can continue going from strength to strength over the next few years.

Source: HSH Nordbank Research

**ANNUAL INCREASE IN WIND ENERGY CAPACITY** in the EU in gigawatts



Source: European Wind Energy Association





*f. l. t. r. : Roland Schwab, Head of Logistics & Infrastructure HSH Nordbank, Horst Bartels, CEO NORDFROST, Kai-Uwe Höhs, Client Relationship Manager HSH Nordbank*





Strong for entrepreneurs

**LOGISTICS & INFRASTRUCTURE**


**UNDERSTAND** The pace of this globalised world needs flexible logistics chains and a reliable infrastructure.

**RECOGNISE** Our extensive experience allows us to support you when it comes to investing, hedging economic risks or executing your payments.

**SHAPE** From transport management on road and rail; from the airport through to the harbour terminal: together we set the course for the success of your enterprise.







“HSH Nordbank is one of our most significant and capable partners in the lending business. We have been collaborating with the Bank for 38 years and particularly appreciate its high reliability.”

*Horst Bartels, CEO NORDFROST*

#### **NORDFROST GMBH & CO. KG**

Logistics company NORDFROST GmbH & Co. KG with headquarters in Schortens (Lower Saxony) operates as a full-service provider in deep-freeze logistics involving storage, distribution, retail and seaport logistics. The family-run company operates 35 deep-freeze centres with a storage capacity of 3,350,000 cubic metres, thus ranking in 1st place in Europe in the deep-freeze storage segment and in 6th place worldwide, according to the company. NORDFROST has approximately 2,500 employees.



HSH Nordbank primarily provides structured financing to its clients in **TRANSPORTATION INFRASTRUCTURE, NETWORK EXPANSION & OPERATION AND IN LOGISTICS**. In these areas of business, we possess more than ten years of experience. During this time, we have

advanced to an excellent position on the European market, which is as attractive as it is competitive. In 2015, we were once again among the leading banks for large-volume acquisition financing.

€72

**MILLION FOR PRIVATE GLASS FIBRE EXPANSION IN RURAL AREAS:**

400,000

**HOUSEHOLDS IN SCHLESWIG-HOLSTEIN AND OTHER REGIONS BENEFITED**

## GOOD INFRASTRUCTURE DECISIVE FOR THE LOGISTICS SECTOR

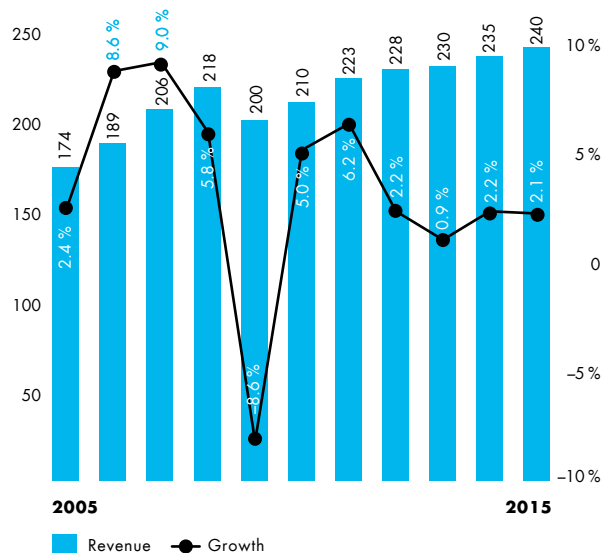
The logistics industry is one of the biggest sectors of the German economy. It employs a workforce of around three million people in approximately 60,000 companies and generated revenue totalling € 240 billion in 2015, based on estimates supplied by the German Logistics Association BVL. In Germany, the sector is dominated by innovative companies. Many logistics companies specialise in certain good segments and go further than just making transportation capacities available by offering their customers additional services. Logistics companies are becoming increasingly integrated into the customer and supplier value chain in industry and trade. In the food logistics sector, for example, the service offering ranges from quality controls performed on goods to storage, transportation and stacking shelves in the wholesale and retail sectors.

Good infrastructure is one of the key prerequisites for the growth of the logistics sector and the economy as a whole. This means that regular public and private-sector investments in roads, tunnels, bridges, railways, ports and airports are just as important as investments in the electricity, gas and telecommunications networks. The projects set out in the German Federal Transport Infrastructure Plan for 2030, which was unveiled in March 2016, alone account for a volume of more than € 67 billion. In the greater Hamburg region, major projects are planned in the maritime, road and rail transport sectors, in particular, with projects also focusing on connections between

the hinterland and the seaports. Hinterland transport is one of the biggest factors driving the growth of the rail freight transport sector, which, like passenger transport, is also being tapped into increasingly by competitors of the German national rail service, Deutsche Bahn.

Source: HSH Nordbank Research

### LOGISTICS MARKET VOLUME IN GERMANY in € bn



Source: The Top 100 in the Logistics Sector 2014/2015, BVL  
BVL = German Logistics Association



## Strong for entrepreneurs

### TRADE

**UNDERSTAND** A profound knowledge of goods and value chains allowing accurate identification of opportunities and risks is a constituent component of our Hanseatic DNA.

**RECOGNISE** From financing through to documentary business - with our specialists we are your forward-looking partner for anything you require in the markets that matter to you.

**SHAPE** Our competence bred from extensive experience offers rapid and sure decisions, leaving you the freedom to do what you need.







“HSH Nordbank has convinced us with its individual solutions on several occasions, most recently with the SmartFact factoring platform for the refinancing of trade receivables.”

*Dr Axel Rebien, CFO Tom Tailor Holding AG*



### **TOM TAILOR HOLDING AG**

Tom Tailor Holding AG with its umbrella brands Tom Tailor and Bonita ranks in the top ten of German fashion companies. Established in 1962, the company is based in Hamburg and offers clothing for women, men and children together with accessories in the mid-price segment. Its products are sold in more than 40 countries via retailers, online and in shop-in-shop areas. The fashion and lifestyle company employs a staff of around 6,900 worldwide and generated sales of € 956 million in 2015.

The trade business moves quickly and changes every day. **RELIABILITY** and **FLEXIBILITY** are crucial success factors: in goods and import finance, in financing or in receivables management, for instance via our innovative SmartFact platform. Our expertise in the garment as well as in the retail and motor vehicle trades is comprehensive:

we enjoy an excellent position in these markets, with many well-known companies among our clients. We furthermore keep a keen eye on developments in the commodity and forex markets, and will always provide support when it is a matter of hedging market price risks.



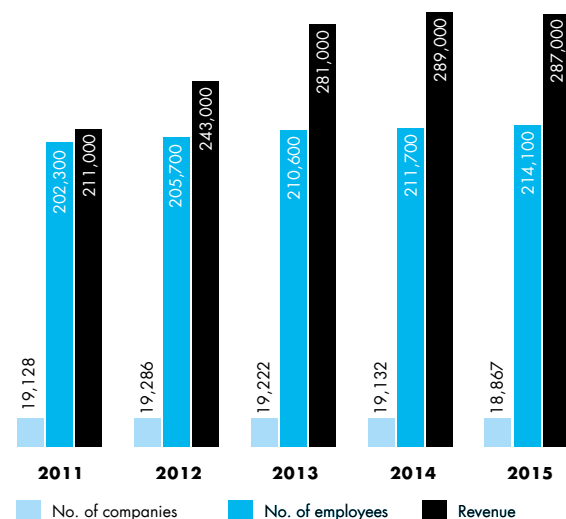
## PRIVATE CONSUMPTION BOOSTS RETAIL

The year 2015 was a successful year for the German retail sector, which reported an increase in revenue. This trend was supported by a number of factors, including the positive situation on the employment market, recent high wage agreements and the introduction of the minimum wage. The sector is optimistic for the year ahead as well thanks to what is still a high propensity to consume. Unlike the retail sector, the wholesale and foreign trade sector had a disappointing 2015, with a drop in real revenues over the year as a whole. The year 2016 is likely to remain a mixed one for the wholesale segment, also due to the slowdown in the Chinese economy. Nevertheless, a survey conducted by the business association AGA, whose members include around 3,500 wholesalers from the north of Germany, suggests that the overriding sentiment among companies based there for 2016 is one of optimism – despite the challenges facing international business. The coastal towns and cities benefit from their location to a certain degree: they have a long tradition of trade behind them and used their ports, particularly in Hamburg, to establish themselves as a hub for international goods transportation early on. The positive expectations of northern German wholesalers are also reflected in their investment and workforce plans. On the basis of the survey, the association expects to see workforces increase by 1% and investments rise by 3%.

Source: HSH Nordbank Research

### STRUCTURAL DATA FOR THE NORTHERN GERMAN WHOLESALE AND FOREIGN TRADE SECTOR

in € m



Source: AGA Norddeutscher Unternehmensverband Großhandel, Außenhandel, Dienstleistung e.V.





Strong for entrepreneurs

## **FOOD INDUSTRY**

**UNDERSTAND** The market for food products is constantly on the move because of changing consumer behaviour, vigorous innovation and fierce competition.

**RECOGNISE** Brands, white labels, production or trading: we know the challenges and opportunities of the business models and will do our bit to help you achieve your objectives.

**SHAPE** No matter where the market is heading: our sector experts feed you with fresh ideas so that you can realise yours.





*Richard Hartinger,  
Managing Director riha WeserGold*

*Oliver Wohlfeil,  
Client Relationship Manager  
Food Industry  
HSH Nordbank*



The **FOOD INDUSTRY** is multifaceted, with the wide variety of products and careful handling of the food-stuffs requiring a specific type of knowledge. Our Client Relationship Manager have a profound understanding of the agricultural and food markets and they know which step in the retail chain harbours which opportunities and risks. This results in individualised and sector-specific

solutions for our clients. We have a wide network of good contacts in the coffee and tea industries and also enjoy an excellent position in the meat and agricultural sectors. Moreover, a large number of food retailers feature among our clients – many of them dating back to the time when the Bank was established.

**OUR FOOD INDUSTRY TEAM  
CURRENTLY ASSISTS**

**170**

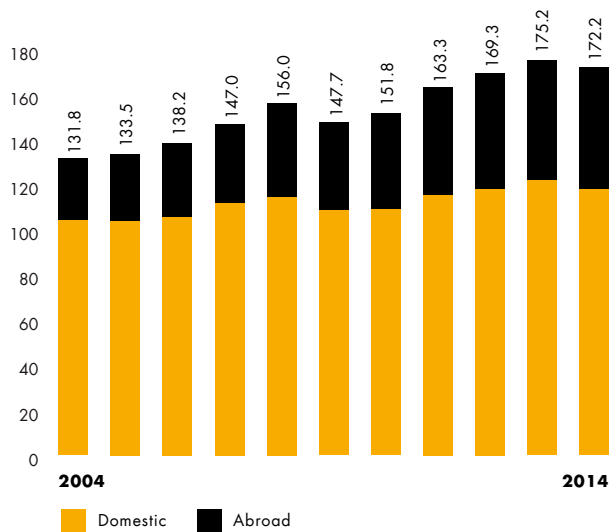
**CLIENTS WITH A TOTAL LENDING  
VOLUME OF ABOUT**

**€ 2 BILLION**


## FOCUS ON NEW SALES MARKETS AND HIGH-QUALITY PRODUCTS

The food industry is the third-largest industrial sector in Germany, employing just under 600,000 people in more than 5,800 companies. The sector, whose business is becoming increasingly international with companies now selling around one third of their products abroad, is virtually immune to economic fluctuations, meaning that it shows stable development in general. Nevertheless, food manufacturers are under huge margin pressure due to excess capacity and the high level of concentration in the German food retail sector. The only companies who will be able to withstand this intensive competition are those that can successfully tap into new sales markets, focus on innovative products and cut manufacturing costs at the same time. In response to the intense competition from the own-brand ranges launched by retail chains, food manufacturers are now also focusing more on positioning themselves as brand and high-quality manufacturers. The focus is primarily on trends such as nutritional awareness, sustainability and fresh produce. This strategy can be applied to a large number of products, particularly meat, fish and milk. According to the Federation of German Food and Drink Industries (BVE), 2015 was a difficult year characterised by a drop in sales. This trend is attributable both to a decline in the volume sold and to lower prices.

**REVENUE GENERATED BY THE GERMAN  
FOOD INDUSTRY  
BVE SECTOR OVERVIEW 2004 – 2014**  
in € bn



Source: German Federal Statistics Office, BVE



“Continuity and trust – these two foundations of a good business relationship also support our long-standing collaboration with HSH Nordbank.”

*Richard Hartinger,  
CEO riha WeserGold*

#### **RIHA WESERGOLD GETRÄNKE GMBH & CO. KG**

riha WeserGold Getränke GmbH & Co. KG, headquartered in Rinteln, is one of Europe's leading producers of alcohol-free drinks. In 2014, the company sold more than 1,100 million litres worldwide, of which 718 million in Germany. Glass blower Richard Hartinger established a family-run business to make apple juice in 1934. Since 1970 riha WeserGold has also been offering carbonated drinks. The company generates annual sales of € 567 million (2014) and employs a staff of around 2,000.





Strong for entrepreneurs

## **INDUSTRY & SERVICES**

**UNDERSTAND** Companies in the industrial and services sectors are the backbone of the German economy.

**RECOGNISE** We are familiar with the specific challenges of your market – from automotive to steel; from R&D through to the travel business.


**SHAPE** Cooperating with you, we develop distinct ideas and inch-perfect solutions so you can take profitable advantage of the opportunities your business presents.





*f. l. t. r. : Alexander Reinsch, CFO H&R KG Group, Volker Kieschke, Head of Industry & Services N/E HSH Nordbank*





“Our contacts are not only reliable and easy to reach, they are also constructive dialogue and sparring partners when it comes to tackling our corporate challenges.”

*Alexander Reinsch, CFO H&R KG-Group*

#### **HANSEN & ROSENTHAL KG-GROUP**

The Hansen & Rosenthal KG Group, with its head office in Hamburg, emerged from the establishment of a trading firm dealing in petroleum jelly and white oils in 1919. Working together with H&R Aktiengesellschaft, the group is now one of Europe's leading providers of chemical-pharmaceutical specialities such as softening agents, white oils and paraffins. The group companies employ a staff of 1,712 at 19 locations in and outside Germany.



Clients have been relying for years on the solutions and structuring expertise offered by our **INDUSTRY & SERVICES** division for their frequently complex projects. We are very familiar with major finance requirements

deriving from asset intensity and substantial technical challenges during implementation. We see ourselves as a long-term business partner and assist our clients through all economic cycles.

LOANS OF  
MORE THAN

€3.9 BILLION

TO 600 CLIENTS

THE RIGHT SOLUTION FOR ANY SECTOR:

COMMODITIES  
FINANCIAL SERVICES  
**MECHANICAL ENGINEERING**  
AUTOMOTIVE SUPPLY INDUSTRY TRAVEL INDUSTRY  
HOTEL INDUSTRY  
TELECOMMUNICATIONS PAPER  
METAL IT  
MEDIA  
CATERING CHEMICALS



Strong for entrepreneurs

## HEALTH CARE

**UNDERSTAND** The health care sector is a growth market of steadily increasing importance to society as a whole.

**RECOGNISE** While the medical sector and technology continue to develop, systemic cost pressure is also mounting. We help you navigate the conflicting priorities involving investment, acquisitions and other complex plans.

**SHAPE** Medical technology, hospitals or care; specialised service providers or pharmaceuticals: together we ensure that you are fit for your future.





HSH Nordbank is one of the leading providers of finance to **CLINICS AND CARE INSTITUTIONS** in and beyond northern Germany. For more than 15 years we have been active nationwide with a specialised sector team that

has strong ties to the industry. Our specialists possess particular expertise in advising clinics, care institutions, companies in the medical technology and pharmaceuticals sectors as well as specialist service providers.

WE HAVE FINANCED A TOTAL OF AROUND

**10,000**

BEDS IN 18 HOSPITALS IN NORTHERN GERMANY

WE HAVE ISSUED LOANS FOR AROUND

**€1.3 BILLION**

TO THE HEALTH CARE INDUSTRY

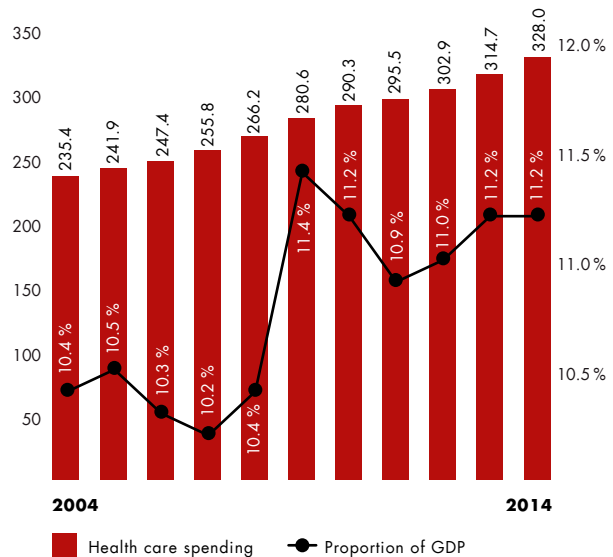
## IMPETUS FOR GROWTH AND EMPLOYMENT

Health is a key part of life. It is not only many people's "most important asset", but is also a major economic factor: according to the German Federal Statistical Office (Statistisches Bundesamt), total health care spending accounts for around 11% of gross domestic product. The population is becoming increasingly health-conscious, older and more in need of long-term care. This means that the health care industry is a source of growth and employment impetus: In the period between 2004 and 2014, gross value added in the sector – i.e. the total value of produced goods and services less intermediate consumption – grew by around 39% to total just under € 330 billion. Whereas 4.4 million people were working in the health care sector back in 2004, this figure had risen to 4.9 million by 2014. The challenge in the future will be to at least maintain, if not improve, the quality of health care in spite of demographic trends, striking a balance between humanitarian and financial aspects at the same time.

Source: HSH Nordbank Research

### HEALTH CARE SPENDING IN GERMANY AS A PROPORTION OF GDP

in € m



Source(s): Health expenditure calculation, Forward projection of population figures, National accounts, German Federal Statistics Office



“HSH Nordbank has been assisting us since 2001, when the Management Board led the company back to independence via a management buyout. We very much appreciate the understanding, fairness and constructive support we have experienced every single day.”

*Dr Jörn Tonne, Managing Director Nordmark Arzneimittel*



#### **NORDMARK ARZNEIMITTEL GMBH & CO. KG**

Nordmark Arzneimittel GmbH & Co. KG has been a leading international specialist for the development, production and marketing of active pharmaceutical ingredients (APIs) and drugs of a biological and biotechnological origin since 1927. The company works to the highest standards. Nordmark is the global market leader today when it comes to the production of pancreatin and collagenases, in particular. Headquartered in Uetersen near Hamburg the company is now back in family hands following a management buyout from the BASF conglomerate in 2001. With a staff of more than 500 it generated sales of around € 73 million in 2015.





Strong for entrepreneurs  
**WEALTH MANAGEMENT**

**UNDERSTAND** Every asset is unique.

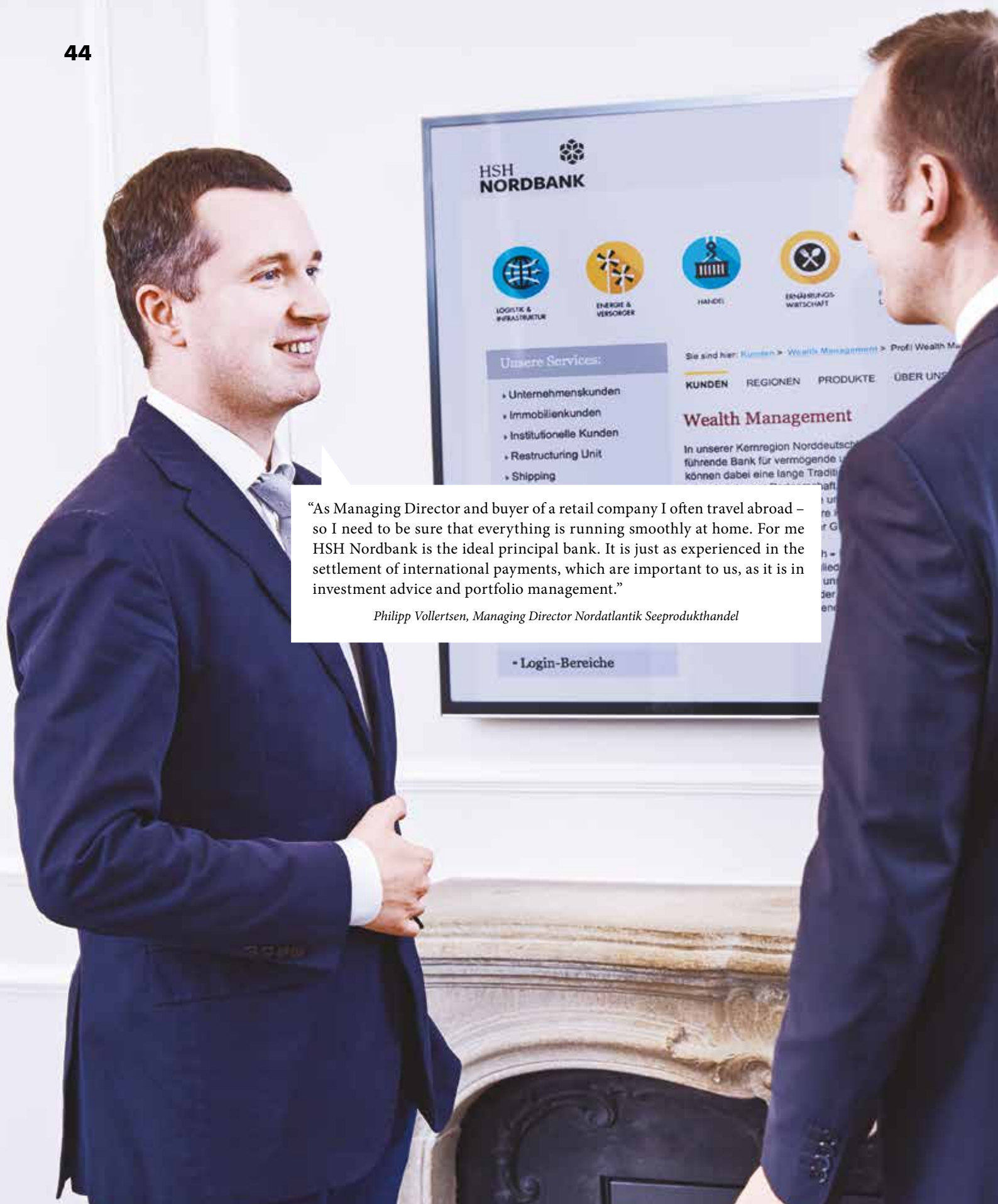
**RECOGNISE** It is our responsibility to find the right solution for your personal requirement.

**SHAPE** When you feel confident that your assets are in good hands, today and tomorrow, then we feel we have done our job.





*f.l.t.r.: Philipp Vollertsen, Managing Director Nordatlantik Seeprodukthandel,  
Oliver Neckel, Head of Wealth Management HSH Nordbank*



“As Managing Director and buyer of a retail company I often travel abroad – so I need to be sure that everything is running smoothly at home. For me HSH Nordbank is the ideal principal bank. It is just as experienced in the settlement of international payments, which are important to us, as it is in investment advice and portfolio management.”

*Philipp Vollertsen, Managing Director Nordatlantik Seeprodukthandel*

#### **PHILIPP VOLLERTSEN**

For Hamburg’s entrepreneur Philipp Vollertsen HSH Nordbank is the preferred partner in all financial matters – not only in business affairs but also in the private sphere.



We are the **“BANK FOR ENTREPRENEURS”**. So we assist our clients not only in all business matters, but also on questions relating to private assets. Our focal areas in wealth management are individual investment advice and portfolio management. In addition, we provide our clients with comprehensive advice on the topics of foundations and philanthropy. We have

acted as a partner supporting numerous companies for decades. This in-depth and long-term relationship is one of our main strengths. In the interest of our clients we provide advice independently of products and providers: we give top priority to dependability, transparency and soundness – with a view to maintaining and growing the assets entrusted to us over generations.



**FOUNDATIONS WITH A DIFFERENCE:**

**IN 2015, WE CREATED THE ONLINE PLATFORM [WWW.NEUES-STIFTEN.DE](http://WWW.NEUES-STIFTEN.DE)  
THE PLATFORM PROVIDES CONCISE INFORMATION  
RELATING TO THE TOPICS OF PHILANTHROPY AND FOUNDATIONS**

**WE ADVISE**

**700**

**FOUNDATIONS AND CHARITABLE  
ORGANISATIONS ACROSS GERMANY**

**SINCE 2015, WE HAVE BEEN COLLABORATING IN ASSET MANAGEMENT  
WITH METZLER ASSET MANAGEMENT GMBH. THIS ENABLES US TO  
OFFER OUR CLIENTS EVEN GREATER VALUE ADDED WHEN IT COMES TO**

**WEALTH MANAGEMENT**

**AND INVESTMENT ADVICE**

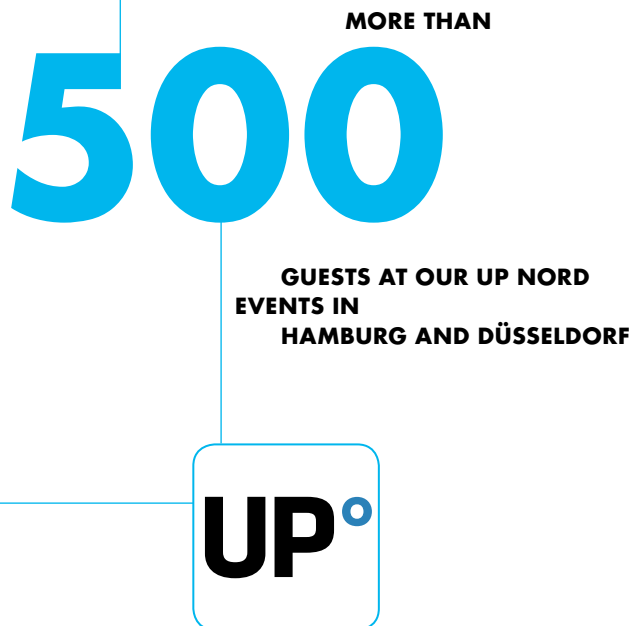
## UP° UNTERNEHMER POSITIONEN NORD

We are a **STRONG PARTNER FOR SMALL AND MEDIUM-SIZED COMPANIES**. We want to convince with expertise and commitment in all questions of finance, but also over and above this. With our 'Unternehmer Positionen Nord' initiative, UP° for short, we support our clients with a wide range of information services and regular events – always with a clear focus on entrepreneurs and their view of things.

At the UP° events in 2015 we again discussed major current issues: what effects will the TTIP trade agreement have? Where are the investment opportunities of the future? These events always included well-informed experts from the areas of business, politics and social

affairs. Among the prominent guests were, for example, the EU MP Viviane Reding and Prof. Dr Horst Köhler, former President of the Federal Republic of Germany. The main aim of these evenings is face-to-face discussion: with the guest speakers, other SMEs and the top management of HSH Nordbank.

Detailed reports on the events are available at **WWW.UNTERNEHMERPOSITIONEN.DE**, together with background information and interviews with experts. Here, you will also find studies by leading economic institutes on sectors, markets and the economy – as seen from an SME perspective, tailor-made for our clients.



UP° APP – FOR APPLE AND ANDROID





*Prof. Dr Horst Köhler,  
former President of the  
Federal Republic of Germany*



*Dietrich Scheder-Bieschin, CEO  
MACS Maritime Carrier Shipping*





*f. l. t. r. : Peter Axmann, Global Head of Real Estate HSH Nordbank,  
Kai-Michael Dudda, Managing Partner GS-Bau*







## Strong for entrepreneurs


### REAL ESTATE

**UNDERSTAND** It takes expertise and experience to correctly assess the potential of a location or a property.

**RECOGNISE** As leading bank specialising in real estate, in close collaboration with you we set up tailored finance: from the project idea through to disbursement.

**SHAPE** Rely on one of the top names: together we will lay foundations you can absolutely trust.



A photograph of two men standing in a yellow construction lift on a building site. The man on the left is wearing a dark jacket and a white scarf, while the man on the right is wearing a dark jacket and a white hard hat. They are both smiling. The background shows a complex network of scaffolding and concrete structures under construction.

“In the past, we have initiated many building projects with HSH Nordbank as our finance partner – and are pleased to be working with them again on the Univercity Suites. Because rapid and direct contact with the relationship managers, also when problems arise, is hugely important to us.”

*Kai-Michael Dudda,  
Managing Partner GS-Bau*

#### **GESA-BAU**

The GESA-Bau Group has been developing and building real estate in the Greater Hamburg area for longer than 30 years. Kai-Michael Dudda, Managing Partner of GS-Bau GmbH, has headed the company and its 20 staff for more than 15 years with great personal dedication. To date, over 3,000 Hamburgers have found a home in GESA-Bau's more than 70 housing projects.



As a provider of commercial real estate finance we enjoy an **OUTSTANDING MARKET POSITION ACROSS THE WHOLE OF GERMANY**. Beyond our long-standing exposure in our home region of Hamburg and Schleswig-Holstein, we assist our clients through offices in Berlin, Düsseldorf, Frankfurt, Stuttgart and Munich as a partner who is familiar with the regional market. We also advise international investors on their real estate projects in Germany. Our clients include professional real estate investors, project and property developers. They appreciate not only the transaction security we

provide but also our solution-oriented way of working, right from the initiation of business to the entire loan term. We offer tailored financing solutions which are geared to the business plans of our clients. Our range of services includes traditional mortgage loans as well as structured financing for existing properties, commercial project developments and residential property development projects. Our focus is on residential, office and retail use. In our projects, we aim in particular to ensure that the risk profiles fit and the margins are right.

**IN 2015, WE ONCE AGAIN EXPANDED  
NEW BUSINESS WITH**

**CIRCUMSPECTION:** **APPROX. € 20 BILLION**  
**WORTH OF BUSINESS CONSIDERED**

**ONE-QUARTER** **OF IT SIGNED**

## **4-STAR DEAL**

The biggest single transactions on the German hotel market in 2015 included the change of owners of the 4-star superior hotel “Radisson Blu”, located on Hamburg’s Dammtor. We provided the buyer of this traditional hotel, the Azure Group, with € 100 million for the acquisition and thus support the planned expansion of our client’s base in Germany.



## Strong for entrepreneurs

### SHIPPING

**UNDERSTAND** To achieve lasting success for your business in the maritime industry you need a business model that has a future.

**RECOGNISE** In us you will find a team that stays the course. Even when those storms come.

**SHAPE** Our promise is that we will scrutinise deals down to the fine detail; we will weigh opportunities and we will offer you the kind of support you need.








Traditionally, international **SHIP FINANCE** is one of our core areas of business. With experts in Hamburg, Athens, Singapore and Hong Kong we are represented at the main maritime locations in this international business. We finance the building of new and second-hand ships and provide our clients in the maritime industry with structured loans as well as short, medium and long-

term ship mortgage loans. This financing focuses on container vessels, bulk carriers, oil and product tankers as well as special-purpose ships such as transport vessels for vehicles. Here, we concentrate on the ship types and sizes in demand. We also advise our shipping clients on mergers and acquisitions as well as on matters concerning liquidity management and international payments.

**HAMBURG**  
**ATHENS**  
**SINGAPORE**  
**HONG KONG**

**WE ARE REPRESENTED AT THE IMPORTANT  
INTERNATIONAL SHIPPING LOCATIONS**



A photograph of two men in dark blue suits standing on a sandy beach. The man on the right is leaning forward, using a long wooden stick to draw a square in the sand. The man on the left stands upright, looking towards the camera. In the background, there is a body of water, a large red cargo ship with 'SÜD' visible on its side, and a port crane under an overcast sky.

“For us as a medium-sized company, trust and reliability are integral to any cooperation, especially in the cyclical shipping business. In HSH Nordbank we have an ideal financing partner at our side. HSH Nordbank knows the markets and takes the same long-term outlook in its thinking that we do.”

*Nikolaus H. Schües,  
CEO F. Laeisz*

#### **REEDEREI F. LAEISZ**

For over 190 years the F. Laeisz company has called the world's oceans its home, and shipping is the backbone of the Group to this day. With more than 1,200 crew members at sea and around 100 employees on land the medium-sized company operates around 40 ships totalling more than 1.7 million dwt. The family-run shipping company is also active in trading as well as the insurance and real estate sectors.

## TRANSACTION BANKING

The Transaction Banking division is a key element in our alignment as a ‘bank for entrepreneurs’. It stands for key corporate cross-selling products such as payment transactions and cash management, and it pools the Bank’s

expertise in foreign trade finance. Transaction Banking provides impetus from day-to-day business; it is the driver for innovation and pushes HSH Nordbank’s digital transformation forward.

*“We develop pioneering digital solutions and in this way support our clients in their day-to-day work.”*



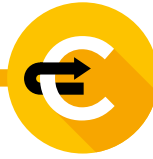
**YORAM MATALON**  
HEAD OF  
TRANSACTION BANKING



### **MOBILE. CONVENIENT. SECURE.**

With the **HSH BANKING APP** we have since 2015 been offering our clients extensive treasury functions – anytime, anywhere on mobile devices. In its development, we paid particular attention to the highest security standards and multi-bank capability. This for the first time enables decision-makers to easily keep track of their corporate finances and approve orders – of course also by applying the double sign-off principle.





**Strong for entrepreneurs**  
**TRANSACTION BANKING**

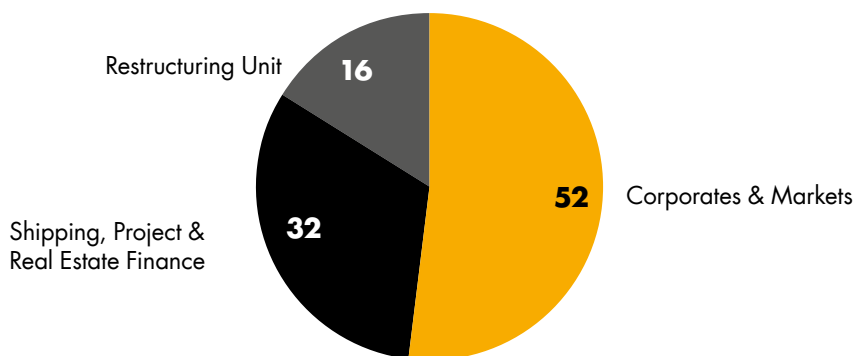
**UNDERSTAND** The importance of reliable cash management and global trade finance is growing in an accelerating and digital economy.

**RECOGNISE** With certified processes, we offer total care for all your national and international payments and hedge risks in import and export trading.

**SHAPE** Our dedicated, scalable solutions allow you to have an overview of your liquidity and payments at all times, leaving you free to focus fully on your core business.

**CROSS-SELLING PRODUCTS**

Income by segment (31.12.2015)  
 in %



With **SWIFT TRADE FOR CORPORATES: SCORE** (Standardised Corporate Environment) and **BOLERO** we have set up two further, innovative and internationally established multi-bank digital communication stand-

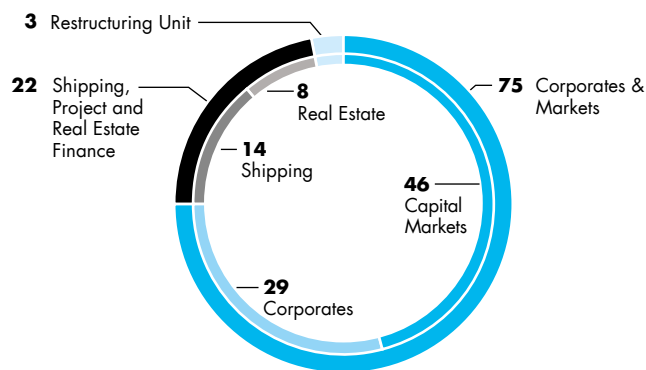
ards for our clients who operate globally. Our clients are at home throughout the world – we offer them future-proof, country and bank-overarching access to the financial sector.

## CAPITAL MARKETS

In our Capital Markets division, we develop and sell risk and investment management products and products for our clients' capital market funding. We see ourselves as an integral service provider to all of HSH Nordbank's corporate divisions. We provide savings banks, institutional investors and corporates with tools to hedge interest rate and foreign exchange risks as well as structured bonds, certificates and money market investment products. We enable our corporate clients to sell receivables and to manage their capital as actively as possible. In addition, we arrange large-volume promissory note loans for the public sector and thereby assist federal states and municipalities in their financing. The Capital Markets division is also responsible for the Bank's refinancing, including the issue of covered bonds.

### CAPITAL MARKET PRODUCTS

Income by segment (31.12.2015) in %



- Collaboration with more than 300 savings banks throughout Germany
- Treasury notes with a total volume of a good € 4 billion placed for the public sector
- Issue of promissory note loans increased more than sixfold to € 1.6 billion since 2013
- Placement of several benchmark bonds, including three covered bonds with terms of up to 7 years
- Assisted 13 federal states with their refinancing
- Ranked 4th in the IFR League Table with 32 individual issues

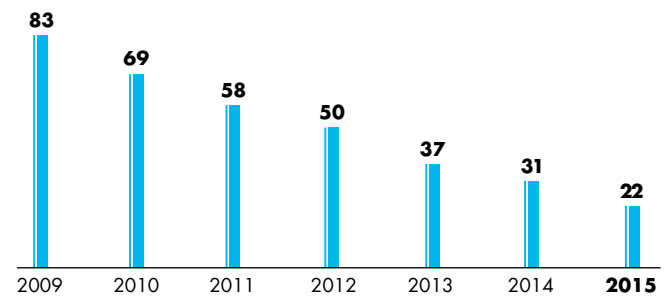
## RESTRUCTURING UNIT

The Restructuring Unit is HSH Nordbank's internal wind-down unit. This is where all loan and securities portfolios are pooled that no longer form part of our core business. These legacy portfolios, most of which originate from the time before 2009, are largely covered by the guarantee provided by our federal state owners and are being resolutely wound down. Most of the loans, which include ship but also real estate and aircraft loans, are non-performing. By contrast, securities pooled in the Restructuring Unit, mainly comprising government and bank bonds as well as asset-backed securities, have relatively higher value. By winding down the portfolio, the Restructuring Unit is reducing the Bank's risk-weighted assets and providing relief for its equity capital. Ultimately, we are improving HSH Nordbank's risk-bearing capacity and thus creating the prerequisites for profitable new business.

- Assets reduced by a total of € 9 billion in 2015 alone via premature repayments, sales of loans and securities as well as structured solutions.
- Capital market exposures significantly reduced to € 2.2 billion

### SEGMENT ASSETS

(€ bn)





## ENTREPRENEURIAL RESPONSIBILITY

### EMPLOYEES

Well trained, motivated and with individual strengths: when it comes to our staff, we know what we can count on. Accordingly, modern HR work has a high priority at HSH Nordbank. We provide specific support as well as individual basic and advanced training. We make use of our internal seminar programme to teach specific specialist content and offer training courses, among other things for communication, methodology and leadership skills. And we are not the only ones who think our HR work is exemplary: in 2015 we were awarded the “Fair Company” label by the Karriere.de initiative for our promotion of the next generation of employees and the fair treatment of trainees and university graduates. The Absolventa job exchange calls our trainee programme career-enhancing and fair. We were among the finalists in the German national Corporate Health Award with our comprehensive health care services, which are tailor-made for the needs of our workforce. We see this as confirmation and, at the same time, as an incentive to carry on precisely at this point.

### COMPLIANCE

The Compliance division works centrally and across divisions to ensure compliance with the main legal provisions and parameters within HSH Nordbank. It monitors compliance with the legal requirements governing the Bank’s capital market activities, the prevention of

money laundering, the financing of terrorism and other criminal acts punishable under the German Banking Act, as well as monitoring compliance with financial sanctions and embargoes. The basic rules of behaviour for the Bank’s employees are summarised in a Code of Conduct. In conjunction with regular training events, employees are provided with a reliable guide regarding legal requirements as well as ethical and societal principles. In addition, HSH Nordbank has established an external Whistleblower role, which follows up internal tip-offs, including those received anonymously, and passes suspected cases on to the Compliance division.

### INTERNAL AUDITING

Internal Auditing provides objective, risk-focused auditing and consulting services which extend across all of the Bank’s business activities and processes. It evaluates the effectiveness, efficiency and correctness of risk management, the internal control system and of management and monitoring processes. Internal Auditing is involved in all material projects and in all changes to operational processes and structures. It has an unlimited right of information in order to fulfil its mandate. It acts independently and on its own initiative at all times.

## SOCIAL COMMITMENT

In the north, for the north: Hamburg and Schleswig-Holstein are not just of major economic importance to us, there are also the regions where we are firmly established in society. Kieler Woche, the Schleswig-Holstein Music Festival and the HSH Nordbank Run are events that allow us to bring many people together and to promote cultural and sports entertainment. We support social welfare facilities such as the Herz As initiative in Hamburg and

the Hempels association in Kiel, both of which work with the homeless and with socially disadvantaged people. Furthermore, since 2015 we have collaborated with the Hamburg branch of the German Child Protection Association in the integration of refugee families. We do this because we think this is the right thing to do and because we consider it our duty. We are part of society and are aware of our role and our responsibilities.

### WE SUPPORT THE SCHLESWIG-HOLSTEIN MUSIC FESTIVAL'S

PROGRAMME DIVERSITY AS ONE OF ITS PRINCIPAL SPONSORS. THIS SPONSORSHIP ALSO INCLUDES THE LEONARD BERNSTEIN AWARD, WHICH THE SAVINGS BANK FINANCE GROUP PRESENTS EACH YEAR IN COLLABORATION WITH THE SHMF.



HSH NORDBANK RUN: SINCE 2004,  
WE HAVE RAISED DONATIONS TOTTALLING MORE THAN

# € 1.1 MILLION

FOR THE "KIDS INTO CLUBS" INITIATIVE.  
IN THIS WAY WE HAVE ENABLED A GOOD 10,000  
CHILDREN AND YOUNG PEOPLE TO ENJOY  
SPORTS AS PART OF A CLUB.



WE ARE A PREMIUM PARTNER OF THE WORLD'S BIGGEST  
SAILING EVENT, **KIELER WOCHE**.

AS PART OF THE "GOOD FOR KIDS" CHARITY EVENT,

## OUT FÜR KIDS



WE HAVE GENERATED MORE THAN € 100,000  
IN PROCEEDS SINCE 2011, WHICH BENEFIT  
CHILDREN AND YOUNG PEOPLE.



WE ARE A FOUNDING MEMBER OF THE  
**ELBPHILHARMONIE  
FOUNDATION**

AND HAVE THUS BEEN CONTRIBUTING  
TO THIS OUTSTANDING  
CONCERT HALL IN HAMBURG SINCE 2005.



# REPORT OF THE SUPERVISORY BOARD FOR THE 2015 FINANCIAL YEAR

HSH Nordbank looks back on an eventful 2015 financial year. The positive agreement in principle with the EU Commission meant not only that the replenishment of the second-loss guarantee by the federal states from € 7 to 10 billion was approved, but also a decision was taken on the future of the Bank. This event was significant given the backdrop of a continuing difficult market setting, in particular the still difficult situation in the shipping sector and volatile US dollar exchange rates. Speculation about the wind-down of HSH Nordbank ahead of the EU decision also did not fail to impact on the Bank's business situation. This agreement in principle in October 2015 is all the more significant as it gives the owners, staff and clients a foundation for making dependable plans and strengthens the basis for the future of the Bank. At the same time it confirms the efforts made in recent weeks and months to resolutely build up the client business and reduce legacy assets in a risk-conscious manner and to rapidly implement the restructuring measures initiated. Amid this setting characterised by uncertainty the Supervisory Board advised the Management Board in the management of the company and monitored its management activities. Apart from questions relating to the Bank's strategic alignment, which were discussed jointly with the Management Board in the course of a separate workshop, the Supervisory Board always kept itself informed on the economic and financial performance overall and of individual business segments. Deviations from planning in the course of business were explained to the Supervisory Board.

The Management Board informed the Supervisory Board regularly, punctually and comprehensively about business policy and other fundamental questions of corporate governance and planning, the financial performance, the income situation as well as the Bank's risk, liquidity and capital management, about major legal disputes and transactions and events of considerable significance to the Bank. The Supervisory Board was involved in decisions of material importance for the Bank. The Chairman of the Supervisory Board and the Chairs of the Risk Committee and Audit Committee were moreover kept informed by the Management Board of important topics and of upcoming decisions, including between scheduled meeting dates. Where resolutions were required between meetings, these were passed by the Supervisory Board in writing.

## MEETINGS OF THE SUPERVISORY BOARD

Eight meetings of the Supervisory Board were held during the 2015 financial year, three of which were convened for extraordinary reasons. One resolution was passed in writing.

The Management Board kept the Supervisory Board informed of the Bank's current economic situation, the business performance as a whole and in the individual business areas and in relation to the current business plan, the risk position, the trend of capital and the liquidity and funding situation during all ordinary meetings. The Supervisory Board subjected the reports to critical scrutiny and requested additional information and documents in some cases. The subject of regular reports also included status reports on the EU state aid proceedings, on the Bank's transformation programme and on tax risks from ongoing company audits. The Supervisory Board also discussed various Management Board matters. The auditors regularly took part in the Supervisory Board meetings and were available to the Supervisory Board for additional information. The quarterly results were discussed with the Management Board in the presence of the auditor of the financial statements.

During a joint strategy discussion the Supervisory Board held in-depth talks with the Management Board on the Bank's alignment in terms of business strategy and the upcoming challenges.

Furthermore, the Supervisory Board participated in two advanced training sessions in the 2015 financial year, in which – apart from questions relating to current trends in regulatory law – issues specific to the Bank were explained and discussed.

The meeting on 24 February 2015 focused on an in-depth discussion of the financial, capex and personnel plan from 2015 – 2017 presented by the Management Board. In addition, the targets for the Management Board were fixed for 2015. Furthermore, the Supervisory Board discussed the Report on Corporate Governance, the Declaration of Conformity and the report of the Supervisory Board for the 2014 financial year. The ongoing challenges for corporate client business were discussed in depth on the basis of a presentation on the Corporate Clients and Wealth Management business areas. Another topic was a report on the Energy & Infrastructure business area, in which among other things the target portfolio consisting of solar and wind energy as well as transport infrastructure projects was discussed.

The meeting on the annual financial statements took place on 31 March 2015. The meeting was convened primarily in order to endorse the 2014 annual financial statements and consolidated financial statements following the Supervisory Board's own examination and previous discussion with the auditor at the recommendation of the Audit Committee. Furthermore, the other resolutions usually to be adopted in this connection on the recommendations to shareholders at their Annual General Meeting were discussed. In addition, the Supervisory Board



recommended the shareholders at the AGM to approve an amendment of the Articles of Association, which had become necessary primarily due to legal/regulatory innovations. At this meeting the Supervisory Board also discussed the attainment of targets by the Management Board for the 2014 financial year. The Supervisory Board also dealt with the strategy for the Shipping business area for 2015–2017 against the backdrop of the still difficult situation in international shipping. The Supervisory Board furthermore discussed with the Management Board the annual report on equity holdings.

At its meeting on 29 May 2015 the Supervisory Board dealt with an amendment to the Rules of Procedure for the Management Board. In addition, Messrs. Ermisch and Wittenburg were appointed for a further period of office as members of the Management Board. Mr. Ermisch was also appointed Deputy Chairman of the Management Board. At its extraordinary meeting on 25 June 2015 the Supervisory Board discussed the succession of the Chief Risk Officer, who departed at the end of May 2015. Ulrik Lackschewitz was appointed a member of the Management Board of HSH Nordbank AG effective 1 October 2015.

At the meeting on 27 August 2015 the Supervisory Board focussed on the financial report for the first six months, which was discussed with the Management Board in the presence of the auditor. Furthermore, the Supervisory Board approved a target figure of 20%, if possible to be met by 30 June 2017, as required by the ‘Law on the equal participation of women and men in executive positions in the private and public sector’ (“Quota Act”) for the gender quota on the Management Board.

The extraordinary meeting of the Supervisory Board held on 18 September 2015 was dominated by the ongoing EU state-aid proceedings. The Management Board discussed the current status and the next steps in this process with the Supervisory Board.

The announcement of the agreement in principle between the EU Commission and the federal states of Hamburg and Schleswig-Holstein on 19 October 2015 prompted an extraordinary meeting of the Supervisory Board on 20 October 2015, at which the result was discussed and evaluated.

Implementation of the EU decision was discussed further at the meeting of the Supervisory Board on 3 December 2015. In addition, the Supervisory Board discussed the results of its efficiency audit pursuant to Section 25d of the German Banking Act. Furthermore, the update of the Declaration of Conformity on the German Corporate Governance Code and the Management Board report on the structure of the compensation systems based on the German Ordinance on the Compensation of Financial Institutions (IVV) were also on the agenda. Finally, the necessary adjustment of the Lending Guideline to match the terms and definitions in the Capital Requirements Regulation (CRR) was approved.

Where individual members of the Supervisory Board were affected by decisions made by the Supervisory Board or in its committees, either in person or on account of their position, or where other potential conflicts of interest occurred, they did not participate in the deliberations and decisions in the corporate body concerned. The number of further material mandates of the Supervisory Board members can be found in the Corporate Governance report in this Annual Report.

All members of the Supervisory Board attended at least half of the meetings of the Supervisory Board and its committees to which they belong. The attendance rate for all members for all meetings of the corporate bodies was 96% in 2015.

## COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board formed five committees from among its members for support in its work.

The **GENERAL/NOMINATING COMMITTEE** met seven times last year, of which twice for extraordinary meetings. The General/Nominating Committee prepared the resolutions of the Supervisory Board in accordance with the Rules of Procedure of the Supervisory Board and in this connection dealt above all with Management Board matters, especially with proceedings against former Management Board members and the re-appointment of Messrs. Ermisch and Wittenburg and the appointment of Mr. Lackschewitz. As far as necessary resolutions were adopted or recommendations made to the Supervisory Board for resolutions to be adopted.

The **RISK COMMITTEE** met five times in the past financial year. At its meetings, which were regularly also attended by representatives of the auditors, it discussed in depth the Bank’s risk situation and risk management, particularly the risk strategy and credit, liquidity, country, market and operational risks together with tax and reputation risks. Individual exposures of importance to the Bank were discussed, as were the regularly presented risk reports on the individual asset classes. The Risk Committee sought information on all exposures subject to mandatory reporting and granted its approval on business transactions requiring approval by law. In addition, the committee received at all meetings a report on recent events and trends and their impact on the risk situation. The same applies to enquiries or audits under bank regulatory law with regard to the minimum requirements for risk management, on which the Management Board provided regular information. Furthermore, the Risk Committee dealt with the required adjustments to the internal guidelines for the lending business. The extent to which the incentives set by the Bank’s compensation systems take adequate account of the risk, capital and liquidity structure was also the subject of a Risk Committee meeting.

The **AUDIT COMMITTEE** met four times in 2015. Representatives of the auditor took part in all meetings. During its first meeting on 30 March 2015, the members of the Audit Committee discussed with the auditor the Bank's annual financial statements and Group financial statements and the correspondent audit reports. In this context the Audit Committee also discussed the relations with associated companies (dependence report). The committee checked the independence of the auditor pursuant to the requirements of the German Corporate Governance Code on the basis of the auditing company's declaration of independence and prepared the appointment of KPMG AG Wirtschaftsprüfungsgesellschaft as the auditor for 2015. In addition to this, the committee obtained information on the status of current issues relating to the bank regulator. At the meeting of the Audit Committee on 26 August 2015 the auditors presented their findings of the review of the half-year report and discussed them with the committee prior to its publication. Moreover, at this meeting the initial results from the audit of the annual financial statements were discussed with the committee. The committee received regular reports on the commissioning of the auditors with non-audit services, on the work of Internal Auditing and on compliance issues. The committee confirmed the effectiveness of the risk management system – especially Internal Auditing the Internal Control System. Furthermore, the committee discussed the results of the securities account audit and the audit of securities service business pursuant to the Securities Trading Act (WpHG). It deliberated continuously on how to deal with audit findings from previous audits and of findings from non-event-driven audits by the bank regulator. Finally, the issues dealt with by the committee were rounded off by status reports on the IT changeover and a review of IT strategy.

The **COMPENSATION MONITORING COMMITTEE** met three times in the year under report. At these it held in-depth discussions of the Bank's compensation systems and regularly received reports on the status of implementing the stipulations in the Ordinance on the Remuneration of Financial Institutions. Moreover, the Compensation Officer reported to the Compensation Monitoring Committee on the results of his monitoring and presented his annual Compensation Monitoring Report to the committee. The Chairman of the Compensation Monitoring Committee also held regular exchanges with the Compensation Officer on relevant issues outside the meetings.

No meetings of the **MEDIATION COMMITTEE** that is to be formed pursuant to the provisions of the Co-Determination Act were required in 2015.

The chairpersons of the committees regularly reported to the Supervisory Board during the subsequent plenary sessions about the work and results of the committees' deliberations.

## AUDIT AND ADOPTION OF THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2015

The accounts, annual financial statements including the status report and the consolidated financial statements including the Group status report for the year 2015 were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. KPMG was elected as auditors and Group auditors by the general shareholders' meeting on 19 May 2015. All audits resulted in an unqualified auditor's certificate with an explanatory note saying that, without limiting this assessment, the going concern assumption for accounting and valuation is based, in particular, on

- (i) full and on-time conclusion of the agreements required for implementation of the EU Commission's formal decision in the EU state aid proceedings on replenishment of the second-loss guarantee as well as HSH Nordbank AG and its shareholders implementing the formal decision fully and on time
- (ii) a sale of the operational HSH Nordbank AG having taken place by 28 February 2018 by way of an open, discrimination-free, competitive and transparent process at a favourable selling price free of state aid and the EU having approved the new corporate structure following a viability review. Should the selling process not, by the disposal deadline, lead to favourable bids free of state aid or the Commission conclude the viability review with the finding that integrating the operating company in the new corporate structure would not result in a business model that is viable in the long term, the operating company would discontinue its new business and manage its assets within the scope of what is legally permissible with the objective of an orderly wind-down. In the event of material, unexpected outflows of funds (e.g. in the scenario described above), measures to bolster liquidity would have to be applied.



Furthermore, it is necessary that the acceptance of market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank's business model and the stipulations arising from the EU Commission's formal decision is maintained or gained and that the expected recoveries in the shipping markets occur.

The documentation relating to the financial statements and the audit reports together with all attachments were sent out to the members of the Supervisory Board. The auditor initially reported on the implementation and material results of his audit at the meeting of the Audit Committee on 7 June 2016. On this basis and on the basis of its own audit the Audit Committee discussed the results in detail with the auditor. At the Supervisory Board meeting on 8 June 2016 the Chairman of the Audit Committee reported to the Supervisory Board on the result of the deliberations on the Audit Committee. The auditors took part in the meeting of the Supervisory Board and reported on the material results of their audit. On the recommendation of the Audit Committee, the Supervisory Board finally agreed with the findings of the audits following its own examination of the reports of the auditors and in-depth discussion and established that following the final result of its own inspections there were no objections to be raised. The Supervisory Board adopted the 2015 annual financial statements drawn up by the Management Board and approved the 2015 consolidated financial statements. Furthermore, it adopted the report of the Supervisory Board for the 2015 financial year.

Furthermore, the Management Board has presented its own report on relations with associated companies (dependence report) in fiscal year 2015 to the Supervisory Board and the statutory auditor on time. The statutory auditor has reviewed the dependence report and issued the following unqualified auditor's certificate:

"After due examination and assessment we confirm that

1. the factual statements of the report are correct, and
2. the Company's services with respect to the transactions listed in the report were not disproportionately high."

The Audit Committee and the Supervisory Board have reviewed the Management Board's dependence report and the statutory auditor's audit report and have held discussions with the Management Board and the statutory auditor in the context of the annual financial statements. The Supervisory Board agreed with the results of the statutory auditor's report because in its assessment no objections could be raised to the Management Board's statement on the dependence report.

## CHANGES IN PERSONNEL

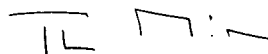
Apart from the appointment of Mr. Jörg Wohlers and Mr. Klaus-Dieter Schwetscher as new members of the Supervisory Board effective the beginning of the year under report, there was one more change in personnel on the Supervisory Board in the course of the year. Mr. Torsten Heick left the Supervisory Board effective 1 July 2015. Mr. Peter Axmann was judicially appointed his successor effective 14 July 2015. In 2016 Ms. Auerbach left the Supervisory Board effective 31 March 2016. Ms. Cornelia Hintz was judicially appointed her successor effective 18 May 2016. The Supervisory Board would like to thank Ms. Auerbach and Mr. Heick for their many years of committed service to the Bank.

There was also one change in the composition of the Management Board during the 2015 reporting year. Mr. Edwin Wartenweiler left the Bank's Management Board effective 1 June 2015. Mr. Ulrik Lackschewitz started work as the new Chief Risk Officer and new Management Board member on 1 October 2015.

The Supervisory Board thanked the Management Board and all employees for their great personal commitment and their work under the difficult conditions experienced by the Bank.

Hamburg/Kiel, 8 June 2016

The Supervisory Board



Dr Thomas Mirow  
Chairman of the Supervisory Board of HSH Nordbank AG

# CORPORATE GOVERNANCE

## All information included in this Corporate Governance Report represents the status on 9 May 2016.

As an unlisted company, HSH Nordbank has recognised the German Corporate Governance Code (GCGC) voluntarily since 2005. The Management Board and Supervisory Board of HSH Nordbank expressly support the content and purposes of the GCGC. Corporate governance at HSH Nordbank is principally based on the provisions of the German Public Companies Act, the German Banking Act as well as such internal rules as the Articles of Association, the Rules of Procedure applicable to the Management Board and the Supervisory Board as well as the Code of Conduct of HSH Nordbank. By presenting our system for the managing and monitoring of the Bank and transparent reporting on conformity to the rules of the Code, we aim to enhance the confidence of shareholders and investors, clients, employees and the general public in HSH Nordbank.

## DECLARATION IN ACCORDANCE WITH SECTION 161 OF THE GERMAN PUBLIC COMPANIES ACT

In accordance with Section 161 of the German Public Companies Act, the Management and Supervisory Boards of listed companies are required to publish an annual declaration in which they indicate the extent to which their management and oversight system complies with or deviates from the recommendations of the German Corporate Governance Code. Our aim is to conform to the Code as fully as possible even as a non-listed company. In December 2015, the Management Board and the Supervisory Board of HSH Nordbank therefore voluntarily issued a Declaration of Conformity with the GCGC in which the deviations from the Code recommendations were disclosed.

## DECLARATION OF CONFORMITY

Since publishing the last Declaration of Conformity on 3 December 2015, the Management Board and the Supervisory Board of HSH Nordbank declare that HSH Nordbank has conformed to the recommendations of the German Corporate Governance Code in the version dated 5 May 2015 in every respect save for the following exceptions stated below. As of the date on which the next Declaration of Conformity is published, HSH Nordbank will be conforming to all the recommendations of the Code in the version dated 5 May 2015 save for the exceptions stated below.

Section 4.2.3 provides that compensation for the Management Board shall comprise fixed and variable components.

*According to the provisions of the EU state aid decision and the Bank's obligation under the guarantee made available by the states of Hamburg and Schleswig-Holstein, the current Management Board compensation system does not provide for any variable compensation for members of the Management Board.*

Section 4.2.3 (3) requires that in the case of benefit commitments the Supervisory Board shall stipulate the target level for benefits and take the extrapolated annual and long-term expenditure for the company into account.

*For members of the HSH Nordbank Management Board a contribution plan applies that is not aimed at a specific level of benefits.*

Section 4.2.4 stipulates that the total compensation of each one of the members of the Management Board is to be disclosed by name, divided into fixed and variable compensation components.

*This does not involve a recommendation of the GCGC, but is rather a mandatory requirement for market-listed companies, because the German Commercial Code (HGB) stipulates disclosure for market-listed companies. However, as a non-listed company, HSH Nordbank is in principle not subject to this obligation. Furthermore, the parameters for compensating members of the Management Board in accordance with the EU Commission's stipulations – set upper limit for the basic salary, no variable compensation – are already sufficiently common knowledge.*



Section 4.2.5 requires certain presentation of the compensation and fringe benefits concerning each member of the Management Board on the basis of details determined by reference tables.

*As HSH Nordbank does not disclose any individual Management Board compensation, these details are not disclosed either (c.f. also Section 4.2.4).*

Under Paragraph 2 of Section 5.4.1, the Supervisory Board is required to specify concrete objectives regarding its composition, including a regular limit of the length of membership for the Supervisory Board. *The Supervisory Board has decided to refrain from defining a regular limit of the length of membership for the Supervisory Board as an optimum length of membership is difficult to determine and it is important given the Bank's current situation for expertise to be retained within the Supervisory Board.*

Section 5.4.6 (3) provides that the compensation paid to members of the Supervisory Board be reported separately for each individual and broken down by component in either the Notes or the Management Report.

*The compensation paid to the Supervisory Board has not been disclosed on an individualised basis at HSH Nordbank up to now. HSH Nordbank is going to disclose the compensation paid to the Supervisory Board on an individualised basis with publishing its annual report for fiscal 2015.*

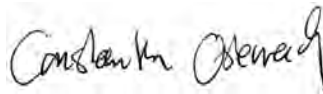
According to Section 7.1.2 Sentence 4, the consolidated financial statements are to be published within 90 days of the end of the fiscal year and the interim reports within 45 days of the end of the period to which they refer.

*HSH Nordbank did not make its consolidated financial statements for fiscal 2014 and the interim reports for 2015 publicly available within the prescribed period. The Bank will neither publish its 2015 consolidated financial statements nor probably the 2016 interim reports within the recommended periods. The Bank is working on being able to adhere to the stipulated periods in future.*

HSH Nordbank conformed to the Code's suggestions so far as they make sense for a non-listed public limited company.

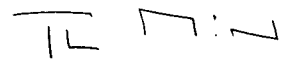
Hamburg/Kiel, 9 May 2016

On behalf of the  
Management Board:



Constantin von Oesterreich

On behalf of the  
Supervisory Board:



Dr. Thomas Mirow

## SUPERVISORY BOARD

### Composition

HSH Nordbank's Supervisory Board consists of 16 members, of whom – in accordance with the provisions of the German Co-Determination Act – half are shareholder representatives and half are employee representatives. The capital side of the Supervisory Board comprises mainly experts from the business community who are independent of both the shareholders and the Bank. Four members of the Supervisory Board previously held executive positions at German and non-German financial institutions. One member also sits on the management board of a credit insurance company. The members of the Supervisory Board furthermore include one independent auditor, the managing director of an international private equity company and the managing director of an equity holding company.

Section 5.4.1 of the GCGC stipulates that the Supervisory Board is to state specific objectives regarding its composition which, while considering the specifics of the enterprise, take into account its international activities, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for the members of the Supervisory Board as well as diversity. The latter objective particularly calls for an appropriate degree of representation by women.

The objectives of the Supervisory Board, adopted in 2011, are as follows:

1. HSH Nordbank will seek to have at least one non-German member on its Supervisory Board in the future as well.
2. When nominating new members to the Supervisory Board, HSH Nordbank will seek to avoid potential conflicts of interest, while also taking the Rules of Procedure for the Supervisory Board into due consideration, in future as well.
3. HSH Nordbank will seek to adhere to the age limit of 68 years as of the date of appointment stipulated in the Rules of Procedure for the Supervisory Board in future as well.
4. HSH Nordbank will seek to maintain the proportion of representation by women at the current level of 20% at least in future as well. The Supervisory Board considers a target quota of 30% to be an appropriate percentage of women for the time being.
5. The Supervisory Board aims to ensure that at least half of its members on the shareholder side will be independent, as is the case at present (objective supplemented in 2012).

When nominating new members, care is taken to avoid potential conflicts of interest in order to ensure the independence of members. The age limit of 68 years at the time of the appointment was not exceeded in any of the appointments. The Nominating Committee will also consider the objective of appropriate gender diversity in its proposals to the Supervisory Board for new members of the Supervisory Board to be elected during the annual general meeting. As a co-determined company, HSH Nordbank is also subject to the law on the equal participation of women and men in executive positions in the private and public sectors ("quota law"). The Supervisory Board therefore once again reaffirmed its existing target for the proportion of women on the Supervisory Board. With a 37.5% proportion of women, the Supervisory Board has already attained the objective that it set itself. The proportion of women on the shareholder side is 25% and on the employee side it is 50%.

Following the Supervisory Board's annual efficiency audit, the Board considered the expertise, abilities and experience existing on it and updated the expertise profile, which was first compiled in 2014. The expertise profile gives the Supervisory Board an overview of the skills represented on the Board. The Board will in the future consequently be able, when making required Management Board appointments and searching for suitable candidates, to directly formulate corresponding objects to replace or complement skills.

### Procedure

The Supervisory Board appoints, oversees and advises the Management Board and is involved in fundamental decisions made by the Bank. The Management Board informs the Supervisory Board regularly and in good time of the proposed business policy and other fundamental matters during the meetings and also verbally, particularly in conversations between the chairperson of the Management Board and the chairperson of the Supervisory Board.

Section 25d (11) page 2, no. 3 of the German Banking Act stipulates that the Supervisory Board must, on a regular basis and at least once a year, assess the structure, size, composition and performance of the executive and of the Supervisory Board. The Supervisory Board has, as in the preceding years, for this purpose scrutinised various aspects of its work on the basis of questionnaires as well as an evaluation by the Management Board. The efficiency audit conducted in the autumn of 2015 found that the Supervisory Board is, generally speaking, satisfied with the efficiency of its activities. To further improve its efficiency, the Supervisory Board adopted some measures and identified advanced training topics on the basis of the replies to the questionnaires that will be followed up regularly.

Two advanced training events took place in the past year to ensure that the Supervisory Board's members always have up-to-date specialist and professional knowledge. The topics for these events stemmed largely from the 2014 efficiency audit, during which the



Supervisory Board members suggested material to be covered by advanced training sessions. During these events involving both internal and external instructors, the members of the Supervisory Board gained further knowledge particularly concerning regulatory updates, but also on Bank-specific matters.

### Other mandates

The Supervisory Board must devote ample time to this task to be able to appropriately perform its work. This presupposes that the individual members of the Supervisory Board perform other tasks apart from their Supervisory Board work to a limited extent only. The members of HSH Nordbank's Supervisory Board perform the following further supervisory board mandates in other companies:

| SB member               | No. of other mandates<br>(as of 31.12.2015) |
|-------------------------|---|
| Dr Thomas Mirow         | 2   |
| Peter Axmann            | 2   |
| Silke Grimm             | 1   |
| Stefan Jütte            | 1   |
| Dr Rainer Klemmt-Nissen | 4   |
| Dr David Morgan         | 3   |
| Dr Philipp Nimmermann   | 4   |
| Elke Weber-Braun        | 1   |

Detailed information on the work of the Supervisory Board in 2015 is contained in the Supervisory Board Report.

### Compensation

The compensation for the Supervisory Board members will be disclosed on an individualised basis in the Notes within the Annual Financial Statement.

## MANAGEMENT BOARD

### Composition

The Management Board of HSH Nordbank is composed of five members whose duties are divided by CEO, CFO, CRO, Corporates & Markets as well as Shipping, Project and Real Estate Finance. When selecting new Management Board members, the Supervisory Board is bound by the pertinent legal requirements. Here, too, diversity plays an important role. In accordance with the quota law, the Supervisory Board adopted a target of having a 20% proportion of women on the Management Board of HSH Nordbank, which is, if possible, to be achieved by 30 June 2017. The German Corporate Governance Code also requires an adequate proportion of women, while the Banking Act stipulates that the balance and diversity of the knowledge, abilities and experience of all Management Board members be taken into consideration. The Rules of Procedure for the Supervisory Board likewise contain requirements

that the Supervisory Board and the General / Nominating Committee must take into consideration when assessing applicants for appointment to a position on the Management Board. In each individual case – as in the previous year specifically when making a new appointment to the position of CRO – of a Management Board position to be filled, the Supervisory Board therefore selects Management Board members on consideration of the requirements of the respective position as well as the expertise already available on the Management Board on the basis of an individual job profile.

### Procedure

The Management Board is responsible for managing the Bank and works with HSH Nordbank's other corporate bodies and with the employees' representatives on a basis of mutual trust in the Bank's best interests. It defines the Bank's business strategy in consultation with the Supervisory Board. The chairperson of the Management Board represents the Management Board as a collegial body, presides over its meetings and coordinates its work. The Management Board mainly met once a week during the period under review. The members of the Management Board are jointly responsible for managing the Bank's business. Their duties and responsibilities are laid down in the Rules of Procedure for the Management Board, as supplemented by the Schedule of Responsibility.

### Other mandates

The members of the Management Board do not perform any management or supervisory functions in other companies.

### Compensation

Information on the system for compensating the members of the Bank's Management Board is provided in the Management Report as well as in the Notes.

## SHAREHOLDERS, ANNUAL GENERAL MEETING

HSH Nordbank's shareholders exercise their rights at the annual general meeting. The annual general meeting is convened by the Management Board once a year, stating the agenda and including the requisite reports and documents.

There were no other general meetings in 2015 apart from the annual general meeting in May.

The agenda for the annual general meeting also included – alongside the legally required agenda items of an annual general meeting – an amendment to the Articles of Association made necessary primarily by new legislation/regulatory requirements.





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## BASIS OF THE GROUP

### BUSINESS ACTIVITIES

#### Headquarters, regional focus and products

HSH Nordbank AG was established 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 focus of the project financing business in the Corporate Clients division (Energy & Utilities as well as Logistics & Infrastructure business fields) additionally is on the rest of Europe. The Bank conducts business with shipping clients throughout the world. Based on classical loan financing HSH Nordbank offers a wide range of appropriate financing solutions tailored to the needs of its corporate clients, wealthy private clients, savings banks and institutional clients.

#### Segments, divisions and locations

The strategic divisions are combined in the Core Bank. At the beginning of 2015, HSH Nordbank revised the allocation of business areas to the segments of the Core Bank as part of changes made to Management Board responsibilities. Under this the Energy & Infrastructure division was allocated to the Corporates & Markets segment (previously Shipping, Project & Real Estate Financing segment). The Corporate Finance product division, which was previously part of the Corporates & Markets segment and supports the client divisions with special financing and advisory solutions, was at the same time allocated to the Shipping, Project & Real Estate Financing segment.

Furthermore, the Corporate Clients, Energy & Infrastructure as well as Wealth Management divisions were merged into the new Corporate Clients division as at 1 July 2015 in the segment Corporates & Markets in order to focus the business and streamline the organisational structure. Since then the strategic focus of the new Corporate Clients division has been primarily on the Logistics & Infrastructure, Energy & Utilities, Healthcare, Trade & Food and Industry & Services business fields. Another key area remains the advising of wealthy private clients, foundations and non-profit organisations with regard to asset management. Furthermore, capital market activities and the servicing of savings banks, banks and insurance companies were combined in the Capital Markets division. Business conducted with shipping clients has also been concentrated in a single division in the Shipping, Project & Real Estate Financing segment.

In addition to the segment changes the Bank also started to streamline the organisational structure and to optimise processes across divisions, for example in the field of lending and loan processing, in order to improve efficiency and processes.

As part of the focusing 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 continues to be present in Singapore, Hong Kong, Athens and New York in line with its strategic orientation. The New York branch was reduced in size and converted into a representative office at the end of 2015 as part of the further reorganisation of HSH Nordbank. HSH Nordbank has converted the representative office in Athens into a branch in the year under review. The associated upgrading of the location, which plays an important role in the shipping industry, supports the further diversification of the shipping portfolio. The branch in Luxembourg primarily provides services for the Restructuring Unit. In Germany, HSH Nordbank is represented in Berlin, Hannover, Düsseldorf, Munich, Stuttgart and Frankfurt am Main.

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

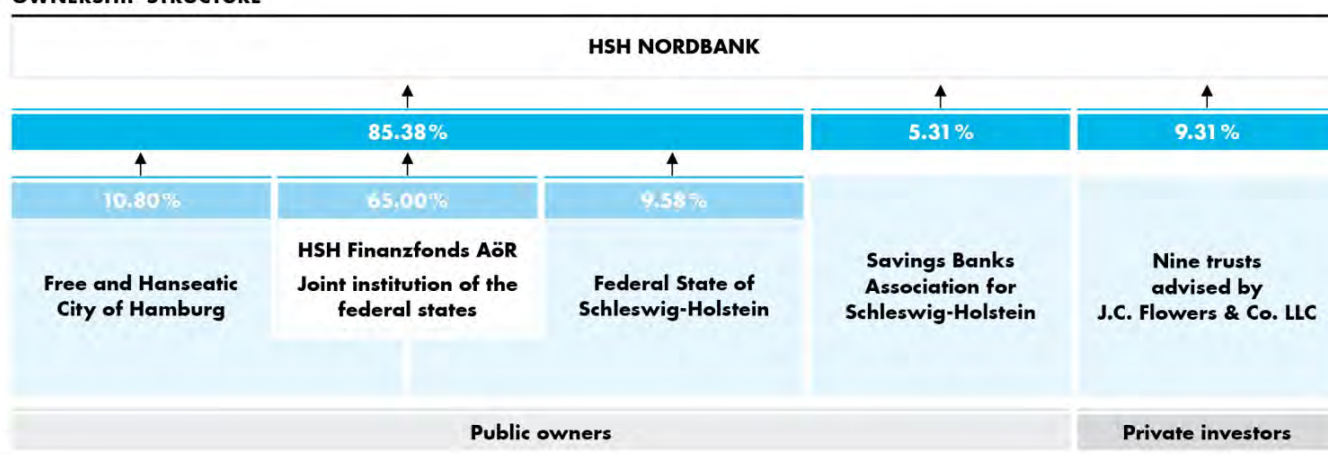
#### Equity holdings and scope of consolidation

HSH Nordbank has sharply reduced its equity holding portfolio in the past years as part of the refocusing of its business activities. At the 2015 year end the scope of consolidation for the Group financial statements included, in addition to the parent company, HSH Nordbank AG, 61 fully consolidated subsidiaries compared to 64 fully consolidated subsidiaries as at 31 December 2014. Material changes in the scope of consolidation relate, on the one hand, to Immobilien-Objektgesellschaft GmbH Altstadt Grundstücksgesellschaft, Mainz, included for the first time on a fully consolidated basis in the scope of consolidation and, on the other, to the companies K/S Angered, Copenhagen, and LCG Finance, Luxembourg, that are no longer included in the scope of consolidation.

The impact of these changes to the scope of consolidation on the income statement is addressed in the Earnings section of this Group management report. Further details regarding the scope of consolidation are set out in Note 3 (Adjustments to previous year comparative figures) and Note 5 (Scope of consolidation).



## OWNERSHIP STRUCTURE

**Ownership structure, guarantee and EU proceedings**

The principal owners of HSH Nordbank AG as at the 2015 year end with a combined shareholding of just over 85.4% are the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. 65.0% 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) (5.3%) as well as private investors advised by J.C. Flowers & Co. LLC (9.3%).

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 ship financing recovery unit in the Core Bank). First piece losses incurred in this portfolio are to be borne by HSH Nordbank itself up to an amount of € 3.2 billion. Further details are set out in Note 2 in the Group financial statements. Details regarding the impact of the guarantee on the net assets, financial position and results of operations in 2015 are set out in the Economic report section.

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 in 2013. At the same time, the EU Commission instituted state aid proceedings to investigate whether the replenishment of the guarantee is consistent with state aid rules. In these state aid proceedings, the owners Hamburg and Schleswig-Holstein, the Fed-

eral Republic of Germany and the EU Commission reached an informal agreement on 19 October 2015 to provide significant relief to the Bank from the adverse impact of legacy portfolio items and guarantee fees. It is also envisaged that HSH Nordbank AG be privatised within a two-year period. The informal agreement was an essential basis for the formal decision of the EU Commission dated 2 May 2016 concerning the replenishment of the second loss guarantee granted by the federal states from € 7.0 billion to € 10.0 billion. The formal decision of the EU Commission is based on a catalogue of conditions and commitments provided by the Federal Republic of Germany to the EU Commission, which contains the grounds for the agreement and confirms the informal agreement in principle and sets it out in more concrete terms. The concrete terms relate primarily to the sale of HSH Nordbank AG by 28 February 2018, details relating to the operating relief provided to the Bank and obligations during the divestiture period.

Further information on the informal agreement as well as the formal decision can be found in the Business developments section under Major developments and events as well as in the Forecast, opportunities and risks report.

**Membership in the German Savings Banks Finance Group**

As a member of the German Savings Banks Association (DSGV) HSH Nordbank AG is a member of the guarantee scheme of the German Savings Bank Finance Group (SFG). The guarantee scheme protects deposits with savings banks, Landesbanks or a Landesbausparkasse. Furthermore, this system secures the continued existence of member institutions and guarantees the solvency of member institutions in the event of foreseeable or existing difficulties.

In the 2015 financial year, the German Savings Banks Finance Group amended its proven guarantee scheme to comply with the provisions of the new Deposit Guarantee Act (Einlagensicherungsgesetz), which came into force in Germany at the beginning of July 2015. The provisions of the guarantee scheme were supplemented by the strengthening of the governance rules for the institution guarantee and a stronger risk- and deposit-based orientation of the contribution regime. The funding of the deposit guarantee scheme of the German Savings Bank Finance Group is strengthened in accordance with the requirements by the contributions which were payable by member institutions for the first time in 2015, recalculated on this basis. Together with the institution guarantee the guarantee scheme of the German Savings Banks Finance Group continues to exceed the statutory minimum requirements.

#### External influencing factors and processes

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 rate), trends in the relevant industry sectors such as shipping (especially charter rates, second hand prices), 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.

The objectives and strategies of HSH Nordbank are aimed at ensuring the sustainable development of the institution. This is also the subject of the ECB's integrated analysis conducted as part of the supervisory review and evaluation process (SREP), based on which banks are monitored taking into account the business model, capital and liquidity position and governance structures. Further information on the ECB's SREP process can be found in the Economic report section.

#### Informal agreement reached with EU Commission

Due to the informal agreement reached with the EU Commission on 19 October 2015 and the formal EU decision taken on 2 May 2016 the basis for a viable business model of HSH Nordbank was improved. The structural measures planned as part of the informal agreement with the EU Commission, which were in principle confirmed and defined in more detail within the framework of the formal decision, are currently being prepared in collaboration with the federal state owners. The implementation of these measures is intended to improve HSH Nordbank's financial and risk situation and, in combination with additional strategic and operating optimisation measures, create a sound basis for a successful privatisation process of HSH Nordbank.

Further details on the EU proceedings and the implementation of the agreed structural measures can be found in the section Business developments – Significant developments and events.

#### Strengthening of the Bank for Entrepreneurs and systematic winding down of the legacy portfolios

In order to implement the business model with a sustainable focus as a Bank for Entrepreneurs HSH Nordbank is continuing to concentrate on strengthening the strategic 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 2018 is to increase new business with risk-commensurate margins in accordance with the business and risk strategy. On the one hand, business is to be promoted further in the core region of Northern Germany, where the Bank has long-standing client relationships and a high level of market penetration already and, on the other hand, business activities outside Northern Germany are to be expanded further in order to achieve the planned new business objectives and to ensure a balanced portfolio structure.

Furthermore, the sale of the entire range of services over and above traditional lending transactions (cross-selling) will continue to be driven forward to strengthen sustainable client relationships and exploit the business potential in the product division.

#### Strategic targets of the Core Bank's business fields

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



The Real Estate Clients division will continue to make a risk-conscious contribution to the Bank's balanced portfolio mix taking account of the sector trends in the German real estate markets and with the objective of achieving an adequate level of profitability on business transactions entered into.

In the Shipping division the Bank still strives to selectively conclude additional new business based on its long-standing expertise and in accordance with strict margin and risk requirements with a maximum volume of up to € 1.2 billion per year. The focus is on a diversification of the portfolio through domestic and international commitments with counterparties with a good credit standing.

The intention is to intensify new business in the Corporate Clients division. The approach of expanding business throughout Germany in the existing locations will be consistently continued in order to achieve this in a highly competitive market environment. At the same time, the potential in the core region of Northern Germany as well as in the project financing business in the business fields of Energy & Utilities and Logistics & Infrastructure will be further exploited in the rest of Europe.

The client divisions will be supported by products and services provided by the Capital Markets, Corporate Finance and Transaction Banking divisions in order to ensure an integrated product range and exploit the cross-selling potential. Capital Markets will continue to provide the client divisions with a tailored range of capital market product solutions, for example instruments for hedging interest rate and currency risk. At the same time, Capital Markets will continue to serve the savings banks and institutional clients in the areas of issuance and deposits. The Corporate Finance product division supports the client division business by providing specific advisory and financing solutions and thereby also contributes to the strengthening of client relationships. Furthermore, the Corporate Finance division places the credit risk on larger financing structures with external third parties as part of its syndication activities. Transaction Banking continues to provide tailored solutions in the areas of payment transactions, account management and foreign trade.

#### **Further significant reduction in the Restructuring Unit portfolios**

The aim of the Restructuring Unit in the planning period up to 2018, in addition to the planned sale of non-performing loans under the informal agreement with the EU Commission as confirmed by the formal decision of the EU Commission, continues to be a further significant reduction in the non-strategic loan and capital markets portfolios through scheduled and early principal repayments, sales of loans and structured solutions whilst maximising value.

#### **Sustainable cost reductions and efficiency increases**

A high priority for HSH Nordbank is to continually improve the Bank's efficiency. HSH Nordbank will revise 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 therefore striving to achieve a cost-income ratio of less than 50% by the end of the 2018 planning period.

A comprehensive cost reduction programme, which is currently being implemented, was launched to reduce administrative expenses. Against the backdrop of the planned portfolio sale of € 8.2 billion and the agreed privatisation in 2018 the measures are continuously reviewed and adjusted as far as necessary.

One focus of the programme is targeted overarching initiatives. These include the further streamlining of the organisational structure, simplification and standardisation of key processes as well as adjustments to the Bank's IT systems. Attention is also being paid on optimising the product portfolio. Details regarding the programme measures currently being implemented are set out in the Business developments section.

#### **Realignment of IT**

In this connection, the Bank had already launched the realignment of its IT in 2014 with the objective of strengthening the division's position as a central management unit and service provider that supports the business strategy requirements in a targeted manner. 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 Bank-internal data platform, in IT security and in meeting the ever-increasing regulatory requirements. Details regarding the progress achieved in implementing the IT strategy in the 2015 reporting year are set out in the Business developments section.

## **MANAGEMENT SYSTEM**

#### **Key value drivers and key indicator and ratio system**

The integrated 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 risk-adjusted key indicator and ratio system that ensures that the Overall Bank, Core Bank and Restructuring Unit are managed in a uniform and effective manner. The HSH Nordbank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS).

In addition, a multi-level contribution margin accounting system is also used to manage the individual business fields. Other components of the Overall Bank management system are the annual strategy and planning process, plan/actual comparisons and the targets agreement and assessment process. There are various steering committees within the Bank at top management level that manage the key value drivers. Further information regarding this is included in the Risk report under Risk management by central committee structure.

### Defined management indicators of the IFRS Group

Within the framework of management reporting the Bank focuses on the most important management indicators for the individual value drivers of the IFRS Group. On the one hand, the focus is placed on the change in these key indicators 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 2016 (Forecast, opportunities and risks section).

### Profitability and efficiency

HSH Nordbank's management system is systematically aimed at improving profitability and cost efficiency – in terms of the return on equity (RoE) and cost-income ratio (CIR). The key indicators are used for the Overall Bank as well as for the continuing operations in the Core Bank.

RoE is calculated as the ratio of income before taxes to average equity capital disclosed on the balance sheet and shows the return on capital. The risk-adjusted allocation of the average equity capital disclosed on the balance sheet is determined on the basis of the regulatory capital committed. The cost-income ratio represents the ratio of administrative expenses to total income plus Other operating income.

### Income

For the purposes of ensuring that the income targets are met, the key indicators of total income and net income before taxes are defined as the most important ones for managing earnings. New business volume is another important driver of earnings. The Bank also uses other supporting key indicators such as new business profitability, new business margins and cross-selling income for the value-driven management of business fields. The focus is on cross-selling business over and above traditional loan financing particularly with regard to the sustainability of client relationships.

### Costs

On the cost side the management of absolute cost targets is focused on administrative expenses as the most important key management indicator. These comprise personnel and operating expenses. The number of employees (FTE) is no longer used as a primary key non-financial indicator for cost management. A supporting management tool in this connection is the lean management approach implemented at the Bank to increase the efficiency of work processes.

### Risk

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 for trends in the lending business. Other supporting key indicators and ratios are used to monitor the portfolio hedged by the second loss guarantee. These are the loan loss provisions recognised in the guaranteed portfolio and the risk weight of the guarantee.

In addition, non-performing exposure (NPE, total of all positions of borrowers in default) will be implemented in the future as an important management indicator given the importance assigned to this key indicator by the banking supervisor and market participants. Further information regarding this can be found in the Risk report section.

### Capital

The core Tier 1 capital ratio (common equity Tier 1 ratio or CET1 ratio) and risk-weighted assets (RWA) are used as key ratios for managing regulatory capital. The additional premium buffer previously disclosed in the presentation of the Tier 1 capital ratio is no longer included, as the existing obligations regarding this were released as part of the implementation of the informal agreement, thereby strengthening capital. Further information regarding this can be found in the Business developments section.

The CET1 ratio is determined in the same period calculation (i.e. taking the annual financial statements into account) in accordance with the transitional rules (phase-in) of the Capital Requirements Regulation (CRR). The key ratio used for internal management purposes is not exactly the same as that disclosed in the regulatory report due to the same period calculation. The CET1 ratio calculated under the assumption of full implementation of the CRR (fully loaded) is also defined as a supporting key management indicator in light of the introduction of a uniform supervisory review and evaluation process (SREP).



Another supporting key ratio included in the management system is the leverage ratio. The leverage ratio is a capital ratio that is not weighted and compares the Tier 1 capital to regulatory adjusted business volume. There were no regulatory threshold requirements for the leverage ratio in 2015. The threshold for the leverage ratio and final definition are to be determined by the supervisory authorities by 2017 and are likely to represent a regulatory minimum requirement from 2018.

RWA in the same period calculation are determined 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 exactly the same as that disclosed in the regulatory report due to the same period calculation.

### Liquidity

An important regulatory management indicator for liquidity risk 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 regulatory ratios liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) have been integrated in the internal management system as supporting tools. The mandatory disclosure of the LCR will take place gradually from the middle of 2016. The NSFR will need to be adhered to from 2018 at the earliest.

The liquidity development report (LDR) used in the Stress Case with its defined survival period was also identified during the year as a key management indicator. The LDR maps expected cash flows in a specific time period in a structured manner. An economic assessment over several years is performed based on the so-called LDR Expected Case.

Details on the liquidity ratios and liquidity management are set out in the section Liquidity risk in the Risk report.

### Key management indicators in the Core Bank

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

### Key management indicators in the Restructuring Unit

The focus in the Restructuring Unit is on the active winding down of non-strategic positions whilst protecting the key capital, balance sheet, liquidity and net income resources. The most important management indicators used in the Restructuring Unit are total assets and loan loss provisions.

### Restructuring and early warning indicators

The recovery and early warning indicators defined in the German Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz (SAG)) and by the EBA (European Banking Authority) are regularly monitored and assessed as supporting key indicators in order to be able where necessary to implement targeted measures on a timely basis. HSH Nordbank updated its recovery/resolution plans in the 2015 reporting year in accordance with the statutory requirements.

### Management Board remuneration

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 European 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 system section below.

### Enhancements to the internal management system

In the 2015 reporting year, HSH Nordbank developed a concept for the focused enhancement of the internal management system in 2016. The main focus of the enhancements in the area of the key indicator system was the alignment of the capital and liquidity ratios to the SREP requirements. The management of business fields was also supplemented by the value added after capital costs, the CIR and various adjustments for improving the disclosure of income and costs under the causation principle. The revised key indicator system will be gradually implemented in 2016. Liquidity and capital management as well as balance sheet management will be combined in 2016 into a newly created unit (Asset Liability Management).

## REMUNERATION SYSTEM

The remuneration system for 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 in the initial EU proceedings for the approval of the granting of the second loss guarantee.

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 reorganisation phase is completed.

General agreements have not been concluded for the early termination of a Management Board member's contract without good cause. However, it is contractually agreed that – in accordance with Section 4.2.3 of the German Corporate Governance Code – any agreed payments to a departing member of the Management Board may not exceed the value of two years' fixed annual salary (including fringe benefits) and the total of the fixed salary for the remaining term of the employment period.

In the year under review no member of the Management Board received payments or promises of payment from a third party in respect of their activities as a Management Board member. The same also applies to payments or promises of payment from companies, with which HSH maintains significant business relationships.

Further information on Management Board remuneration is set out in Note 62 (Related parties).

The remuneration system for employees below the Management Board level is based on a total remuneration approach, counteracts 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 for 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 the 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 (Institutsvergütungsverordnung – 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.

The required adjustments identified on the basis of the amended InstitutsVergV that came into force on 1 January 2014 were implemented. Due to the fact that these regulations are dependent upon the relevant collective bargaining agreements, they have been adapted in 2015.

In accordance with the ordinance 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 in 2015 by about 3%, which means that it grew slightly less strongly than in the previous year. This growth rate fell slightly short of the forecasts of many institutions. Global growth was supported by the accelerating pace of the recovery of the US economy over the course of the year, although economic growth slowed again in the US in the last quarter. The US Federal Reserve increased the key interest rate in December 2015 for the first time since 2006, in view of the continuous improvement in the labour market.

Growth in emerging markets has slowed down over the past year. The sharp reduction in oil prices and other commodities, which led to a recession in economies dependent on commodity exports, contributed to this. The economic sanctions imposed by the EU and USA had an additional adverse impact in Russia. Growth also slowed down noticeably in China over the course of the year. The Chinese Central Bank therefore significantly devalued the yuan in several steps in order to boost exports of Chinese companies.

The eurozone economy continued to recover from a low level. The eurozone benefited from the low oil price, favourable refinancing terms and a weaker euro. The difficult and lengthy negotiations between Greece and its creditors regarding reform and savings measures created a climate of increased uncertainty until agreement was reached in the middle of the year. Inflation remained at a very low level in the eurozone and was even negative at times due to the collapse in commodity prices. Against this backdrop the European Central Bank extended in December 2015 its bond purchase programme set up in the spring until March 2017 and expanded its range of marketable bonds to include debt instruments issued by regional and local governments.

The German economy was able to grow at a rate of about 1.4% despite the difficult situation in many export countries. Growth was primarily driven by robust domestic consumption and higher government spending. The latter increased more sharply than planned against the backdrop of the immigration of around 1.1 million refugees. Investment activity decreased again during the course of the year following a positive start to the year. At the same time, exports clearly lost momentum in the second half of the year.

#### HIGH VOLATILITY IN THE FINANCIAL MARKETS

The financial markets were characterised in 2015 by unusually high fluctuations. This was mainly attributable to changing expectations regarding the timing of the first increase in the key interest rate in the US, some sharp falls in prices on the Chinese equity markets, the temporary worsening of the Greece crisis and expectations regarding the ECB's bond purchase programme.

In view of the increasing risk of deflation in the eurozone the ECB adopted a comprehensive bond purchase programme in the beginning of 2015 – particularly of euro government bonds – which was implemented in the market from March. The significance of the purchases led to the yield on ten-year government bonds falling to a record low of about 0.05%, and the yield on two-year government bonds even decreased significantly into negative territory. However, an improved economic outlook for the European Monetary Union for the following months caused the long end of the yield curve to increase to about 1%, whereas the short end has declined further with the prospect of further easing of the monetary policy of the ECB until the end of the year. Ten-year yields have also fallen over the course of the year from their high of 1% with the ECB's readiness to act. There were significant fluctuations in risk premiums for so-called periphery government bonds. As the Greece crisis worsened in summer, these premiums widened significantly and only returned to normal levels after a compromise had been reached.

In the US, the ending of the bond purchase programme at the end of 2014 and increasing speculation at the beginning of 2015 regarding an interest rate turnaround in the second half of the year resulted in an increase in yields – two-year bond yields in particular rose sharply at the year end. Following the US Federal Reserve's decision not to raise the key interest rates in September for the first time since 2006 in view of the turbulence in the financial markets, it increased key interest rates by 25 bps to rates ranging from 0.25% to 0.50% in December. At the same time, the Federal Reserve announced that it would continue its path of increasing interest rates in 2016. The DAX also recorded extraordinary sharp fluctuations and finally closed the year with a plus of around 10%. The EUR/USD exchange rate fell during the year to EUR/USD 1.09 compared to EUR/USD 1.21 as at the 2014 year end. The exchange rate reached its interim low of EUR/USD 1.06 in April. The oil price (Brent) fell sharply in 2015 to USD 38 per barrel as at the 2015 year end. This was primarily attributable to the continued high supply of oil from the US and the high level of oil production of OPEC and non-OPEC states.

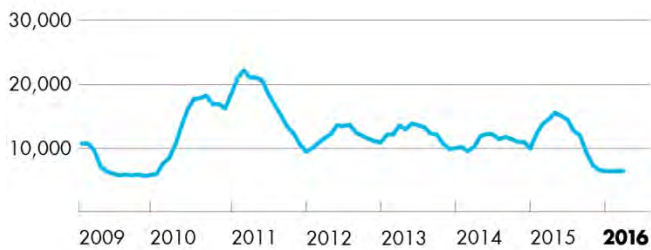
### UNEVEN TRENDS IN THE RELEVANT MARKETS

The shipping markets were very weak, particularly in the second half of the year 2015. The demand for container ships and bulkers fell far short of the expectations of market participants. Only the oil tanker market developed positively.

#### TREND OF TIME CHARTER RATES IN THE SHIPPING INDUSTRY

(Market average, USD/day)

##### Container ships



##### Bulk carriers



##### Oil tankers



Following the expected increase in charter rates in the container ship market in the first half of the year, the market slumped in the second half. As a result, the seasonal recovery usual in previous years did not materialise last year. The demand side was adversely impacted by, inter alia, the downturn in global economic growth emanating from the large emerging countries. Worldwide demand for container transport grew for the year as a whole at a markedly lower rate than had been expected at the beginning of the year. At the same time, the

supply of ships increased more than twice as strongly as demand due to the high number of deliveries. Charter rates and ship values were thrown back as a consequence to the levels of 18 months ago. For the first time since 2009, also charter rates for large container ships fell to the level of operating costs. The number of unemployed container ships increased significantly at the same time.

The weak demand in the commodity markets was reflected in the bulk carrier market. The weakness of the Chinese economy combined with structural difficulties had a negative impact. The volume of coal transports experienced its sharpest fall since the crisis year of 2009, whereas only modest growth was achieved for iron ore and smaller bulk commodities such as minerals and wood products.

Oil tankers benefited from a sharp fall in the oil price. Both the transported quantity and average distance travelled increased stronger than expected. The growing demand for floating storage also made a contribution to the positive development. The fleet increased disproportionately compared to demand. As a result, charter rates and ship values rose again above their long-term historical averages for the first time since 2009.

German real estate markets remained on an upward trend. Most residential real estate markets, primarily in large cities, benefited from a sustained high demand for housing. This continues to exceed construction activity, which has increased over recent years. Vacancy rates decreased again in the office real estate markets, as the demand for office space grew more strongly than the also increasing office completions. The retail sector benefited from strong private consumption and generated significant growth in sales in some cases, particularly in e-commerce. Retail stores also participated in this. Modern retail space remained in demand, especially in prime locations of large cities. As a result, prime rents in the retail sector also continued to rise in 2015, whereas office rents only increased moderately. The increase in residential rents in urban centres slowed down at an overall high level. Commercial property – as well as residential property – recorded further increases in value due to the high investor interest.

There was no common trend in the European real estate markets. Whilst vacancy rates have fallen and rents have increased for years in Great Britain – especially in London – due to the high demand, there was rent stagnation in many other markets such as in France on high vacancy levels. On the other hand, some markets, not least in Spain, began to show signs of a marked recovery. Prime properties in good locations in particular are much sought after throughout Europe as an investment. The upwards trend continued in the USA in both the office and residential real estate markets on a slight fall in vacancies and increasing rents and market values.



The development of renewable energies has progressed unevenly in the year under review. New installations of wind energy plants in Germany were even above the strong previous year's level. This was attributable to the offshore sector, whilst the capacity added onshore slowed down considerably. Capacity added in the rest of Europe has recovered slightly from the low of the previous year, which was also attributable to a higher number of new offshore installations.

The negative trend in the photovoltaic segment continued in Germany. As expected, net capacity added again decreased significantly compared to the previous year. This is the result, among other things, of the fact that there is currently a shift from statutory subsidies to a competitive bidding process.

The project financing volume for transport infrastructure increased very sharply in Europe in 2015 and in fact exceeded the pre-crisis volume of 2008. The proportion of public private partnership projects to the overall volume has increased significantly. The largest proportion of the financing was arranged for roads and in the railway sector. The regional focus of the activities was Great Britain, Turkey and Italy as well as France and Germany. The major institutional investors include pension funds and insurance companies, which regard infrastructure investments as an investment alternative in the low interest rate environment. Revenues in the logistics sector were somewhat more sluggish than in the previous year.

Production growth in the manufacturing industry was comparatively low. Trends were uneven in the individual sectors. Whilst production volume decreased in the chemicals and engineering sectors and the food industry recorded declining sales, the metal industry and electrical engineering achieved slight growth and companies in the pharmaceuticals and automobile industries even achieved strong growth. In the food industry sales of milk and dairy products as well as bakery products and pasta were down, which increased sales in the meat industry were not able to offset.

After a good start to the year wholesalers experienced increasing disillusionment. Overall, real sales declined slightly in 2015, which is primarily attributable to production-related wholesalers. Wholesalers for consumer-related goods have been able to increase their sales. Compared to the wholesale sector the retail sector can be very satisfied with its performance during the year. Both the food retail industry and other segments of the retail sector recorded increases in sales.

As a result of demographic trends and medical advances the German healthcare market is continuously growing, as is the hospital market. Nevertheless, the financial situation of many hospitals remains strained despite the constant increase in revenues. It is expected that this will be eased from 2016 with the implementation of hospital reforms.

## CHALLENGING ENVIRONMENT FOR BANKS

### PROGRESS MADE IN IMPLEMENTING EUROPEAN DIRECTIVES

The banking environment in 2015 was mainly characterised by regulatory changes as part of the continued implementation of the European Banking Union and Basel III. The expansion of the banking union and guarantee schemes is accompanied by the enhanced monitoring of banks; this applies both in the context of the guarantee schemes and by the bank supervisory authority. Regulatory monitoring is substantially increased for banks directly supervised by the ECB through the supervisory review and evaluation process (SREP). This includes in particular large-scale data analyses, so-called "short-term exercises". More strongly than in previous supervisory practice, the ECB as well as the national supervisory authorities will also review the business models, funding plans and internal risk models of the banks and draw on EU-wide benchmark analyses for their assessment, for example as part of the transparency exercise. The objective of the more comprehensive regulatory monitoring approach is to identify failings at banks at an early stage and to take appropriate countermeasures. Against this backdrop, in November 2015 the ECB notified the banks supervised by it of the institution-specific minimum requirements for capital and liquidity backing.

At the same time, market transparency is to be strengthened by the increase in disclosure obligations. The implementation of MIFID 2 (Markets in Financial Instruments Directive), which is aimed at improving the market infrastructure, provides a higher level of transparency and greater investor protection. As part of the harmonisation of European deposit guarantee schemes the new deposit insurance law (Einlagensicherungsgesetz) came into force in Germany at the beginning of July 2015, which transposes the requirements of the European Deposit Guarantee Directive. According to this, national deposit guarantee schemes are to achieve a level of funds of 0.8% of the covered deposits by 2024 by means of contributions made by their member banks. Within the framework of the implementation of the Bank Recovery and Resolution Directive (BRRD) the institutions had to pay the European bank levy for the first time in the year 2015, which will be used to build up the European resolution fund from 2016 onwards.

As part of this development and harmonisation of the European deposit guarantee schemes the German Savings Banks Finance Group approved at the end of the first half of the year a realignment of its joint liability scheme, which includes the guarantee schemes of savings banks, Landesbanks and Landesbausparkassen. The joint liability scheme regulations were supplemented by the strengthening of the governance rules for the institution guarantee, increased risk monitoring and a stronger risk- and deposit-based focus of the contribution regime. The funding of the deposit guarantee scheme of the German Savings Bank Finance Group is strengthened in accordance with the

requirements by the contributions payable by member institutions for the first time in 2015, which were recalculated on this basis.

In Germany, the Act on the Recovery and Resolution of Credit Institutions (Sanierungs- und Abwicklungsgesetz (SAG)) came into force at the beginning of 2015 – a year earlier than provided for at the European level. SAG is the German implementing act to transpose the European Bank Recovery and Resolution Directive (BRRD) into German law, under which common rules are created throughout Europe for failing banks. A key tool is the participation in losses of equity and debt capital providers. The development of comprehensive recovery and resolution plans for the first time by German banks was another milestone in the implementation of the BRRD and SAG. These include measures for stabilising banks in distress and strategies for the resolution of banks including potential participation in losses by investors. Whilst the recovery plans are prepared by the banks themselves, the final responsibility for the resolution plans rested with the Resolution Authority (FMSA) in 2015 but was transferred to the European Single Resolution Board (SRB) as at 1 January 2016.

In view of the introduction of the BRRD the rating agencies, as announced, reassessed in the second quarter of 2015 the so-called state support, that is, the probability of state support being provided to failing banks and issued new bank ratings. The reduction of the support uplift integrated in the long-term ratings of most banks was partially offset by changes to the methodological approaches applied. At the beginning of 2016, a further comprehensive rating action was carried out by Moody's, which took account of the realignment of the liability cascade with regard to a potential losses participation by providers of equity and debt capital in the event of restructuring or resolution under Section 46f KWG to be applied from 2017. This provides for the subordination of senior bonds (financial instruments classified as senior unsecured) to deposits and a greater differentiation between institutional and non-institutional investors (banks and institutions versus private investors and small and medium-sized enterprises).

The comprehensive and stricter regulatory requirements have made a significant contribution to strengthening the stability of the European banking system. Against the backdrop of stricter capital requirements through the gradual implementation of Basel III and the planned introduction of additional regulatory capital buffers German banks have further strengthened their capital base in 2015. In addition to capital measures taken in the market the reduction of balance sheet risk positions and retained earnings also contributed to this. With the

overall improvement in their capitalisation the banks have the key prerequisites for prevailing in the sustained difficult competitive environment in the German banking market.

### **BANK EARNINGS UNDER PRESSURE FROM LOW INTEREST RATES AND COMPETITIVE SITUATION**

The low interest rate environment, which puts pressure on net interest income of banks via a flatter yield curve, was an increasingly negative factor in 2015. In addition to a decline in earnings from maturity mismatches in the refinancing and lending business the return on equity of banks also decreased. In view of the continued sluggish and subdued loan demand against the backdrop of global uncertainty and the currently good equity base of companies, the options for increasing interest income, which is an important source of income for the majority of German banks, therefore remained limited. The difficult demand and competitive situation entails the danger that loan financing in the banking market is not priced on a risk commensurate basis.

The constantly increasing regulatory requirements together with the bank levy on institutions were reflected on the cost side. Against this backdrop many banks initiated comprehensive cost and efficiency programmes in order to be able to generate adequate returns on a sustained basis.

Many German institutions were affected by the debt moratorium announced by the Austrian financial market authority at the beginning of March 2015 for Heta Asset Resolution AG (HETA), which required higher write-offs of the existing loans and advances to HETA from institutions. The nominal value of the portfolio of securities and bonds of HETA held by the Bank totalled € 220 million. At the beginning of January 2016 the Austrian federal province of Carinthia submitted a buyback offer to the HETA creditors, which is based on the solution reached between Austria and Bavaria in July. The offer comprised the repurchase of the securities at a price of 75% regardless of the default guarantee issued by the Austrian federal province of Carinthia. The buyback offer of the federal province of Carinthia failed in March 2016 due to its rejection by the creditor banks. At the beginning of April 2016 the Austrian Financial Market Authority (FMA) announced a new debt haircut, which, at only 46% for the holders of senior bonds and a full waiver for holders of subordinated bonds, is significantly below the previous offer. All coupon payments payable from 1 March 2015, the start of the legally enacted debt moratorium, were also cancelled in full and the maturity of all bonds was extended to 31 December 2023. In May 2016, the federal province of Carinthia and the creditor banks seemed to be close to an agreement.



### HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

Against the backdrop of the overall subdued loan demand of companies with a simultaneous solid demand for real estate loans and the deliberate restrictions placed on new business in the shipping sector, new business concluded with HSH Nordbank clients last year was slightly below the previous year's level. The uncertainty felt by the market before the reaching of the informal agreement with the EU Commission probably contributed at times to the reticence of clients.

In the face of the subdued overall market the Bank was nevertheless able to confirm its good positioning in the target markets whilst complying with strict risk and earnings requirements. One focus was on real estate financing. However, the subdued demand for bank loans was clearly felt in the traditional corporate clients business, although new business – particularly in the project financing business – increased towards the year end. Transactions were concluded on a selective basis in the shipping sector. At the same time there was intense competition in all divisions. Overall, Core Bank earnings benefited noticeably from the development of new business. However, the solid financial position of many clients enabled them to make investments from their own resources and repay loans early. This partially offset the positive earnings effect of the increase in Core Bank's new business.

In view of the persistent adverse trend in the shipping industry and the impact of the informal agreement and the formal decision of the EU Commission on the portfolios to be sold HSH Nordbank has once again recognised extraordinarily high loan loss provisions for the legacy portfolios concerned in 2015 most of which, however, were compensated for by the guarantee. HSH Nordbank also drew on the forecast data of the leading market research institutes, Marsoft and MSI, for this.

The significant slowdown in economic growth in China in particular had a negative effect on the demand side in the shipping markets and the low interest rate environment had a negative effect on the supply side, as the favourable refinancing conditions have supported further increases in the fleet. However, the strong earnings, particularly of German companies, enabled reversals of loan loss provisions to be made in respect of corporate loans.

The further appreciation and high volatility of the US dollar against the euro also had an impact on earnings, net assets and the financial position. Net trading income was adversely impacted by IFRS measurement effects, particularly with regard to the hedging of equity holdings denominated in foreign currency, which, however, were more than offset by other, positive effects in net trading income.

The appreciation in the US dollar required a higher amount of cash collateral to be provided for the derivative US dollar funding. HSH Nordbank counteracted this adverse impact by implementing targeted measures on the asset and liability side. These included accelerated sales of troubled assets denominated in US dollar the Restructuring Unit, restrictions placed on new US dollar business and an increase in the US dollar deposit volume.

An appreciable amount of liquidity was freed up by means of these measures. Despite the additional negative effect arising from the maturity in 2015 of the majority of bonds covered by the guarantor liability appropriate liquidity ratios were disclosed at all times. Furthermore, the planned sales of portfolios totalling € 8.2 billion to the federal states and in the market will significantly ease future funding requirements and the future liquidity position.

Despite the continuing low level of interest rates, customer business margins were maintained at stable levels for the most part. Nevertheless, the results were adversely impacted by the low level of interest rates. The decrease in risk premiums had a positive effect as at the 2015 year end on the measurement of high-risk securities portfolios, from which the internal workout bank, the Restructuring Unit, benefited in particular.

The multitude of new regulatory requirements also tied up a significant amount of resources at HSH Nordbank in the past year and involved additional costs. Nevertheless, total administrative expenses were further reduced significantly compared to the previous year as a result of the implementation of the cost savings programme.

The European bank levy and contribution to the deposit guarantee scheme also resulted in higher costs.

The EU proceedings, the Bank's business performance and position are explained in detail in the following sections.

## BUSINESS DEVELOPMENT – SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE 2015 REPORTING YEAR

### INFORMAL AGREEMENT REACHED WITH EU COMMISSION

On 19 October 2015, the majority owners of HSH Nordbank, Hamburg and Schleswig-Holstein, the Federal Republic of Germany and the EU Commission reached an informal agreement in the pending EU state aid proceedings to provide relief to the Bank's operating business from the adverse impact of legacy portfolios and guarantee fees, which, following the implementation of the individual measures, should improve the financial and risk situation and form the basis for a sustainable and viable structure of HSH Nordbank. It is also envisaged that HSH Nordbank be privatised by the year 2018. HSH Nordbank and its majority owners have been thoroughly preparing for the implementation of the informal agreement over the past few months.

### FORMAL DECISION IN THE EU STATE AID PROCEEDINGS

On 2 May 2016, the EU Commission issued a formal decision in the current EU state aid proceedings and thereby approved the replenishment of the second loss guarantee provided by the federal states from € 7.0 billion to € 10.0 billion. The formal decision confirms the informal agreement and defines it in principle in concrete terms. It is based on a catalogue of conditions and commitments provided by the Federal Republic of Germany to the EU Commission.

### Sale of non-performing loans of up to € 8.2 billion

Under the informal agreement HSH Nordbank AG is to be relieved of some of its troubled legacy portfolios. Following the informal agreement, the Bank was able to transfer non-performing loans in the amount of up to € 6.2 billion at market prices to the federal state owners and to sell an additional portfolio volume of € 2 billion in the market. Any resulting losses should be charged against the second loss guarantee under the current conditions of the guarantee agreement and would therefore result in a higher drawdown of the guarantee. The aim is that the volume of non-performing loans will decrease clearly thanks to these measures. The largest portion of the portfolios to be sold is accounted for by non-performing shipping loans, which should reduce the impact of the very difficult shipping market and volatile US dollar on the Bank's operating performance.

Further points relating to the sale of non-performing loans were specified as part of the formal decision taken in May 2016. Accordingly, it is planned to transfer portfolios of an initial amount of € 5 billion to the federal states in the middle of 2016. The transfer will be made at market values determined by the EU Commission from a state aid point of view. Furthermore, it is planned on the basis of the formal decision of the EU Commission to sell portfolios of up to € 3.2 billion in the market.

### Reduction in guarantee fees and establishment of a holding structure

A further key point of the informal agreement with the EU Commission is the future structure of the guarantee fees together with the establishment of a holding company and a subsidiary, which will comprise HSH Nordbank's operating business and is to be privatised. The operating company is to pay a significantly lower level of guarantee fees in the future. The base premium for the guarantee is to decrease by 1.8% to 2.2% (from a current 4%) and is solely payable on the portion of the guarantee not made use of, i.e. not drawn down, and no longer on the guarantee facility of € 10 billion. The base premium of currently about € 400 million is to decrease over the coming years as planned after the portfolio transactions have been implemented.

In the new structure the current additional premium for the guarantee shall no longer apply to the operating company. The reduction in guarantee fees should significantly ease the strain on the results of HSH Nordbank's operating company. This company would be structurally in a much better position in future to strengthen its capital from own resources and therefore meet the increasing banking supervision and market requirements. As the assets to be sold will mainly comprise US dollar transactions, the sensitivity of capital ratios to the volatile US dollar will also decrease noticeably.

Furthermore, the operating company's funding requirements, particularly in the US dollar business, will also decrease due to the sale of the loan portfolios. This will also strengthen the Bank's liquidity position affected by movements in the US dollar in the future.

The holding company still to be formed is to significantly relieve the operating company of all other fee components of the second loss guarantee base premium on the portion of the guarantee drawn down, base premium of 1.8% on the portion of the guarantee not drawn down and the current additional premium.

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

### Privatisation of the operating company

Under the formal agreement, a period of 24 months following the binding decision of the EU Commission was provided for the sale of the operating company. Delays for reasons outside the control of the Bank or the federal states were meant to allow extending the period by up to six months. The federal states of Hamburg and Schleswig-Holstein may retain a shareholding of a maximum of 25% for up to four years following the sale. The success of the sales process was meant to be assessed by the EU Commission as part of a further future decision in the light of the privatisation, in which the Commis-



sion would analyse and assess the viability of the newly established entity following the sale.

The company to be sold is to be reorganised in such a way that a successful sales process is promoted. Further cost savings and measures to strengthen the capital base will be implemented for this purpose. According to the informal agreement, a dividend ban was to apply during the privatisation period and a distribution ban on the issued hybrid instruments during the entire restructuring period.

Under the formal decision a deadline of 28 February 2018 is set for the sale of the operating company (i.e. up to the signing of the acquisition agreement). This divestiture period may be extended by up to six months with the agreement of the EU Commission, where there are delays in the technical implementation of the model for reasons outside the control of the federal states. The sale will be executed as part of an open, non-discriminatory, competitive and transparent process. The participating bidders, who must be independent of HSH and the public sector, must have the necessary financial resources and proven sector expertise to manage the operating company as a profitable and active competitor. A sale to other Landesbanks is possible. Public savings banks may also take a minority interest in an acquisition by a private third party or by one or several Landesbanks.

Following the successful completion of the sales process resulting in an offer that does not require state aid and an offer price that is positive (while retaining the guarantee) the intended acquisition will be subject to a viability assessment of the new corporate structure by the EU Commission prior to implementation and has to be approved by the EU Commission. Further information on the agreed privatisation can be found in the section Formal decision in the EU state aid proceedings in the Forecast report.

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

Based on the information available as at the balance sheet date and on its own planning, the Bank assumes that, on the successful conclusion of the privatisation process, it will again be able to pay dividends and

make distributions on hybrid capital for the 2019 financial year at the earliest in 2020.

#### **Further key points of the formal decision pursuant to the catalogue of conditions and commitments**

Under the catalogue of conditions and commitments set out in the formal decision the operating subsidiary will maintain the regulatory liquidity ratios net stable funding ratio (NSFR) and liquidity coverage ratio (LCR) in a range of 80% to 120% at the year end of the 2016 and 2017 financial years, respectively. Furthermore, provisions regarding the reduction in total assets and business model (including expansion of the business approach in the area of corporate clients compared to the previous list of EU conditions under the original EU proceedings and continuation of the ban on proprietary trading and asset-based aircraft financing and setting of a maximum possible new business volume in Shipping) are to be complied with and the restriction on external growth through the acquisition of control in other companies is also to be observed. Further information on the formal decision is set out in the Forecast, opportunities and risks report section.

#### **Implementation of the informal agreement and inclusion in the 2015 Group financial statements**

In November 2015 the federal states of Hamburg and Schleswig-Holstein confirmed in a binding statement to HSH Nordbank that they will implement the informal agreement as quickly as possible and initiated – as far as needed – the necessary parliamentary legislative procedures. These parliamentary legislative procedures were completed last year with the consent of the parliaments of Hamburg (Bürgerschaft) and Schleswig-Holstein (Landtag). The impact of the informal agreement and the binding undertaking of the federal states of Hamburg and Schleswig-Holstein on net assets, financial position and results of operations was taken into account in the 2015 annual and Group financial statements in accordance with the accounting rules to be applied.

In summary, the envisaged structural measures mainly affect the following items in the 2015 income statement: loan loss provision expense (valuation allowances recognised as a result of the changed measurement of the portfolios to be sold due to the revised commitment strategy and the offsetting compensation under the second loss guarantee, reversal of future premiums and debt waivers in the compensation item with the exception of the one-off payment to be expected after the formal decision of the EU Commission and the provision of liquidity to the holding company in the total amount of € 260 million), net interest income (revaluation of hybrid instruments due to coupon defaults) and tax result (elimination of deferred taxes on temporary differences as a result of the reversal of obligations in connection with the additional premium).

Furthermore, the informal agreement and binding statement of the federal states of Hamburg and Schleswig-Holstein had an impact on the capital ratio (positive income effect due to the reversal of additional premiums and regulatory adjustment items).

### **Selection and measurement of the transaction portfolios**

The commitments to be transferred to the winding down institution formed by the federal state owners with an initial volume of € 5 billion were identified as part of a portfolio selection process. The selected portfolio of non-performing shipping loans is to be transferred from the Restructuring Unit and the Core Bank's recovery unit at the end of the first half of 2016. The impact of the shipping market and volatile US dollar on the Bank's operating performance is likely to decrease markedly as a result of this measure.

In addition, the commitments of up to € 3.2 billion to be sold in the market have already been identified by the Bank. In contrast to the portfolio to be sold to the federal states, the market portfolio also comprises loans from the areas of real estate, energy and aviation in addition to shipping loans.

In the 2015 Group financial statements, the expected market values for the transaction portfolios as at the respective transaction date were incorporated in the calculation of the respective loan loss provisions under the changed commitment strategies. This measurement resulted in the need to recognise additional impairment losses in the Group financial statements. Losses incurred on the sale of the portfolios are to be settled under the current terms and conditions of the continuing second loss guarantee agreement. Accordingly, the need for additional impairment losses was compensated for in the income statement.

The guarantee is technically split into a financial guarantee and a credit derivative for the compensation of loan loss provisions. This compensation under the guarantee relating to the financial guarantee is accounted for in loan loss provisions and that relating to the credit derivative in a separate line item Hedging effect of the credit derivative second loss guarantee. The settlement of the losses resulting from the transfer of the commitments results in a higher and earlier actual drawdown of the guarantee compared to the previous plan.

### **Acquisition and management of the split off shipping loans with an initial volume of € 5 billion by an institution of the federal states**

The portfolio to be sold to the federal state owners is to be acquired by HSH Portfoliomanagement AöR, an institution under public law. The institution is owned by both federal states and has its registered office in Kiel. It was established to take care of the management and winding down of the assets taken over while minimising losses. The environment necessary for setting up the institution was established by the conclusion of a treaty between Hamburg and Schleswig-Holstein in December 2015 with the consent of both state parliaments.

Essential services are to be initially provided to HSH Portfoliomanagement AöR (loan processing, portfolio management, IT etc.) by HSH Nordbank on an interim basis until the longer-term servicing arrangements are secured under normal procurement procedures. Preparations necessary for the operational start of the interim servicing arrangements in the middle of 2016 have already been initiated.

The portfolio remaining at HSH Nordbank under the guarantee will continue to be hedged by the continuing guarantee facility in the proven way. This will continue to provide increased stability in the income statement and regulatory capital backing even under crisis market conditions.

### **Implementation of the holding structure**

The planned legal separation of HSH Nordbank into an operating company and a holding company and the associated reduction in guarantee fees is to be achieved by the Bank's existing shareholders contributing their shares to a new holding company to be established. This holding company will in future bundle together the shares contributed by all owners.

In addition to the principal owners, Hamburg and Schleswig-Holstein, minority shareholders have also confirmed to the Bank that they will contribute shares to the holding company. It is intended that the 5.3% shareholding in the Bank held by the Savings Banks Association for Schleswig-Holstein (Sparkassen- und Giroverband) and 4.2% shareholding held by private investors advised by J.C. Flowers & Co. LLC be transferred to the holding company. Furthermore, the private investors advised by J.C. Flowers & Co. LLC are to hold a 5.1% shareholding directly in the operating company.



### Start of the privatisation process

In view of the time limit, the first steps for the sales process have already been initiated in addition to the preparations and specifications for the implementation of the planned structural measures. In the first half of 2016, an investment bank is to be appointed by the federal states to support a successful sales process. An investment bank will also be appointed by HSH Nordbank to provide support in this process.

Further strategic and operational improvements are planned at the Bank over and above the implementation of the structural measures. The foundations of a permanently viable business model and the starting point for a successful privatisation of HSH Nordbank have been further improved by these additional optimisations.

Details regarding the accounting treatment of the agreed structural measures in the Group financial statements are set out in the Earnings, net assets and financial position section.

### OVERVIEW OF BUSINESS PERFORMANCE IN 2015

HSH Nordbank's operating activities were vigorously driven forward in the past year regardless of the issues surrounding the pending EU proceedings. The focus was on generating new business with solid income and risk profiles in a very challenging market environment. At the same time legacy portfolio items were further reduced significantly in the Restructuring Unit with a focus on winding down shipping and real estate loans as well as capital markets positions. The implementation of the plans drawn up as part of the cost reduction programme initiated in 2014 also progressed according to plan. Administrative expenses were further reduced markedly as a result of this despite the significant adverse impact of regulatory requirements.

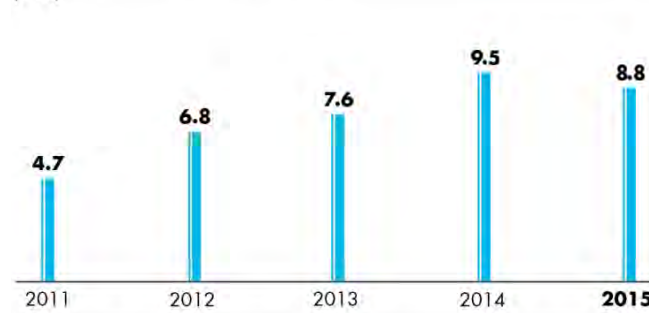
### Focused development of new business

In the past year, HSH Nordbank generated new business of € 8.8 billion in the Core Bank. Taking the strict internal risk and income requirements and the particular challenges faced last year into account, this was slightly below the high volume of € 9.5 billion transacted in the previous year and planned volume. This development reflects the targeted reduction in new business in particular in the shipping division against the backdrop of the very difficult market situation in the shipping industry and volatile movement in the US dollar. On the other hand, the focus on transactions with an adequate risk and income profile was noticeable in the Corporate Clients division in addition to the market-related subdued loan demand. There was also uncertainty in the market because of the EU proceedings. New business transacted with corporates – mainly in the project financing business (energy, infrastructure) – gained new momentum, in particular towards the end of the year. Business expansion was

strong and above plan in view of the favourable market situation and strong position in the real estate clients business.

### NEW BUSINESS OF THE CORE BANK

(€ bn)



The share of the Core Bank client business generated by the respective divisions is broadly balanced with regard to total loans and advances. The share of loans and advances to real estate clients amounted to 29%, the share of the Corporate Clients division to 32% and the share of the Shipping division to 39% (Shipping including the commitments to be transferred to the federal states).

It was possible to increase the share of new loans disbursed in new business transacted (disbursement ratio) compared to the previous year and it is now above the target level. The overall stable and above plan trend in interest margins achieved was encouraging. The slight reduction in new business compared to the previous year was offset by the increased disbursement ratio. Details on new business transacted in the individual divisions, which was satisfactory overall taking the particular challenges faced in the year 2015 into account, are set out in the Segment reporting section of this report.

Cross-selling income arising from various banking services offered in addition to loan financing was increased significantly to € 242 million compared to the previous year and was above plan thanks to more extensive product sales in the Core Bank (previous year: € 227 million). Risk hedging as well as transaction banking and investment products were among the services in demand with Core Bank customers. Thanks to increased product sales in the Core Bank it was possible to strengthen the sustainability of client relationships further. This increase in the Core Bank was offset by a decrease in cross-selling income in the Restructuring Unit from € 42 million to € 26 million, where lower loan restructuring fees were received due to the progress made in reducing risk. At the Group level cross-selling income in the total amount of € 268 million was at about the previous year's level (€ 269 million).

New business concluded in accordance with the margin and risk requirements and product sales had a positive impact on the Core Bank's operating earnings. The Core Bank's portfolio quality benefited from new business with comparatively better income and risk parameters and the reduction in high-risk troubled assets.

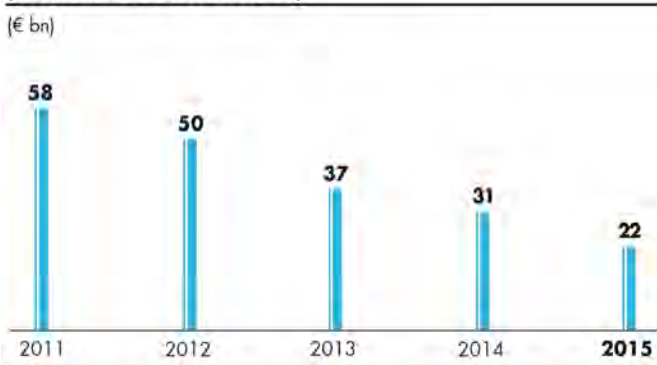
HSH Nordbank was therefore able to make considerable progress in implementing the Core Bank's client-based strategy and thereby further consolidating the anchoring of the client divisions in their target markets despite the deliberate restrictions placed on business activities in some cases and a challenging environment.

Total assets of the Core Bank amounted to € 70 billion as at 31 December 2015 (31 December 2014: € 76 billion) against the backdrop of the business developments and movement in the EUR/USD exchange rate (portfolio effect: € 1.2 billion). The increase in the portfolio due to the new business transacted was more than offset by scheduled and unscheduled loan principal repayments and the reduction in the surplus liquidity built up in advance of the maturities of bonds covered by the guarantor liability.

### Accelerated winding down of legacy portfolios

HSH Nordbank consciously intensified its efforts to wind down the legacy portfolios, particularly in the second half of the 2015 financial year.

#### RESTRUCTURING UNIT: SEGMENT ASSETS (EXCLUDING CONSOLIDATION)



A focus was on reducing the troubled assets denominated in US dollars against the backdrop of sharp fluctuations in the exchange rate. At the same time the accelerated winding down resulted in a release of liquidity against the background of the extensive maturities of bonds covered by the guarantor liability as at the 2015 year end.

The winding down measures taken in the year under review in part exceeded the loss-minimising winding down provided for under the guarantee agreement. In some cases, these winding down measures were associated with significant charges to the Bank's earnings.

On the other hand, it was possible to clearly reduce legacy portfolio items in the statement of financial position ahead of schedule.

Against the background of a market environment that continues to be very difficult in shipping one focus of active portfolio reduction continued to be on the winding down of non-performing ship financings by means of structured solutions for shipping loans. These solutions transfer shipping loan tranches to investors thus reducing the risks of the Bank in the portfolio. At the same time, the Bank in the course of the transactions secures the option to benefit from a recovery of the shipping industry. Nine transactions of this type were concluded in the 2015 financial year. Furthermore, shipping loans with a volume of about € 0.6 billion were wound down in 2015. Sales were also actively generated to a greater extent in the Real Estate USA and Energy & Infrastructure USA divisions. In these two divisions loans with a total volume of about € 0.5 billion were sold primarily in the second half of 2015. At the same time HSH Nordbank was successful in the reporting year in significantly reducing its Dutch real estate portfolio in a continuing difficult market environment.

Taking account of winding-down measures in other areas (Restructuring Unit and Core Bank) it was possible to wind down a loan volume of around € 1.4 billion in addition to scheduled principal repayments.

Furthermore, HSH Nordbank used the overall positive market environment to significantly reduce the capital markets portfolios in the Restructuring Unit. The credit investment portfolio was further reduced by around € 2.2 billion in addition to scheduled repayments in the year 2015.

As forecast, total assets of the Restructuring Unit further decreased significantly to € 27 billion as a result of the portfolio reduction in the year 2015 taking account of the offsetting effect of the appreciation in the US dollar (portfolio effect: € +0.8 billion). Consolidation items accounted for € 5 billion of those assets. As a result, the balance sheet assets of the Restructuring Unit segment (excl. consolidation items) amounted to € 22 billion (31 December 2014: € 31 billion, 31 December 2009: € 83 billion).

### Successful cost savings and process optimisation measures

HSH Nordbank continued to implement the cost reduction programme initiated in 2014 for the years 2015 to 2017 in line with the plan in 2015. The action plans have been successfully implemented in the area of operating and personnel expenses and at the process level. The targeted management of individual operating expense items and reduction in staff related to the restructuring have contributed to a further significant decrease in administrative expenses in the reporting year. Key milestones reached at the process level are in particular efficiency improvements across divisions in the lending and loan processing. The organisational structure in the staff divisions was also



streamlined inter alia as part of the enhancements to the management systems of the Bank. The Bank further reduced the size of its branch in New York during the course of the year and converted it into a representative office at the end of 2015.

The further reduction in staff initiated at the beginning of the reporting year is progressing according to schedule. A large part of the planned reduction has already been agreed with the employees concerned. Details regarding the implementation of the reduction in staff are governed by a reconciliation of interests (Interessenausgleich), on which the Management Board and Works Council have agreed. In addition, the framework social plan in place since 2011 remains valid and contains the tools to be used for a socially acceptable reduction in staff, such as severance, early retirement and part-time work agreements. Employees are also provided with support in developing new career plans.

The number of employees decreased as planned to 2,384 (31 December 2014: 2,579) – calculated in FTE – at the end of the year 2015 as a result of the ongoing reduction in staff within the HSH Nordbank Group. 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 to 2,117 by the end of 2015 (31 December 2014: 2,265).

The background to the cost reduction programme is, on the one hand, the increasing pressure on earnings in the competitive banking market and, on the other, rising costs due to the increasing regulatory requirements. HSH Nordbank is improving cost efficiency and reducing administrative expenses in the long-term through the cost-cutting measures currently being implemented.

#### NUMBER OF EMPLOYEES REDUCED

|  | 31.12.2015   | 31.12.2014   |
|--|--------------|--------------|
| <b>Full-time equivalents (FTE) in the Group<sup>1)</sup></b> | <b>2,384</b> | <b>2,579</b> |
| of which: Women  | 891          | 965          |
| Men  | 1,493        | 1,614        |
| Employees in Germany   | 2,264        | 2,422        |
| Employees abroad   | 120          | 157          |
| Total number of employees in the Group <sup>2)</sup>         | 2,838        | 3,072        |
| New employees  | 88           | 130          |

<sup>1)</sup> Total number of employees excluding trainees, temporary staff and interns (previous year adjusted).

<sup>2)</sup> Headcount (previous year's number adjusted).

The bank-wide implementation was completed at the end of 2015. Further measures for improving efficiency were identified and implemented by the divisions as part of the so-called continuing improvement process. Since the beginning of the lean management programme a considerable amount of efficiency improvements was identified and implemented.

The Bank launched a “Digital Business” initiative to benefit even more from the opportunities offered by digitisation. Key objectives are the development of tailored, innovative solutions to strengthen client relationships as well as the further improvement in internal processes. Focused digitisation measures with a tangible value added for HSH Nordbank and its clients are being developed and already existing activities consolidated across the Bank. The first ground-breaking measures have already been implemented. For example, the introduction of the HSH banking app enables business clients to monitor and manage their accounts and payment transactions using mobile devices.

#### Progress made in implementing the IT strategy

Significant progress has been made in 2015 in implementing the IT strategy defined in 2014 and to be implemented by 2018. A central project in the reporting year was the modernisation of the IT infrastructure. A target solution was also developed for the consolidation of capital markets IT. Further implementation successes were achieved inter alia in focusing on the provision of services and the establishment of a central customer support.

#### Management Board of HSH Nordbank strengthened

The Supervisory Board of HSH Nordbank AG appointed Ulrik Lackshewitz as Chief Risk Officer (CRO) of HSH Nordbank in its meeting of 29 May 2015. He took over this role with effect from 1 October 2015 from Stefan Ermisch, Chief Financial Officer (CFO), who was temporarily responsible for the Bank's risk function since June 2015 following the departure of Edwin Wartenweiler. In Ulrik Lackshewitz, HSH Nordbank has gained a proven expert who has extensive experience in risk management and recognised expertise in shipping portfolios.

Furthermore, the Supervisory Board has extended the contracts with Stefan Ermisch, Chief Financial Officer, and Matthias Wittenburg, responsible for capital markets and corporate client business. Stefan Ermisch was also appointed as Deputy Chairman of the Management Board.

Over and above the cost reduction programme the so-called lean management programme is contributing to the targeted improvements in processes and quality. The lean management philosophy and method has been gradually introduced since 2011 into the divisions with the help of the managers and with extensive employee participa-

## EARNINGS, NET ASSETS AND FINANCIAL POSITION

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

#### Agreed structural measures reflected in the positive results

HSH Nordbank's net income for the 2015 financial year mainly reflects the overall satisfactory operating performance of the Core Bank (with the exception of the Shipping division) and the accounting impact of the informal agreement reached with the EU Commission and the binding statement of the federal states of Hamburg and Schleswig-Holstein to implement the planned measures. Overall, the informal agreement which was basically confirmed by the formal decision had a significant positive impact on the earnings situation, whereby the Restructuring Unit benefited significantly more from the recognition of the effects of the measures than the Core Bank of HSH Nordbank.

Material effects were recognised in this connection in loan loss provisions, in which the impact of the guarantee and the debt waiver of the guarantors are also disclosed. The existing additional premiums and future guarantee premium obligations were released to income and the debt waiver was cancelled and recognised as expense except for the payments still to be expected after the formal decision of the EU Commission (one-off payment and provision of liquidity to the holding company). At the same time, impairment losses had to be recognised for the portfolios to be transferred or sold due to the changed commitment strategies that take market values at the planned date of sale into account, which together with the loan loss provisions recognised for the other troubled assets in the shipping loan division, were largely compensated for by the hedging effect of the guarantee with the exception of certain losses in the market portfolio that were determined on the basis of an estimate and were related to credit ratings. Furthermore, the remeasurement of hybrid instruments due to the current corporate planning had a positive impact on net interest income assuming elimination of future coupon payments taking the informal agreement and the formal decision into account. In addition, deferred taxes were reversed due to the informal agreement, which resulted in significant tax expense.

At the same time, the operating progress made in the client business and cost saving measures implemented were reflected in the earnings performance.

This overall noticeable positive impact was offset by charges arising from the measures implemented last year to wind down troubled assets, the high base premium for the guarantee for the past year as well as the European bank levy and contribution to the deposit guarantee scheme that were payable for the first time. In addition, the

Bank had to recognise extensive portfolio valuation allowances in order to reflect the risks arising from the very challenging environment, particularly in the shipping markets, and take account of the new standards to be applied to the shipping industry.

Net income before taxes of HSH Nordbank amounted to € 450 million compared to € 278 million in the previous year. After deducting the comparatively high tax expense of € -352 million attributable to an increase in deferred tax expense recognised as part of the structural measures Group net income of € 98 million remained for the year 2015 (previous year: € 160 million).

#### Significant increase in total income

Total income of HSH Nordbank increased in the 2015 reporting year to € 1,296 million compared to € 908 million in the previous year. In the previous year the forecast was based on a more or less stable total income only.

A sharp increase in net interest income to € 1,032 million, which benefited at the operating level from the positive income impact of the development of new business at overall stable margins, made the largest contribution to this. This was offset by the negative impact of the most recent accelerated reduction in high risk legacy portfolios and loan principal repayments by clients. The remeasurement of hybrid instruments also had a positive impact on net interest income as a result of the assumption that more coupon payments will be cancelled in the future based on the current planning of the Bank, taking the informal agreement as well as the formal decision into account, among other things (effect: € +214 million).

Net trading income, which was affected by volatile developments on the financial and currency markets, increased to € 84 million (previous year: € 61 million) due to the overall improvement in measurement gains and losses for, inter alia, EUR/USD basis swaps. As expected, net income from financial investments of € 54 million for the past year fell significantly short of the net income of € 169 million for the previous year, which benefited more strongly from reversals of impairment losses and gains on disposals. Write-downs of equity holdings as well as losses on the disposal of positions held in the credit investment portfolio had a negative impact in the reporting year 2015.

The accelerated reduction in legacy loans in various asset classes (particularly real estate, shipping and energy loans) also had a negative impact on income in the reporting year (disclosed mainly under Other operating income). The additional winding down measures resulted in a greater reduction in high-risk portfolios and the release of liquidity in view of the maturity of the majority of bonds covered by the guarantor liability during the past year. The focus here was on the reduction in US dollar positions against the backdrop of the negative impact of volatile exchange rate movements.



The marked reduction in personnel and operating expenses including depreciation of property, plant and equipment also made a contribution to the positive results against the backdrop of the ongoing cost savings programme. As expected, total administrative expenses decreased sharply to € -634 million compared to € -724 million in the previous year. HSH Nordbank will initiate further measures to reduce costs and improve efficiency in order to ensure a sustainable, competitive cost structure.

### **Loan loss provisions taking account of market values of transaction portfolios as at the planned time of sale and reversal of guarantee premium obligations**

Loan loss provisions are characterised considerably by the effects of the informal agreement with the EU Commission, the compensation effect of the guarantee and additional loan loss provisions created for risk associated with the legacy portfolios. Total loan loss provision expense before compensation under the guarantee and taking the reversal of the guarantee premiums and debt waiver into account amounted to € -3,020 million (of which in the Restructuring Unit: € -1,119 million) and therefore reached an extraordinarily high level and was higher than the planned risk costs.

On the one hand, this reflected additional loan loss provisions recognised due to the changed commitment strategies for the portfolios to be transferred and sold to the federal states agency and in the market (loan loss provisions: € -1,584 million), respectively, taking account of the expected market values as at the planned date of sale. On the other hand, loan loss provisions had to be increased for the shipping loans remaining at the Bank. Through these especially high valuation adjustments HSH Nordbank has taken particular account of a further significant deterioration in the market conditions in the shipping industry, in particular the weak charter rate trend for container ships and bulkers. Furthermore, HSH Nordbank has been able to make significant reductions in the legacy portfolio of troubled assets in the past year – even over and above the portfolio sales provided for in the informal agreement.

In contrast, the risk trend in other business sectors of HSH Nordbank remained largely insignificant. Net reversals of loan loss provisions were recognised in total for the Corporate Clients division loan portfolio.

Expenses for valuation adjustments and direct write-downs, not taking the transaction portfolios into account, amounted in total to € -1,436 million. Comprehensive portfolio valuation allowances were accounted for here. They were created in order to reflect the risks arising from the very challenging environment, particularly in the shipping markets, and take account of the new standards to be applied to the shipping industry.

The guarantee is technically split into a financial guarantee and a credit derivative for the compensation of loan loss provisions. The guarantee is essentially accounted for as a financial guarantee. This implies in particular that the commitments can be declared due as at the planned date of sale. This is not possible at the planned transfer dates for all commitments included in the portfolio transactions due to, inter alia, the ongoing restructuring agreements. The hedging effect of the guarantee in particular for these portfolios is therefore accounted as a credit derivative.

Loan loss provisions for commitments hedged by the financial guarantee are largely compensated for in the reporting year by the compensation item disclosed under loan loss provisions (income statement effect: € 2,666 million including currency translation gains or losses), apart from certain losses not caused by credit ratings in the market portfolio determined based on an estimate.

In contrast, the compensation effect for the commitments hedged under the credit derivative is accounted for in a separate line item Hedging effect of the credit derivative second loss guarantee (compensation effect: € 658 million).

At the same time, the reduction in guarantee fees provided for under the informal agreement was included in the compensation effect of the guarantee in loan loss provisions. This is due to the fact that it has become unlikely that, in light of the binding statement given by the federal states of Hamburg and Schleswig-Holstein to implement the informal agreement, payment of the additional premium and base premiums on the utilised portion of the guarantee will be claimed from HSH Nordbank, apart from payments still to be expected after the formal decision of the EU Commission (one-off payment and provision of liquidity to the holding company in a total amount of € 260 million). The release to income of future guarantee premium obligations offset by the cancellation of the debt waiver and recognition as an expense resulted in a total reduction of € 665 million in loan loss provision expense (of which € 11 million were accounted for in Net interest income). As a result, loan loss provisions of € -354 million compared to € 576 million in the previous year were disclosed after taking the hedging effect of the guarantee into account. Including the hedging effect of the credit derivative total loan loss provisions amounted to a positive value of € 304 million (previous year: € 577 million).

### **Adverse impact of bank levy, deposit guarantee scheme and current base premium**

The expenses for the European bank levy and the contribution to the deposit guarantee scheme in the total amount of € -50 million compared to € -1 million in the previous year, had a clearly more negative impact.

The relief provided by the guarantee continued to be partially offset in 2015 by high premium expense for the guarantee. Net income of HSH Nordbank was adversely impacted by the base premium of € -473 million (previous year: € -521 million) payable for the guarantee facility provided. The planned reduction in the base premium to be paid by the operating company in the future should gradually lead to a significantly lower charge to income from 2016 onwards.

#### **Net income of Core Bank dominated by effect of the recognition of the structural measures and operating successes**

The Core Bank disclosed a significant increase in net income before taxes to € 397 million as at the 2015 year end (previous year: € -120 million), which is characterised by an overall satisfactory development of the operative business (apart from the Shipping division) as well as the implementation of the informal agreement.

The significant increase in total income of the Core Bank from € 590 million to € 995 million, as forecast in the previous year, reflected, on the one hand, the positive income impact of new business of € 8.8 billion transacted with clients, which was only slightly below the high level of the previous year (€ 9.5 billion) due to the particular challenges faced and the targeted restriction imposed on new business, particularly new shipping transactions, in the past year and, on the other, the increase in the positive effect of the revaluation of hybrid instruments with a total amount of € 214 million. The positive income effects were offset by the negative impact of higher loan principal repayments and write-offs relating to equity holdings. Winding down measures for restructuring loans also had a negative impact in the reporting year.

The item loan loss provisions in the Core Bank amounted to € -217 million at the end of 2015 compared to € -65 million in the previous year. This includes, to the extent allocated to the Core Bank, the effects recognised in loan loss provisions under the informal agree-

ment (in particular the reversal of guarantee premiums and cancellation of debt waiver, calculation of risk provisions with changed commitment strategies taking the market values of the portfolios to be transferred as at the planned date of the sale into account), which in total had a significantly positive impact of € 143 million on the Core Bank (of which € 3 million in Net interest income). The risk trend in the corporate and real estate clients portfolios remained largely insignificant. Loan loss provisions recognised in previous periods were released on a net basis in some cases.

#### **Net income of the Restructuring Unit reflects structural measures and reduction in the portfolio**

Net income before taxes of the Restructuring Unit for the past year, including consolidation effects, amounted to € 53 million (previous year: € 398 million). This includes effects of € 522 million (of which € 8 million in Net interest income) resulting from the implementation of the informal agreement (in particular reversal of guarantee premiums and cancellation of debt waiver).

Additional loan loss provision expense for shipping loans held in the Restructuring Unit which were caused by the significant deterioration in market conditions in the shipping industry sector were largely compensated for under the guarantee. Overall, loan loss provisions in the Restructuring Unit were significantly higher in 2015 than in the previous year due to the sharp increase in impairment losses relating to the recognition of the portfolio transactions provided for under the informal agreement. A reduction was planned compared to the previous year, which was characterised by a high debt waiver amount. Total income also decreased due to the significant winding down of the portfolio in the reporting year.

Further details on the reasons underlying the business performance are set out in the earnings, net assets and financial position and segment reporting sections.



## EARNINGS SITUATION

## INCOME STATEMENT

| (€ m)   | 2015         | 2014       | Change in % |
|---|--------------|------------|-------------|
| Interest income   | 4,397        | 5,138      | - 14        |
| Interest expense for investments and derivatives                            | - 55         | - 19       | > 100       |
| Interest expense  | - 3,443      | - 4,332    | - 21        |
| Interest income from investments and derivatives                            | 29           | 6          | > 100       |
| Net income from hybrid financial instruments                                | 104          | - 207      | > 100       |
| <b>Net interest income</b>  | <b>1,032</b> | <b>586</b> | <b>76</b>   |
| Net commission income   | 114          | 130        | - 12        |
| Result from hedging   | 12           | - 40       | > 100       |
| Net trading income  | 84           | 61         | 38          |
| Net income from financial investments                                       | 54           | 169        | - 68        |
| Net income from financial investments accounted for under the equity method | -            | 2          | - 100       |
| <b>Total income</b>   | <b>1,296</b> | <b>908</b> | <b>43</b>   |
| Loan loss provisions  | - 354        | 576        | > 100       |
| Hedging effect of credit derivative second loss guarantee                   | 658          | 1          | > 100       |
| Administrative expenses   | - 634        | - 724      | - 12        |
| Other operating income  | 38           | 123        | - 69        |
| Expenses for bank levy and deposit guarantee fund                           | - 50         | - 1        | > 100       |
| <b>Net income before restructuring</b>                                      | <b>954</b>   | <b>883</b> | <b>8</b>    |
| Result from restructuring   | - 31         | - 84       | 63          |
| Expenses for government guarantees  | - 473        | - 521      | - 9         |
| <b>Net income before taxes</b>  | <b>450</b>   | <b>278</b> | <b>62</b>   |
| Income taxes  | - 352        | - 118      | > 100       |
| <b>Group net result</b>   | <b>98</b>    | <b>160</b> | <b>- 39</b> |
| Group net result attributable to non-controlling interests                  | - 1          | 1          | >- 100      |
| Group net result attributable to HSH Nordbank shareholders                  | 99           | 159        | - 38        |

### Significant increase in total income

Total income for the past year increased above plan to € 1,296 million compared to € 908 million in the previous year.

Total income for the reporting year was primarily driven by net interest income, which increased sharply to € 1,032 million compared to € 586 million in the previous year. New business concluded at mostly stable margins and loan prolongations had a positive effect. An increase in new business margins in the shipping sector was offset by a reduction in the highly competitive corporate clients business. Margins remained stable in the real estate clients sector compared to the previous year. The positive income effects generated by client business were partially offset by the increased winding down of the Restructuring Unit portfolio, higher loan principal repayments as well as the increase in the impaired loan volume and associated negative impact on the interest-bearing loan volume.

The results of the Bank's planning and impact of the informal agreement and formal decision on this planning resulted in the cancellation of two coupon payments as a result of the remeasurement of hybrid financial instruments. The change made in the estimates of future coupon and principal payments against this backdrop resulted in a positive effect of € 214 million in the result from hybrid financial instruments.

Other exceptional items, which contributed to the increase in net interest income, include, inter alia, the effect of the adjustment to the effective interest rate applied to hybrid instruments that was made in the previous year in accordance with the contractual terms, which had an adverse impact on the results for the previous year (€ -84 million). A one-off hedge accounting effect relating to interest rate movements over the past year was also recognised in 2015. This resulted in net interest income of € +49 million. This was offset by a corresponding charge of € -8 million recognised in net trading income. Lastly, HSH Nordbank received a distribution of € 19 million from an equity holding.

Net commission income amounted to € 114 million as at 31 December 2015 compared to € 130 million as at the previous year end. This decrease is in line with the plan and is primarily attributable to lower restructuring fees in the Restructuring Unit associated with the significant portfolio reduction. Cross-selling of services in connection with new business in addition to loan financing had a positive impact.

The following items had a significant positive impact on net trading income (€ 84 million compared to € 61 million in the previous year: Measurement results recognised on EUR/USD basis swaps (€ 52 million) and increases in the value of debt instruments (€ 20 million) had a positive impact. Net operating trading income includes in particular operating successes generated in the client business and amounted to € 95 million. Net trading income was adversely impacted by € -79 million of foreign exchange rate effects. Net trading income was also negatively impacted by valuation adjustments of € -36 mil-

lion, particularly for funding costs and benefits for OTC derivatives (funding valuation adjustments).

As expected, net income from financial investments of € 54 million for the past year fell significantly short of the net income of € 169 million for the previous year, which benefited more strongly from reversals of impairment losses and gains on disposals. Write-downs of equity holdings had an adverse impact in the 2015 reporting year. Losses incurred on the sale of positions in the credit investment portfolio (CIP) that were carried out to further reduce the high-risk portfolios over and above the reduction provided for under the guarantee agreement whilst maximising value and could not be invoiced under the guarantee also had to be taken into account. This was offset by measurement effects in the CIP, which resulted in an overall net loss from CIP financial investments of € -22 million.

The sale and measurement of other securities portfolios had a positive income effect of € 78 million on net income from financial investments. The gain on disposal in the amount of € 39 million included in this amount was offset by the interest effect arising from the reversal of hedge adjustments of € -26 million.

HSH Nordbank continued to measure the securities portfolio of Heta Asset Resolution AG (HETA) at current market value as at the balance sheet date. This resulted in a write-up of € 20 million being recognised in Net income from financial investments as at 31 December 2015. Due to the hedging of transactions under the second loss guarantee, this write-up was offset by the recognition of an expense in the equivalent amount resulting from a corresponding reduction in the hedging effect of the second loss guarantee in loan loss provisions.

### Loan loss provision expense includes the effect of the transaction portfolios and reversal of guarantee premiums

Loan loss provisions are mainly characterised by the impact of the changed commitment strategies taking market values as at the planned date of sale of the transaction portfolios into account, loan loss provisions recognised on the Bank's remaining shipping loan portfolio as well as the reversal of the guarantee premiums except for the payments to be expected after the formal decision of the EU Commission (one-off payment and provision of liquidity to the holding company) and cancellation of the debt waiver.

Loan loss provision expense amounted in total to € -3,020 million before taking the compensation effects under the guarantee and reversal of the guarantee premiums into account. This includes high loan loss provisions of € -1,584 million recognised as a result of the changed commitment strategies that take account of market values as at the planned date of sale of the portfolios to be transferred to the federal states agency (shipping loans) or sold in the market (shipping, real estate and energy loans).

Furthermore, loan loss provisions had to be increased much more than planned for shipping loans not included in the transaction portfolios.

The continued gloomy market situation and worsened outlook in shipping was taken into account by HSH Nordbank through the higher loan loss provisions for shipping loans. The additional loan loss provision expense for legacy shipping portfolios was mainly accounted for by loans for bulkers and container ships due to the weak charter rate trends in these ship segments. The other loan portfolios of the Bank continued to develop comparatively unremarkable. Net reversals of loan loss provisions were recognised in total for the Corporate Clients loan portfolio.

Expenses for valuation adjustments and direct write-downs, not taking the transaction portfolios into account, amounted in total to € -1,436 million. These include expenses of € -308 million for comprehensive portfolio valuation allowances. They were created in order to reflect the risks arising from the very challenging environment, particularly in the shipping markets, and take account of the new standards to be applied to the shipping industry.

The loan loss provisions recognised in particular for the legacy shipping portfolios and the additional loan loss provisions recognised due to the changed commitment strategies that take account of market values as at the planned date of sale for the transaction portfolios were largely compensated for by the guarantee. Gross compensation for the financial guarantee amounted to € 2,666 million after taking currency translation gains and losses into account. The compensation effect resulting from the fair value measurement of the credit derivative amounted to € 658 million.

The relief provided to the Bank from the adverse impact of guarantee fees had a positive effect of € 654 million on loan loss provisions (an additional € 11 million is disclosed in Net interest income) and comprises the reversal of future guarantee premiums (€ 1,695 million) through profit or loss with the exception of payments still expected to be made under the formal decision of the EU Commission (one-off payment of € 210 million and provision of liquidity of € 50 million to the holding company) offset by the reversal of the debt waiver through profit or loss (€ -781 million).

HSH Nordbank disclosed total loan loss provision expense as at the 2015 year end of € -354 million (previous year: € 576 million), taking the hedging effect of the financial guarantee into account. Including the hedging effect of the credit derivative loan loss provision income would amount to a positive value of € 304 million which would be higher than planned.

#### LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

| (€ m)  | 2015           | 2014         |
|--|----------------|--------------|
| <b>Loan loss provisions before currency translation and compensation (net), of which:</b>                        | <b>- 3,020</b> | <b>- 486</b> |
| <b>Core Bank</b>   | <b>- 1,901</b> | <b>- 461</b> |
| Shipping (including recovery unit)   | - 1,511        | - 402        |
| Real Estate Clients  | -              | - 1          |
| Corporates   | 51             | - 57         |
| Other  | - 441          | - 1          |
| <b>Restructuring Unit</b>  | <b>- 1,119</b> | <b>- 25</b>  |
| Shipping loans   | - 1,037        | - 187        |
| Real estate loans  | - 64           | 138          |
| Corporate loans  | 63             | 13           |
| Other  | - 81           | 11           |
| <b>Loan loss provisions before currency translation and compensation (net) incl. credit derivative, of which</b> | <b>304</b>     | <b>577</b>   |
| Core Bank  | 65             | - 64         |
| Restructuring Unit   | 239            | 641          |

The hedging effect of the guarantee has still not given rise to a cash drawdown of the guarantors as at the 2015 year end. The Bank's first loss piece (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 2.2 billion as at the reporting date (losses submitted for settlement). In view of the expected losses arising from the agreed portfolio sales to the federal states and in the market the payment defaults in the portfolio covered by the second loss guarantee will increase in 2016 to above the Bank's first loss piece of € 3.2 billion and then result in actual payments by the guarantors under the guarantee.

The expected actual payments under the guarantee are offset by the significant fees already paid in recent years for the guarantee, through which HSH Nordbank made a high contribution to compensating the federal states of Hamburg and Schleswig-Holstein for the state aid granted.

Base premiums recognised through profit or loss by HSH Nordbank and payable to the guarantors (excluding the one-off payment of € 0.5 billion) have increased to € 2.7 billion as at the 2015 year end (current base premium plus subsequent base premium payment for the replenishment of the guarantee facility in the middle of 2013).



### Administration expenses significantly reduced by cost saving measures

Administrative expenses decreased above plan to € -634 million (previous year: € -724 million). This reflects the cost savings successes achieved under the ongoing cost reduction programme.

Personnel expenses, which decreased from € -296 million to € -277 million, were mainly affected by the number of employees that was reduced even further, according to plan. Compared to the end of 2014, the number of employees within the Group declined by 195 to 2,384 (computed on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) decreased to € -302 million compared to € -303 million in the previous year. An increase was avoided despite higher costs incurred in connection with changes in supervisory and accounting-related requirements, including for IFRS 9 (Financial Instruments) and SREP. Savings were achieved in particular by reducing building costs. Costs for the ECB special audit were also recognised in the same period in the previous year.

Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € -55 million compared to € -125 million in the previous year. This was mainly attributable to significantly lower special depreciation allowances recognised for subsidiaries in connection with the scope of consolidation extended by IFRS 10 since 2014. Depreciation/amortisation for the IT area also decreased.

Result from restructuring decreased to € -31 million (previous year: € -84 million), as personnel expenses relating to the reduction in headcount under the current cost reduction programme were recognised in the previous year.

### Changes in the scope of consolidation and winding down measures included in other operating income

Other operating income amounted to € 38 million (previous year: € 123 million). It benefited from total income of € 33 million arising on the deconsolidation of subsidiaries (mainly K/S Angered, Copenhagen; LCG Finance, Luxembourg), offset by the expense recognised on the complete write-off of the goodwill in the amount of € -13 million arising on the first-time consolidation of a company in the Group financial statements (GmbH Altstadt Grundstücksgesellschaft, Mainz). Furthermore, other operating income includes charges arising from the accelerated winding-down of legacy loans in different asset classes (particularly real estate, shipping and energy loans). Details

regarding the winding-down measures can be found in the Business developments section.

### Expenses for bank levy and deposit guarantee fund

Expenses relating to the payment of the European bank levy of € 36 million had to be recognised in 2015. The contribution to the deposit guarantee scheme of the German Savings Banks Finance Group amounted to € 14 million. These items are recorded separately in the Expenses for the bank levy and deposit guarantee scheme line item.

### High base premium expense

An expense of € -473 million (previous year: € -521 million) was incurred last year for the base premium for the second loss guarantee. The reduction in the base premium expense compared to the previous year is attributable to a lower amount of the subsequent payment of the base premium in connection with the replenishment of the guarantee facility in the middle of 2013 being recognised through profit or loss according to plan.

### Positive Group net income after recognising the effect of the structural measures

Overall, HSH Nordbank generated positive net income before income taxes of € 450 million in the year 2015 after taking account of the effect of the informal agreement and the corresponding specification in the EU proceedings as well as operating developments, which was significantly above plan (previous year: € 278 million). After deducting tax effects there remains Group net income of € 98 million (previous year: € 160 million).

The return on equity for the Group calculated on the basis of net income before income taxes is 9% (previous year: 6%). The cost-income ratio improved to an above plan 48% due to the reduction in administrative expenses and a higher level of total income (previous year: 70%).

The income taxes line item includes deferred income tax expense of € -339 million, which is mainly attributable to the reversal of deferred tax assets in connection with the informal agreement. This relates in particular to reversals of deferred taxes on loss carryforwards due to the planned change in shareholders on the formation of the holding structure as well as reversals due to the reduction in temporary differences as a result of the reversal of the future guarantee premium obligations. Total tax expense after taking account of current taxes amounted to € -352 million (previous year: € -118 million).

## NET ASSETS AND FINANCIAL POSITION

## MATERIAL ITEMS ON THE STATEMENT OF FINANCIAL POSITION

| (€ m)  | 2015          | 2014           | Change in % |
|--|---------------|----------------|-------------|
| <b>Assets</b>  |               |                |             |
| Cash reserve   | 3,394         | 5,967          | - 43        |
| Loans and advances to banks                          | 5,595         | 6,915          | - 19        |
| Loans and advances to customers                      | 56,575        | 67,336         | - 16        |
| Loan loss provisions                                 | - 1,065       | - 2,061        | - 48        |
| Credit derivative under the second loss guarantee    | 663           | 3              | >100        |
| Trading assets                                       | 7,356         | 9,160          | - 20        |
| Financial investments                                | 16,636        | 18,688         | - 11        |
| Non-current assets held for sale and disposal groups | 5,082         | 34             | >100        |
| Other assets   | 2,737         | 4,040          | - 32        |
| <b>Total assets</b>                                  | <b>96,973</b> | <b>110,082</b> | <b>- 12</b> |
| <b>Liabilities</b>                                   |               |                |             |
| Liabilities to banks                                 | 14,398        | 14,547         | - 1         |
| Liabilities to customers                             | 44,567        | 43,165         | 3           |
| Securitised liabilities                              | 18,616        | 27,634         | - 33        |
| Trading liabilities                                  | 6,758         | 9,246          | - 27        |
| Liabilities relating to disposal groups              | 1             | -              | > 100       |
| Subordinated capital                                 | 3,452         | 5,507          | - 37        |
| Equity   | 4,885         | 4,672          | 5           |
| Other liabilities                                    | 4,296         | 5,311          | - 19        |
| <b>Total equity and liabilities</b>                  | <b>96,973</b> | <b>110,082</b> | <b>- 12</b> |

### Decrease in total assets

Total assets decreased significantly in the 2015 financial year to € 96,973 million (31 December 2014: € 110,082 million). What was decisive in this context was the accelerated reduction in risk positions in particular in the Restructuring Unit.

Key balance sheet items on the asset side decreased against this backdrop. Loans and advances to banks decreased to € 5,595 million (31 December 2014: € 6,915 million), primarily as a result of lower call deposits held at other banks. Loans and advances to customers also declined sharply to € 56,575 million (31 December 2014: € 67,336 million). Part of this decrease stems from the reclassification of loan portfolios intended for sale to the federal states agency into the Assets held for sale and disposal groups balance sheet line item. The increased winding down in the Restructuring Unit and loan principal repayments in the client divisions also reduced the loans and advances outstanding. These decreases exceeded the effect of the new business transacted in the past year.

Total loan loss provisions (after compensation effects) decreased significantly to € -1,065 million (31 December 2014: € -2,061 million). Obligations under the additional premium recognised in the past in the compensation item and the debt waiver of the guarantors with the exception of payments still expected to be made under the formal decision of the EU Commission (one-off payment of € 210 million and provision of liquidity of € 50 million to the holding company) were reversed on the basis of the informal agreement reached with the EU Commission in October 2015 and the existing binding commitment of the federal states to implement the informal agreement. This resulted on balance in a significant increase in the compensation item. Excluding the compensation total loan loss provisions increased to € 8,227 million (31 December 2014: € 6,135 million). The hedging effect for the portions of the loan portfolio that fall under the credit derivative is disclosed in a new balance sheet line item Credit derivative second loss guarantee.

Financial investments decreased to € 16,636 million (31 December 2014: € 18,688 million). The winding down of securities portfolios, in particular the credit investment portfolio, had a noticeable impact in this regard.

Liabilities to banks decreased slightly to € 14,398 million (31 December 2014: € 14,547 million). Whereas call deposits placed by other banks decreased, time deposits and securities repurchase agreements increased. Liabilities to customers increased to € 44,567 million (31 December 2014: € 43,165 million). This reflected in particular higher term deposits from institutional investors. Securitised liabilities amounted to € 18,616 million (31 December 2014: € 27,634 million). The expiry of the guarantor guarantee obligation and associated maturities made a significant contribution to this reduction.

Subordinated capital decreased significantly to € 3,452 million (31 December 2014: € 5,507 million). Maturities during the course of 2015 were the main reason for this. Reported equity capital increased to € 4,885 million (31 December 2014: € 4,672 million), which was mainly attributable to the Group retained earnings disclosed.

Due to declining total assets, business volume decreased to € 106,176 million (31 December 2014: € 119,879 million). Irrevocable loan commitments of € 6,370 million were also lower than at the previous year end (31 December 2014: € 7,081 million). However, sureties and guarantees of € 2,833 million were slightly below the previous year's level (31 December 2014: € 2,716 million).



**STRUCTURE OF LIABILITIES BY FINANCIAL INSTRUMENTS**

| (€ m)   | 31.12.2015    |                   | 31.12.2014    |                   |
|---|---------------|-------------------|---------------|-------------------|
|   | Total         | of which > 1 year | Total         | of which > 1 year |
| <b>Secured: Covered bonds and asset-based funding</b>                       | 17,161        | 14,415            | 16,312        | 14,301            |
| Covered bonds   | 10,653        | 8,887             | 10,782        | 9,558             |
| Other secured funding   | 6,508         | 5,528             | 5,530         | 4,743             |
| <b>Unsecured liabilities</b>  | 40,068        | 1,596             | 33,453        | 1,667             |
| <b>Unsecured (senior unsecured)</b>   | 19,746        | 16,446            | 34,953        | 18,150            |
| <b>Profit participation certificates and other subordinated liabilities</b> | 2,122         | 2,105             | 4,155         | 2,100             |
| <b>Silent participations</b>  | 1,936         | 1,936             | 1,980         | 1,980             |
| <b>Total</b>  | <b>81,033</b> | <b>36,498</b>     | <b>90,853</b> | <b>38,198</b>     |

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

One focus within the framework of long-term liabilities are securitised debt instruments (covered bonds, asset-based funding). These mainly include debt instruments issued under Pfandbrief programmes (mortgage, public sector and ship Pfandbrief programmes) as well as other asset-based funding issues, repo transactions and deposits from development banks. The total amount of secured debt instruments outstanding was € 17.2 billion as at the year end.

Unsecured liabilities include call and time deposits comprising mainly client deposits, bearer and registered bonds and other unsecured financing instruments and amounted to € 40.1 billion as at the reporting date. Call and time deposits account for most of the client deposits. The volume of bearer and registered bonds (senior unsecured) amounted to € 19.7 billion as at the 2015 year end.

The two line items Profit participation certificates and other subordinated liabilities (€ 2.1 billion) as well as Silent participations (€ 1.9 billion) in total represent subordinated capital. Of the Silent participations € 606 million is disclosed for hybrid financial instruments (Resparc I and Resparc II) under the Securitised liabilities balance sheet line item.

**Capital and funding****REGULATORY CAPITAL RATIOS**

(SAME PERIOD CALCULATION)

| (%)   | 31.12.2015 | 31.12.2014      |
|---|------------|-----------------|
| Total capital ratio                           | 20.6       | 18.7            |
| Tier 1 capital ratio                          | 16.4       | 14.4            |
| CET1 ratio                                    | 12.3       | 10.0 (+ 2.6 pp) |
| CET1 ratio (full implementation of Basel III) | 11.6       | 10.0 (+ 1.3 pp) |
| Leverage ratio                                | 6.3        | 4.8             |

**ELIGIBLE CAPITAL**

(SAME PERIOD CALCULATION)

| (€ bn)  | 31.12.2015 | 31.12.2014 |
|---|------------|------------|
| Regulatory capital                              | 7.7        | 7.4        |
| of which: Tier 1 capital                        | 6.1        | 5.7        |
| of which: CET1 capital                          | 4.6        | 4.0        |
| of which: additional Tier 1 capital             | 1.5        | 1.7        |
| of which: supplementary capital                 | 1.6        | 1.7        |
| Risk assets (RWA)                               | 37.4       | 39.5       |
| of which: risk assets counterparty default risk | 26.8       | 30.8       |
| Leverage exposure                               | 97.6       | 117.8      |

### CET1 ratio increases significantly to 12.3% after taking into account the effect of the informal agreement

The CET 1 ratio (under the Basel III transitional arrangement, phase-in) improved to 12.3% as at 31 December 2015 and therefore reached an adequate level as expected. This development compared to the previous year (10.0% plus a 2.6 percentage point buffer from the additional premium) comprises a lower RWA as part of the ongoing reduction in the portfolio as well as the net income for the year 2015. Net income for the year also includes income arising from the reversal of obligations for the additional premium payable to the guarantors and future expected obligations for guarantee premiums (except for the expected one-off payment and liquidity backing of the holding company). The reversal of additional premiums under the debt waiver of the guarantors if the CET 1 ratio falls below 10% was presented in past reporting periods as the so-called “additional premium buffer” with regard to the capital ratio.

Even under the assumption of full implementation of the Basel III rules (fully loaded) HSH Nordbank's CET1 ratio amounted to an adequate 11.6%.

As part of the supervisory process in the Banking Union, HSH Nordbank was assigned an individual minimum ratio by the ECB that is reviewed annually in the SREP process. This ratio was adhered to at all times in the 2015 financial year.

RWA have decreased compared to 31 December 2014 by € 2.1 billion to € 37.4 billion. An increase due to new business transactions and the appreciation of the US dollar (EUR/USD 1.09 as at 31 December 2015 versus EUR/USD 1.21 as at 31 December 2014) is more than offset by the RWA reduction attributable to the significant reduction in the portfolio. In its previous year's plan the Bank had expected a slight increase in RWA compared to the previous year. The trend of HSH Nordbank's key risk parameters was largely stable.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. About 0.3% has been calculated as the risk weight as at 31 December 2015 (previous year: 0.7%). This results in an additional guarantee buffer, which means that negative risk trends in the guaranteed portfolio do not have a material impact on the capital ratios, as long as the regulatory minimum risk weight for the senior tranche of the guarantee structure is below 20%.

HSH Nordbank's leverage ratio was 6.3% as at 31 December 2015 (31 December 2014: 4.8%). A statutory binding minimum leverage ratio value has not yet been defined.

### Funding activities expanded

HSH Nordbank has successfully continued to drive its funding strategy forward as planned in the reporting period by using different sources of funding.

A further focus in the past year was the sale of bond products for the client business of the savings banks and other associations and financial institutions as well as the placement of bonds with institutional investors. The total volume of new uncovered bonds (senior unsecured) issued amounted to around € 3.3 billion (previous year € 4.5 billion).

The issuance of secured debt instruments continued to be a core focus of the Bank's refinancing mix. The sale of ship Pfandbriefe amounted to about € 1.3 billion, including a benchmark transaction with a volume of € 500 million. The Bank also placed two mortgage Pfandbriefe of € 500 million in each case on the capital markets and thereby extended the maturity spectrum of the benchmark bonds outstanding.

Asset-based funding (ABF) is a further important refinancing instrument for the Bank. Two large volume transactions were concluded in 2015 via the ABF platform: Castellum ABF in the amount of USD 360 million is secured by commercial real estate properties in the United Kingdom, Entrance in the amount of USD 415 million by real estate portfolios comprising properties in different European countries. At the beginning of 2016 the Bank concluded a further transaction in the amount of USD 200 million. A long-term infrastructure loan was used for the first time as collateral in this case. Furthermore, primary US dollar refinancing was strengthened by the conclusion of longer-term repo transactions.

The need for derivative foreign currency refinancing was reduced by the increase in primary US dollar refinancing. Nevertheless, HSH Nordbank made great efforts during the reporting year to further reduce the proportion of US dollar assets in the legacy portfolios on the balance sheet in order to lessen the impact of exchange rate changes on the Bank's liquidity resulting, inter alia, from the provision of collateral for currency derivatives. The liquidity position was strengthened by the winding-down measures and the reduction in the proportion of US dollar assets. Shipping, real estate and energy loans as well as the credit investment portfolio were the main focus of the additional winding-down measures. Restrictions were also placed on new US dollar business. Furthermore, the planned sales of portfolios totalling up to € 8.2 billion to the federal states and in the market will significantly ease funding requirements and future liquidity position in the future.

Besides the issuing activities, the level of deposits contributed to the implementation of the funding strategy. Total deposits amounted to € 35 billion as at 31 December 2015 (31 December 2014: € 31 billion). Furthermore, at the 2015 year end, the Bank held liquidity reserves in the form of credit balances at central banks in the total amount of € 2.7 billion and collateral eligible for refinancing at central banks in the amount of € 12.4 billion, which the Bank can access at any time.

The majority of the bonds covered by the guarantor liability (GL) matured in 2015 (€ 18 billion). There still remain GL bonds of € 3 billion, which mature over the coming years. Maturities of guarantor liability bonds in the past year were offset by the accelerated winding-down of the legacy portfolios, implementation of funding measures and surplus liquidity built up in previous periods.

The regulatory requirements concerning the liquidity ratios of HSH Nordbank have been complied with at all times in the reporting period despite the challenges presented by the increased volume of maturing liabilities covered by the guarantor liability and US dollar volatility. The measures stepped up in the year to date to reduce risk positions, thereby releasing liquidity, had a positive impact. As expected, the liquidity ratio as defined in the German Liquidity Regulation (LiqV) declined as at the year end to 1.89 (31 December 2014: 1.99), which was therefore within plan and significantly above the regulatory minimum requirements. The liquidity coverage ratio (LCR, short-term minimum liquidity ratio) reached 112% as at 31 December 2015 under the QIS (Basel framework), and therefore also is significantly above the minimum requirements.

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

Changes in HSH's ratings were heavily influenced in the past year both by market-wide so-called bulk actions and bank-specific rating measures in the course of the EU proceedings. As expected, Moody's and Fitch concluded in the second quarter of 2015 the review of bank ratings in Europe, which was carried out against the backdrop of the adoption of the EU Bank Recovery and Resolution Directive (BRRD) and new methodological approaches. At Fitch, the rating action resulted in rating downgrades based on the assumption that there is a reduced probability of state support being provided for future restructurings, including German Landesbanks. HSH Nordbank's long-term rating was changed as a result of this action to investment grade rating BBB- with stable outlook. At Moody's, the Bank's investment grade rating of Baa3 benefited from an improved assessment of its individual financial strength in expectation of the implementation of the structural measures, which was able to balance the impact of the expected lower state influence on the rating.

As expected, the informal agreement reached with the EU Commission in October resulted in further rating changes. Both Moody's and

Fitch assess the structural measures agreed as part of the agreement in principle reached between the EU Commission and HSH Nordbank's majority owners as positive and see it as a strengthening of the Bank's financial and risk profile. The agencies have differences in emphasis regarding the privatisation and or disposal requirement.

Moody's upgraded the long-term rating from "Baa3, negative" to "Baa3, developing". The revised outlook reflects both the structural improvements, which have to be analysed in detail according to Moody's, and the medium-term uncertainty surrounding the privatisation and/or disposal requirement. Fitch also assesses the structural measures agreed as positive. Notwithstanding this, the agency changed the outlook for the long-term rating from "BBB-, stable" to "BBB-, negative" and focuses in particular on the uncertainty regarding the future ownership structure.

At the end of January 2016, Moody's also carried out a rating action regarding the redefinition of the liability cascade under the revised Section 46f KWG that is applicable from 2017. For German banks this tended to improve deposit ratings and downgrade the senior unsecured ratings especially relevant for refinancing on the capital markets for some banks due to the subordination provided therein of senior bonds (financial instruments classified as senior unsecured) relative to deposits. Moody's confirmed both HSH Nordbank's deposit rating and senior unsecured rating at the current level of Baa3. HSH Nordbank's subordinated bonds were downgraded by a notch from B1 to B2 due to the high level of maturities in 2015.

Opportunities and risks regarding funding, liquidity and ratings are set out in the Forecast, opportunities and risks report section.

## FINAL ASSESSMENT OF HSH NORDBANK'S POSITION

The extensive structural relief provided for under the informal agreement with the EU Commission which in principle is confirmed and set out in detail within the context of the formal decision, should result in an improved financial and risk situation and create the basis for a long-term, viable structure and the privatisation of HSH Nordbank.



At the same time, HSH Nordbank was further strengthened by the operating successes achieved. Of particular note in this regard is the focused development of new business under difficult market conditions combined with the increase in product sales as well as the further winding down of high-risk legacy portfolios, although this was partly associated with significant charges to income. The cost reductions implemented and ongoing optimisation of processes and organisational structures are also contributing towards sustainable development. The fact that the Bank successfully coped with the large number of maturities of guarantor liability bonds at the 2015 year end is to be seen as positive.

HSH Nordbank's Group financial statements are significantly impacted by the recognition of the effects under the informal agreement. Irrespective of this, the results of the Core Bank show that the market successes and efficiency improvements achieved in the business divisions in the past year under demanding framework conditions (including deterioration in market conditions in the shipping industry, extensive maturities of guarantor liability bonds, EU proceedings) are having an impact on the divisions and HSH Nordbank is also on the right track concerning the operating business with the implementation of the business model.

The very difficult market conditions in the shipping industry, which required further additions to loan loss provisions for legacy portfolios, also within the framework of the intended portfolio transactions, nonetheless had an adverse impact in the reporting year. However, this was largely compensated for by the guarantee. Against this backdrop and because of the volatile movement in the US dollar HSH Nordbank deliberately placed restrictions on new shipping business in particular. Furthermore, subdued client demand and a difficult competitive environment in the German banking market were felt in the corporate clients business. Despite the difficult underlying conditions HSH Nordbank's new business was in total only slightly below the 2015 planned volume due to the pleasingly strong new business in the Real Estate Clients division.

HSH Nordbank assesses its performance in the past year as satisfactory overall taking into account the informal agreement reached with the EU Commission and operating progress achieved.

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

## SEGMENT REPORTING

### Net income of Core Bank dominated by the recognition of the effect of the structural measures and operating successes

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

As at 2015 year end, the Core Bank disclosed a clearly increased net income before taxes of € 397 million (previous year: € -120 million), which is characterised by a largely satisfactory operative trend – apart from Shipping – as well as to a considerable extent by the effects of the informal agreement, as is Group net income. This gives a return on equity for the Core Bank of 18%. The cost-income ratio of the Core Bank was 43%.

Total income of the Core Bank which increased to € 995 million (previous year: € 590 million) reflected, on the one hand, the positive income impact of new business of € 8.8 billion transacted with clients, which was slightly below the high level of the previous year (€ 9.5 billion) due to the particular challenges faced and the targeted restriction imposed on new business, particularly new shipping transactions, in the past year and, on the other hand, the one-off effect of the informal agreement reached with the EU Commission (remeasurement of the hybrid instruments as a result of the elimination of additional coupon payments on these instruments during the disposal period) and other exceptional items. The positive income effects were offset by the negative impact of higher loan principal repayments and write-offs relating to equity holdings. Winding down measures for restructuring loans also had a negative impact.

The Core Bank disclosed € -217 million for loan loss provisions for 2015 compared to € -65 million in the previous year. This includes, to the extent allocated to the Core Bank, the effects recognised in loan loss provisions under the informal agreement (reversal of guarantee premiums and cancellation of the debt waiver apart from the one-off

payments and liquidity backing of the holding still to be expected after the formal decision of the EU Commission, changed commitment strategies that take account of the expected market values of the portfolios to be transferred as at the planned date of sale). In addition, the hedging effect of the credit derivative amounted to € 282 million (previous year: € 1 million).

Moreover, the Bank also adjusted the internal key for allocating the guarantee between the Core Bank and Restructuring Unit in the reporting year. The percentage of the first loss piece of the guarantee to be borne by the Core Bank and Restructuring Unit, respectively (Core Bank 23%, Restructuring Unit 77%) was determined this way. The first loss piece percentages were previously determined on the basis of the respective utilisation in the Core Bank and Restructuring Unit. This recent determination enables a more appropriate coverage of the troubled assets by the guarantee to be achieved than in previous periods. In the reporting year the adjustment resulted in a benefit of € 391 million for the Core Bank, which partially offsets the disadvantage suffered by the Core Bank in previous periods.

Furthermore, higher loan loss provision expense was recognised in the Core Bank's legacy portfolio of shipping loans assigned to the recovery unit in order to take account of the further deterioration in market conditions in the shipping industry. In contrast, the risk trend in the corporate and real estate client portfolios remained largely insignificant.

Against the backdrop of the business performance and movements in the USD exchange rate, total assets of the Core Bank amounted to € 70 billion as at 31 December 2015 (31 December 2014: € 76 billion). The increase attributable to new business was offset by scheduled and unscheduled loan principal repayments. The reduction in the surplus liquidity built up in connection with the maturities covered by the guarantor liability also contributed to the decrease.

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

SEGMENT OVERVIEW<sup>1)</sup>

| (€ m)  |                        | Shipping,<br>Project &<br>Real Estate<br>Financing | Corporates<br>& Markets | Corporate<br>Center | Consoli-<br>dation Core<br>Bank | <b>Total Core<br/>Bank</b> | Restructuring<br>Unit | Consoli-<br>dation<br>Restructuring<br>Unit | <b>Total<br/>Restructur-<br/>ing Unit</b> |
|--|------------------------|--|-------------------------|---------------------|---------------------------------|----------------------------|-----------------------|---|---|
| <b>2015</b>  |                        |  |                         |                     |                                 |                            |                       |   |   |
| <b>Total income</b>                                      | <b>2015</b>            | <b>476</b>   | <b>434</b>              | <b>213</b>          | <b>- 128</b>                    | <b>995</b>                 | <b>257</b>            | <b>44</b>                                   | <b>301</b>                                |
|  | 2014                   | 476  | 431                     | - 111               | - 206                           | 590                        | 324                   | - 6   | 318                                       |
| Loan loss provisions<br>(including credit<br>derivative) | <b>2015</b>            | <b>- 1,511</b>                                     | <b>51</b>               | <b>- 403</b>        | <b>1,928</b>                    | <b>65</b>                  | <b>- 1,119</b>        | <b>1,358</b>                                | <b>239</b>                                |
|  | 2014                   | - 403  | - 56                    | 63                  | 332                             | - 64                       | - 25                  | 666   | 641                                       |
| Administrative<br>expenses                               | <b>2015</b>            | <b>- 139</b>                                       | <b>- 283</b>            | <b>- 15</b>         | <b>- 6</b>                      | <b>- 443</b>               | <b>- 191</b>          | <b>0</b>                                    | <b>- 191</b>                              |
|  | 2014                   | - 161  | - 310                   | 24                  | 12                              | - 435                      | - 289                 | 0   | - 289                                     |
| <b>Net income<br/>before<br/>taxes</b>                   | <b>2015</b>            | <b>- 1,203</b>                                     | <b>213</b>              | <b>- 166</b>        | <b>1,553</b>                    | <b>397</b>                 | <b>- 1,045</b>        | <b>1,098</b>                                | <b>53</b>                                 |
|  | 2014                   | - 84   | 95                      | - 36                | - 95                            | - 120                      | 104                   | 294   | 398                                       |
| Segment assets<br>(€ bn)                                 | <b>31.12.<br/>2015</b> | <b>24</b>  | <b>26</b>               | <b>17</b>           | <b>3</b>                        | <b>70</b>                  | <b>22</b>             | <b>5</b>                                    | <b>27</b>                                 |
|  | 31.12.<br>2014         | 25   | 31                      | 18                  | 2                               | 76                         | 31                    | 3   | 34  |

<sup>1)</sup> including hedging effect of credit derivative

### SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

As at 31 December 2015, the Shipping, Project & Real Estate Financing segment included business conducted with shipping clients, including that under the responsibility of the shipping recovery unit in the Core Bank, business with real estate clients as well as the Corporate Finance product division, which provides support to the customer divisions in the form of special financing and advisory solutions and within the framework of syndications.

### SHIPPING, PROJECT & REAL ESTATE FINANCING SEGMENT

| (€ m)  |                   | <b>Shipping,<br/>Project &amp;<br/>Real Estate<br/>Financing</b> | Shipping       | Real Estate<br>Clients | Corporate<br>Finance |
|--|-------------------|--|----------------|------------------------|----------------------|
| <b>Total income</b>  | <b>2015</b>       | <b>476</b>   | <b>240</b>     | <b>228</b>             | <b>8</b>             |
|  | 2014              | 476  | 282            | 194                    | -                    |
| Loan loss provisions before currency translation gains or losses<br>and compensation | <b>2015</b>       | <b>- 1,511</b>   | <b>- 1,511</b> | <b>-</b>               | <b>-</b>             |
|  | 2014              | - 403  | - 402          | - 1                    | -                    |
| Administrative expenses  | <b>2015</b>       | <b>- 139</b>   | <b>- 90</b>    | <b>- 50</b>            | <b>1</b>             |
|  | 2014              | - 161  | - 111          | - 50                   | -                    |
| Other operating income   | <b>2015</b>       | <b>- 29</b>  | <b>- 31</b>    | <b>2</b>               | <b>-</b>             |
|  | 2014              | 4  | 3              | 1                      | -                    |
| <b>Net income before taxes</b>   | <b>2015</b>       | <b>- 1,203</b>   | <b>- 1,392</b> | <b>180</b>             | <b>9</b>             |
|  | 2014              | - 84   | - 228          | 144                    | -                    |
| Segment assets<br>(€ bn)   | <b>31.12.2015</b> | <b>24</b>  | <b>13</b>      | <b>11</b>              | <b>-</b>             |
|  | 31.12.2014        | 25   | 14             | 11                     | -                    |



### Good earnings trend in Shipping, Project & Real Estate Financing segment – Significant increase in loan loss provisions for shipping portfolio

The Shipping, Project & Real Estate Financing segment benefited from a significant expansion in new real estate clients business, which was reflected in an increase in the segment's net interest income. This resulted in a stable total income of € 476 million (previous year: € 476 million) despite a marked level of loan principal repayments by clients, winding down measures for restructuring loans and write-offs recognised for equity holdings.

The changed measurement of the transaction portfolios due to the revised commitment strategies that take account of expected market values at the planned date of sale and ongoing need to restructure loans in the Core Bank's shipping loan recovery unit (legacy portfolio) resulted at the same time in a strong increase in loan loss provisions to € -1,511 million (previous year: € -403 million) in the segment before the hedging effect of the guarantee, which is included in the Core Bank's consolidation item. Winding down measures undertaken in the recovery unit also had a negative impact. As a result, income before taxes of € -1,203 million of the Shipping, Project & Real Estate Financing segment was considerably lower than that of € -84 million for the previous year despite the operating successes achieved.

The increase in loan loss provisions in the shipping loan recovery unit in the Shipping division resulted in a significant decrease in net income before income taxes to € -1,392 million (previous year: € -228 million). Income was negatively impacted last year by the deliberate restrictions placed on new shipping business due to the ongoing very difficult market environment. The deliberately reduced new business volume of € 0.8 billion in 2015 was significantly below that of the previous year (€ 1.5 billion). The focus was on a further diversification of the portfolio through domestic and international commitments with counterparties of good credit standing.

Total earnings in the Real Estate Clients division was increased clearly to € 228 million. Earnings before taxes grew disproportionately to € 180 million compared to € 144 million in the same period of the previous year and therefore made the largest earnings contribution in this segment. This was driven by the large volume of new business in 2015, which increased to a higher than planned amount of € 4.5 billion (previous year: € 4.1 billion). In the past year the division benefited from its very strong market position as a major real estate financing partner in Germany and the favourable market environment. New clients have also contributed to the success such as transactions concluded with international institutional investors. The focus of the business activities continued to be the core region of Northern Germany and metropolitan regions in Western Germany.

The Corporate Finance product division, which has been assigned to the Shipping, Project & Real Estate Financing segment since the beginning of 2015, has successfully supported the client business in particular in the fields of M&A, capital structuring and loan syndication divisions and in total made a higher contribution to earnings than in the previous year. The Corporate Finance results are assigned for the most part to the client divisions under the bank management policy.

### CORPORATES & MARKETS SEGMENT

As at 31 December 2015 the Corporates & Markets combined the corporates client business with the Logistics & Infrastructure, Energy & Utilities, Commerce & Food, Industry & Services, Healthcare and Wealth Management business fields as well as the Capital Markets division, which is responsible for the development, sale and trading of financial products and the servicing of savings banks, banks and insurance companies.

**CORPORATES & MARKETS SEGMENT**

| (€ m)   |                   | <b>Corporates &amp; Markets</b> | <b>Capital Markets</b> | <b>Corporates</b> |
|---|-------------------|---------------------------------|------------------------|-------------------|
| <b>Total income</b>   | <b>2015</b>       | <b>434</b>                      | <b>122</b>             | <b>312</b>        |
|   | 2014              | 431                             | 88                     | 343               |
| Loan loss provisions before currency translation gains or losses and compensation | <b>2015</b>       | <b>51</b>                       | <b>0</b>               | <b>51</b>         |
|   | 2014              | - 56                            | 1                      | - 57              |
| Administrative expenses   | <b>2015</b>       | <b>- 283</b>                    | <b>- 137</b>           | <b>- 146</b>      |
|   | 2014              | - 310                           | - 151                  | - 159             |
| Other operating income  | <b>2015</b>       | <b>11</b>                       | <b>1</b>               | <b>10</b>         |
|   | 2014              | 30                              | 0                      | 30                |
| <b>Net income before taxes</b>  | <b>2015</b>       | <b>213</b>                      | <b>- 14</b>            | <b>227</b>        |
|   | 2014              | 95                              | - 62                   | 157               |
| Segment assets  | <b>31.12.2015</b> | <b>26</b>                       | <b>14</b>              | <b>12</b>         |
| (€ bn)  | 31.12.2014        | 31                              | 18                     | 13                |

### Higher net income in Corporates & Markets segment benefits from operating successes and solid risk profile of corporate clients

The Corporates & Markets segment generated net income of € 213 million in 2015 compared to € 95 million in the previous year. Segment net income benefited from operating successes achieved on the income and cost side and net releases of loan loss provisions.

Overall, the Corporates division in its new structure established in the reporting year developed satisfactorily and its net income before taxes amounted to € 227 million (previous year: € 157 million). This includes total income of € 312 million (previous year: € 343 million), in which new business developments are reflected in particular. The amount of new business commitments of € 3.2 billion was below the high amount of € 3.9 billion in the previous year despite the sharp increase in business towards the end of the year, particularly in project financing. This reflected the strict risk and income requirements in a competitive environment and subdued corporate demand for financing due to the high level of own liquidity resources of companies. The cross-selling contribution made by the Corporates division was increased despite subdued new business. Transaction Banking products, instruments for hedging currency fluctuations as well as deposit products were particularly in demand. The continuing solid business situation of many clients was reflected in the loan loss provision income of € 51 million (previous year: € -57 million). The reversal of loan loss provisions for corporate clients more than offset charges recognised for legacy loans in the Energy & Utilities business field. In addition, the improved cost situation had a positive impact against the backdrop of the ongoing cost reduction programme.

The Logistics & Infrastructure business field concluded new business volume of € 0.7 billion despite intensive competition. This business field performed well, especially in the area of project financing in the railway vehicle sector, and was able to further consolidate its good

market position. Furthermore, the portfolio was further diversified with project financing transactions concluded in the pipeline and communication infrastructure sectors both in Germany and other European countries.

The Energy & Utilities business field generated new business of € 1.1 billion with successful projects. The focus was on structured project financing in Germany and the rest of Europe and on financing arrangements for public utilities. 90% of the financing projects in the Energy division related to wind energy installations on land (onshore projects). Following the successful market entry into Finland in 2014 a larger share of the new project financing business was concluded there in 2015. The core market of Germany accounted for a further high share. Furthermore, the Bank succeeded in entering the markets in Sweden and Ireland which made a contribution to portfolio diversification. The Trade business field entered into new commitments in the international commodity trading and textile sectors in particular on the basis of its industry specialisation and successfully developed business with services specific to the business field (including documentary business, hedging of exchange rates). Renowned new customers were acquired throughout Germany in the Food Industry business field with the focus on foodstuffs trading and production. Together, the Trade and Food Industry business fields were able to secure new business worth € 0.4 billion.

Providing assistance in challenging structuring mandates was the focal point in the Industry & Services business field this year. These were concluded both with new and existing customers. In the Healthcare Industry business field new business was concluded throughout Germany, primarily in specialist and rehabilitation clinics, nursing homes and medical technology. New business volume of the Industry & Services and Healthcare business fields amounted in total to € 1.0 billion.

The Wealth Management business field made a contribution to division earnings with operating successes in the securities, deposit and lending businesses. Since 2015 HSH Nordbank has been cooperating with Metzler Asset Management GmbH in the area of asset management, through which it provides its wealth management and investment advisory clients with even more added value.

The Capital Markets division generated net income of € -14 million (previous year: € -62 million). This division continued to be adversely impacted by a high level of administrative expenses due to the existing structure. The increase in net income compared to the previous year reflected the successes achieved in the operating trading business with clients as well as in the new issue and client deposit business with savings banks and institutional clients. Sales of risk management products benefited from the volatile financial and currency markets but remained slightly below the previous year's level due to subdued client demand. Net income for the previous year benefited more strongly from the sales of financial investments than net income for 2015.

The reduction in assets of the Corporates & Markets segment is attributable to the reduction in the surplus liquidity built up in connection with the maturity of bonds covered by the guarantor liability.

### CORPORATE CENTER SEGMENT

The net income of the Corporate Center segment, which includes the overall bank positions and administration and service divisions including Transaction Banking, amounted to € -166 million compared to € -36 million in the previous year. This was mainly attributable to the recognition of portfolio valuation allowances to take account of the risks arising in the overall very challenging market environment. This was offset by the positive impact of the remeasurement of hybrid instruments in the context of the results of the Bank's planning and the effects of the informal agreement as well as the formal decision on the Bank's planning. In the previous year net income from hybrid instruments was negatively impacted mainly by an exceptional item relating to an adjustment of the effective interest rate applied to hybrid instruments (€ -84 million).

Transaction Banking generated product net income of € 24 million in the financial year 2015, which was significantly above the previous year's level of € 13 million. The positive developments in the division are attributable to a more extensive use of products by customers, which overall resulted in a higher level of income from payment transactions, account management (including investment products) and foreign trade transactions. The division was thus able to make a tangible contribution to the Bank's cross-selling income. Under the Bank's business management policy net income of the Transaction Banking product division is disclosed in the customer divisions.

In 2015 a quality management system was implemented in the Transaction Banking division in accordance with DIN EN ISO 9001:2008. In this connection the back office processes for payment transactions and trade finance were certified with a very good result. The certification confirms a high process quality. It is intended to also extend the methods used in the quality management system selected to other units within the Bank. This would also support the stabilisation of HSH Nordbank's lean management programme.

### NET INCOME FOR THE CORE BANK TAKES CONSOLIDATION EFFECTS INTO ACCOUNT

The significantly positive compensation effect for loan loss provisions under the second loss guarantee as well as the reversal of the additional premiums apart from payments still to be expected after the formal decision of the EU Commission (one-off payment and liquidity backing of the holding company) and cancellation of the debt waiver had an overall positive impact on the Core Bank's consolidation item. Net income was adversely impacted by measurement effects recognised in net trading income to the extent that these were not allocated to the business segments.

Furthermore, the positions Result from restructuring and Expenses for government guarantees not allocated to the operating business had an impact on the consolidation column. In total, net income before taxes of the consolidation item amounted to € 1,553 million (previous year: € -95 million). This resulted in total net income before taxes of € 397 million for the Core Bank (previous year: € -120 million).

### RESTRUCTURING UNIT SEGMENT

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

#### RESTRUCTURING UNIT SEGMENT

| (€ m)   |             |                |
|---|-------------|----------------|
| <b>Total income</b>   | <b>2015</b> | <b>257</b>     |
|   | 2014        | 324            |
| Loan loss provisions before currency translation and compensation | <b>2015</b> | <b>- 1,119</b> |
|   | 2014        | - 25           |
| Administrative expenses   | <b>2015</b> | <b>- 191</b>   |
|   | 2014        | - 289          |
| Other operating income  | <b>2015</b> | <b>8</b>       |
|   | 2014        | 94             |
| <b>Net income before taxes</b>                                    | <b>2015</b> | <b>- 1,045</b> |
|   | 2014        | 104            |
| Segment assets  | <b>2015</b> | <b>22</b>      |
| (€ bn)  | 2014        | 31             |



### Accelerated reduction in risk positions

Further progress was made in the past year in implementing the winding down strategy of the Restructuring Unit. Total assets of the Restructuring Unit decreased in the 2015 reporting year by € 9 billion to € 22 billion (excluding consolidation items of € 5 billion) compared to € 31 billion as at 31 December 2014. Total assets therefore fell more than planned in the reporting year despite the movement in the US dollar.

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

Besides the reduction due to scheduled and early loan principal repayments active measures have contributed to the decrease, which were driven forward in a consciously intensified manner over the course of the year. A focus was on reducing the troubled assets denominated in US dollars against the backdrop of sharp fluctuations in the exchange rate. At the same time, additional liquidity was released as a result of the accelerated winding down in order to take account of the extensive maturities of bonds covered by the guarantor liability as at the 2015 year end.

The winding down measures taken in the year under review in part exceeded the loss-minimising winding down provided for under the guarantee agreement. In some cases, these winding down measures were associated with significant charges to the Bank's earnings.

### Net segment income reflects the effect of the informal agreement, additional loan loss provisions for shipping loans and accelerated winding down of the portfolio

Net income for the Restructuring Unit segment (excluding the relieving effect of the consolidation items) amounted to € -1,045 million (previous year: € 104 million). On the one hand, this reflected additional loan loss provisions recognised due to the revised commitment strategies that take into account market values as at the planned date of sale for the portfolios to be transferred and sold to the federal states institution and in the market, respectively. On the other hand, loan loss provisions had to be increased for the shipping loans remaining at the Bank. In total, loan loss provision expense amounted to € -1.119 million at the 2015 year end (previous year € -25 million) before

taking the compensation effects under the guarantee and reversal of the guarantee premiums into account.

With the higher than planned loan loss provisions HSH Nordbank took into account the further deterioration in market conditions in shipping, in particular the weak charter rate trend for container ships and bulkers. Furthermore, HSH Nordbank has been able to make significant adjustments in the legacy portfolio of troubled assets in the past year – even over and above the portfolio sales provided for in the informal agreement. These had an overall negative impact on income. Measurement effects relating to interest rate/currency swaps and increase in value in capital markets portfolios, especially in the credit investment portfolio, had an overall positive impact.

The significantly positive compensation effect for loan loss provisions under the second loss guarantee as well as the reversal of the future guarantee premiums apart from one-off payments still to be expected and the liquidity backing to be provided for the holding company after the formal decision of the EU Commission and cancellation of the debt waiver had an overall positive impact on the Restructuring Unit's consolidation item. Including the hedging effect of the credit derivative, the restructuring unit would have loan loss provision expenses of € -137 million at the 2015 year end (previous year: € 641 million). After taking restructuring and guarantee expenses into account, net income before taxes of the Restructuring Unit amounted to € 53 million (previous year: € 398 million).

### Winding down of portfolio supported by active measures

The material loan portfolios of the Restructuring Unit (real estate loans, shipping loans, corporate loans/LBO loans and aircraft loans) were characterised by the following developments.

HSH Nordbank continued to pursue various approaches to accelerate the reduction in risk positions in the Restructuring Unit's shipping loan portfolio (segment volume as at 31 December 2015: € 5.3 billion). These include the implementation of alternative structured solutions in the portfolio (so-called Nautilus structures), for which there was considerable investor interest in the year under review. Six transactions of this kind totalling USD 1.3 billion were concluded in the first half of the year. Furthermore, HSH Nordbank is also actively supporting the consolidation that is underway in the shipping industry. Both approaches – portfolio solutions and sector consolidation – will continue to be pursued in 2016.

HSH Nordbank was able to significantly reduce the Restructuring Unit's real estate loan portfolio (segment volume: € 4.7 billion). The favourable market environment in the USA was exploited to further reduce the portfolio in the third quarter of 2015 over and above the ongoing loan principal repayments. The real estate loan portfolios were also sharply reduced in the United Kingdom, Nordic countries and the Netherlands.

Loan volume was reduced further to € 1.6 billion for corporate loans and the LBO business in light of an improved situation in most sectors – primarily by means of early repayment by other lenders.

Furthermore, the aircraft loan portfolio was also reduced further. This portfolio has been reduced by to € 1.4 billion since being transferred to the Restructuring Unit in 2011.

#### **Positive fair value trend in capital markets portfolios**

The capital markets portfolios consolidated in the Restructuring Unit (segment volume: € 9 billion) primarily include the public sector financing business consisting of the cover pool portfolios for Pfandbrief issues and the credit investment portfolio that mainly contains ABS structures.

The risk premiums on high-risk debt instruments held in the portfolio declined during the year. The public sector financing portfolio in particular benefited from this. Developments in the credit investment portfolio continued to be positive. At the same time, favourable market conditions were exploited to actively reduce the portfolio further. In addition to scheduled repayments a further significant decrease was achieved in the credit investment portfolio, which fell to € 2.3 billion as at the 2015 year end (2014: € 4.6 billion).

## REPORT ON EVENTS AFTER THE REPORTING PERIOD

### Formal decision in the currently pending EU state aid proceedings

On 2 May 2016, the EU Commission issued a formal decision in the current EU state aid proceedings and thereby approved the replenishment of the second loss guarantee provided by the federal states from € 7.0 billion to € 10.0 billion. The formal decision confirms the informal agreement and defines it in principle in concrete terms. It is based on a catalogue of conditions and commitments provided by the Federal Republic of Germany to the EU Commission.

Under the formal decision HSH Nordbank AG is to be relieved of some of its troubled legacy portfolios. Accordingly, it is planned to transfer portfolios of an initial amount of € 5 billion to the federal states in the middle of 2016. The transfer will be made at market values determined by the EU Commission from a state aid point of view. Furthermore, it is planned on the basis of the formal decision of the EU Commission to sell portfolios of up to € 3.2 billion.

A further key point of the formal decision of the EU Commission is the future structure of the guarantee fees together with the establishment of a holding company and a subsidiary, which will comprise HSH Nordbank's operating business and is to be privatised. It is intended that significant relief from guarantee fees be provided to the subsidiary to be privatised. The operating company is to provide the holding company with liquidity of € 50 million to ensure its operations. Furthermore, the operating company must make a one-off payment of € 210 million.

Under the formal decision a deadline of 28 February 2018 is set for the sale of the operating company (i.e. up to the signing of the acquisition agreement). This divestiture period may be extended by up to six months with the approval of the EU Commission, where there are delays in the technical implementation of the model for reasons outside the control of the federal states. Following the successful completion of the sales process resulting in an offer that does not require state aid and an offer price that is positive (while retaining the guarantee) the intended acquisition will be subject to a viability assessment of the new corporate structure by the EU Commission prior to implementation and has to be approved by the EU Commission.

Moreover, the catalogue of conditions and commitments provides for further provisions regarding the business model and reduction in total assets.

More information on the EU proceedings can be found in the Business developments – Significant developments and events in the 2015 reporting year and in the Forecast, opportunities and risks report, particularly in the Formal decision in the EU state aid proceedings section.

### Changes in the Management Board of HSH Nordbank AG

The Supervisory Board of HSH Nordbank AG appointed Torsten Temp as a member of the Management Board responsible for the Market division for another three years until 30 April 2019 in its meeting held on 23 March 2016.

In its meeting held on 9 May 2016, the Supervisory Board adopted other changes to the Management Board: Stefan Ermisch, formerly Chief Financial Officer and Deputy Chairman of the Bank, moves to the head of HSH Nordbank AG on 10 June 2016 and, as Chairman of the Bank, will manage the Bank in the crucial phase of the change in ownership. Constantin von Oesterreich will step down as Chairman following the annual results press conference on 9 June 2016, thereby initiating the change in leadership at the beginning of the privatisation process. Matthias Wittenburg, the Management Board member responsible for the Market divisions, will leave the Bank with effect from 10 June 2016 by mutual agreement. Torsten Temp will be the sole Management Board member for the Market divisions from this date. Oliver Gatzke, who was previously head of the Finance division, is to be appointed Chief Financial Officer from 1 July 2016.

### HETA

Reference is made to the statements in the Challenging environment for banks section in the Economic report regarding events after the reporting date concerning Heta Asset Resolution AG (HETA).



# FORECAST, OPPORTUNITIES AND RISKS REPORT

## FORECAST REPORT INCLUDING OPPORTUNITIES AND RISKS

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

The estimates regarding the long-term trend in loan loss provisions as well as the planning for payment defaults and, consequently, the actual drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon, which can influence the future development of the Bank to a greater degree than expected. Significant uncertainty factors result, for example, from the movement in key market parameters such as freight and charter rates, second hand prices 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 an individual valuation allowance based on the assumption of a workout). The estimates concerning long-term loan loss provisions are based on the assumption of a recovery in the shipping markets and/or a significant recovery in the container shipping industry as well as the continuation in general of the current recovery strategy and therefore the assumption of HSH Nordbank's willingness to continue to finance problem loans remaining after the planned transactions have been executed in order to achieve the planned significant reversals of impairment losses in the future.

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

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

bank-specific risk types are then separately explained in the Risk report.

The following forecast relates solely to HSH Nordbank's future operating company following the legal separation of the present HSH Nordbank into an operating company and holding company provided for under the informal agreement and the formal decision of the EU Commission which is based on the informal agreement, if nothing to the contrary is expressly stated below. The purpose of this separation is to relieve HSH Nordbank from the additional premium obligations, the obligation to pay base premiums on the drawn down portions of the guarantee and the base premium payable for the undrawn portions of the guarantee from 2016 onwards. Corresponding obligations are to be assumed by the holding company. Furthermore, the operating company is to be relieved of mainly non-performing loan portfolios in the amount of up to € 8.2 billion by corresponding transfers to a workout institution of the federal states of Hamburg and Schleswig-Holstein and by sales in the market.

### ANTICIPATED UNDERLYING CONDITIONS

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

#### Slow economic growth expected

Global economic growth is likely to slow down over 2016 as a whole compared to the previous year. HSH Nordbank expects growth both in emerging countries and industrial nations to be weaker. In this context the Bank expects the growth rate in the USA to be higher than that in the eurozone.

The financial markets showed a volatile trend at the beginning of 2016: Equity markets fell sharply, safe investments such as US Treasuries and German government bonds benefited by massive inflows and risk premiums temporarily increased strongly. The oil price continued its downward trend at the beginning of the year and has recovered since then to an overall low level. This seems to suggest that a global recession has been increasingly factored in. Although HSH Nordbank considers this scenario to be too pessimistic, it should be noted that the downside risks have increased on at times weaker US economic data and greater economic weakness in emerging countries. The gloomy outlook has also been reflected in higher risk premiums for debt instruments of European banks since the beginning of 2016.

The US Federal Reserve Bank has indicated that it wants to increase the key interest rate several times in 2016, if the US economy recovers further. However, there is a case for a path of very gradual interest rate hikes in view of the global growth risks. The ECB again agreed a comprehensive package of monetary measures, which includes interest rate cuts, an increase in the monthly volume of bond purchases, extension of the purchase programme to corporate bonds and a new round of long-term tenders. The objective of the new quantitative easing steps is to counteract the declining inflation expectations.

Additional ECB measures cannot be excluded if the downside risks for inflation increase.

Yields on long-term US and European government bonds should slightly increase in the wake of the economic recovery and as a result of a moderate increase in inflation and expected increases in the US key interest rate. However, on balance, an overall low level of interest rates is also to be expected over the coming years. The Bank has accordingly taken this into account in the planning period.

The US dollar should continue to be strongly influenced by central bank policy as well could therefore be subject to larger fluctuations. HSH Nordbank's plans for 2016 and the subsequent years of the planning horizon until 2018 are based on an exchange rate of EUR/USD 1.10.

Macroeconomic risks arise, inter alia, from the interest rate hikes to be expected in the USA and associated dangers for financial market stability, uncertainty regarding the growth path of the global economy, from a stronger than expected slowdown in growth in emerging countries, particularly in China, geopolitical conflicts in the Middle East as well as the negative impacts of an oil price that continues its downward trend. There are also risks in the near future relating to the referendum that takes place on 23 June 2016 on whether Great Britain remains in or leaves the European Union (EU). The so-called "Brexit" could lead in particular to a slowdown in growth and turbulence on the financial markets. In its base scenario, the Bank assumes that Great Britain remains in the EU, particularly because of the incalculable consequences of a Brexit.

### Outlook for relevant markets

In view of the overall weak developments in the shipping markets over the past year the future outlook has also become much gloomier.

A significant acceleration in demand for container ships in 2016 compared to the previous year cannot be expected given the very difficult global economic environment, whereas the supply side is likely to grow in 2016 as well, as orders have been placed for many large and very large container ships. As a result, charter rates and ship values should at best recover over the course of 2016 from their very low levels at the end of 2015, but in annual average remain below the level of the previous year.

The weak demand trend for bulkers is also expected to continue, with stagnating or falling imports of iron ore and coal into China being likely to have an adverse effect. The contribution of India should be minor as well, as its policy is likely to increasingly rely on domestic raw materials. However, the supply of tonnage should again increase faster than demand due to the upcoming ship deliveries. As a result, it can be expected that charter rates and ship values will stagnate at the low levels of 2015 in the course of the year 2016.

The oil tanker market will cool down compared to the very favourable market situation at the 2015 year end. For the demand for oil tankers a growth rate above its long-term historical averages is also expected in 2016 that should be lower than in the previous year, however. Demand was driven in 2015 by many one-off effects such as storage, which are not likely to be repeated in the same way. The sharp fall in the oil price should hardly have any impact on demand in the oil tanker market in 2016. The market situation resulted at the same time in many new orders, some of which will already be delivered in 2016. As a result, supply should grow faster than demand, which will probably lead to charter rates and ship values falling back from their recovered levels.

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

The performance of the real estate markets in Germany should also be largely positive in 2016. The excess demand in residential markets in most of the large cities will continue due to the continued high influx of migrants and despite the increased construction activity. The retail sector will continue to benefit from the positive consumer sentiment and increasing household income. On the office property markets, only slightly decreasing vacancies are to be expected with a noticeable higher number of completed properties and a falling demand for surfaces.

Office rents in central locations should, however, increase moderately while growth in secondary locations is likely to fade out. Rents for commercial and residential property should also increase at a markedly slower rate given the growing number of completions. In some residential markets, the statutory limits placed on rent increases should have a dampening effect on the re-letting market.

The outlook for the expansion of renewable energies is mixed over the medium-term notwithstanding the most recent declarations of intent of the large industrial nations (G7) to reduce carbon dioxide emissions. Whilst the capacity added is stagnating at a good level in Europe, there are definitely growth opportunities globally. The substantial increase in capacity added in the German wind energy segment over recent years is likely to be slowed by regulatory requirements including the reduction in the remuneration for wind-generated electricity. In the rest of Europe new installations should reach a low in 2016 as a result of a sharp reduction in the offshore sector, but increase again in the subsequent years. The absolute increase in generation capacity in the solar energy sector in Germany – and also in Europe as a whole – should stabilise at a moderate level over the coming years. The implemented and intended restrictions on state subsidies in particular make it difficult to make predictions.

In transport infrastructure the growth in transport demand in a stable economic environment on the one hand and high maintenance requirements on the other are still generating positive stimulus for investment. Institutional investors will continue to be important. In the year 2016, revenues of companies in the logistics sector should increase faster than in 2015, supported by strong economic developments. However, this cyclical sector is subject to the risks of a general macro-economic downturn and a weakening in global trade.

The economic slowdown in China is worrying for heavily export-oriented sectors of the manufacturing industry such as automotive, engineering, electronics and chemicals. The sanctions imposed on Russia are also a cause of concern for companies. However, economic developments in the USA and eurozone as well as the weak euro should provide support. Overall, slightly positive growth rates can be expected, whereby the automobile sector should record the strongest growth despite the exhaust emission scandal. It is expected that growth will decline in the metal industry. The food industry should benefit on the one hand from the pleasing consumer behaviour of private households and on the other will continue to be slowed by lower growth in export markets.

Weaker international business in the industry sector also makes wholesale and foreign trade companies a little less confident about their future prospects. This applies in particular to production-related wholesalers.

The retail sector will continue to benefit from the strong labour market, minimum wage, recent high wage agreements and influx of asylum seekers. E-commerce will grow particularly strongly.

Companies across all sectors are planning to increase their capital expenditure in 2016, which could have a positive impact on the demand for loans at banks. As competition between banks remains intense in Germany, the pressure on credit margins will continue.

### **Ongoing challenging environment for banks**

The overall economic environment will remain challenging for banks in 2016 against the backdrop of ongoing geopolitical tensions, the significant slowing down of growth in important emerging countries as well as the probable continuing high level of volatility in the financial markets. In view of the macroeconomic uncertainty, the ECB in particular is likely to maintain its expansive monetary policy with the effect that the pressure on net interest income resulting from the low

interest rate environment will continue to increase gradually. Institutions will attempt to offset this negative effect on profitability by expanding income sources not dependent on interest rates (e.g. commission income) and by further reducing costs.

Intense competition for medium-sized clients and continuing subdued loan demand, particularly in Germany, are putting additional strain on the earnings of banks. In addition, the comprehensive regulatory requirements, which are taking up increasingly more resources, are being translated into administrative expenses of the institutions. The European bank levy for the Single Resolution Fund is also making itself felt, which is now significantly higher than the German bank levy payable prior to 2015.

New challenges result from the Supervisory Review and Evaluation Process (SREP) in the Banking Union, which will be stepped up noticeably this year. The ECB has already set out its priorities at the beginning of 2016 for the topics to be examined in detail in the SREP process. The five priorities identified by the supervisory authorities are a review of the business models of banks, credit risk, appropriateness of capital and liquidity resources as well as governance and data quality. The main focus will be on risks associated with the business models and earnings weakness in the low interest rate environment. The review of credit risk will focus on the treatment of and reduction in non-performing loans.

In July 2015, the EBA had already published details on the stress test announced for 2016. The ECB and EBA are aiming to achieve closer integration with the SREP process here. The stress test was preceded by a comprehensive data collection process and the preparation and publication of banking data as part of the "transparency exercise". The "transparency exercise" was based on the 2014 annual financial statements as well as the half-yearly financial statements for 2015 and was published in November. The subsequent stress test started in the first quarter of 2016 with the publication of the methodology and scenarios and will be completed in the third quarter of 2016. Whilst only a selection of European banks with total assets in excess of € 100 billion are to participate in the EBA stress test, other banks directly supervised by the ECB must go through a so-called SREP stress test, the contents of which are to essentially correspond to those defined in the EBA stress test, which, based on currently available information, is not to be published for the institutions that do not take part in the EBA stress test. HSH Nordbank participates in the ECB stress test as part of the SREP process.



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

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

Other fundamental adjustments can already be identified in addition to these capital requirements currently being defined. The changes discussed under Basel IV, which will serve, amongst other things, to improve the comparability of RWA profiles, are at the same time aimed at the harmonisation of supervisory practices in the EU and are to improve transparency vis-à-vis the markets. The change projects include in particular capital floors when using internal models (so-called "CSA floor"), limiting capital savings through the use of internal "IRB constrained" risk parameters, closer attention to interest rate risk in the banking book and an adjustment of the approaches adopted for capital backing of securitisations.

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

Furthermore, the Basel Standard 239 (BCBS 239) gives rise, for example, to comprehensive future requirements regarding risk data aggregation including the IT architecture and risk reporting by banks. It is likely in this connection that most banks will have to invest a considerable amount to develop a comprehensive reporting system to meet the regulatory requirements (Anacredit). The increasing focus on the issue of cyber security will also require adjustments to IT systems to meet the new challenges.

The introduction of a tax on trading in financial instruments (financial transaction tax), which is currently under discussion, would result in a significant reduction in income from the capital markets business.

In view of the varied regulatory requirements accompanied, on the one hand, by noticeably higher costs and, on the other, by exacting regulatory requirements for capital resources banks will be required to continuously review their business models and constantly improve efficiency to be able to ensure sufficient profitability and maintain the ability to build up capital from their own resources.

The Bank is making appropriate preparations targeted at the above-mentioned regulatory and accounting requirements and already initiated implementation projects for the introduction of IFRS 9 and BCBS 239, among other things. Also with regard to the challenges posed by the low interest rate environment, the necessary management impulses were provided an early stage. Additional requirements should arise from the further development of the Basel III Framework (Basel IV), for example for securitisations such as HSH Nordbank's second loss guarantee and capital backing under the credit risk standard approach. The focus is placed in this context on the detailed definition of the requirements for HSH Nordbank and on ensuring that the new standards are applied on a timely basis. In general, any quantitative effects, if known, arising, for example, from the expected IFRS 9 or Basel IV requirements have been included in HSH Nordbank's bank planning.

## EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

### 2016 characterised by the implementation of the agreed structural measures

The individual planned structural measures will continue to be progressed vigorously over the coming months, so that they can be implemented as planned after the final conclusion of the current EU proceedings that has in the meantime been reached. The foundation for a sustainable business model is to be laid by the associated significant improvement in the Bank's risk and financial situation. At the same time, the further expansion of new client business, continued winding down of high risk portfolios and significant progress made at the cost and process level should contribute to a successful privatisation process, preparations for which are to be intensified over the coming months.

### Earnings forecast

In 2016, HSH Nordbank expects to be able to continue to moderately develop new business and cross-selling further. The planning certainty increased on the conclusion of the currently pending EU proceedings should have a positive effect. HSH Nordbank still expects to achieve risk-commensurate margins for new business that reflect the competitive environment in the target markets. At the same time, sales of the range of services offered over and above loan financing will

continue to be driven forward to optimally exploit the business and earnings potential.

The earnings side is strengthened by the focused increase in new business and product sales. This serves to offset the loss of income resulting from the implementation of the portfolio transactions with a volume of € 8.2 billion provided for under the informal agreement reached with the EU Commission as well as the formal decision of the EU Commission, the winding down of non-strategic portfolios and the increase in impaired shipping loans. In total, HSH Nordbank expects a clear decline at the Group level and a noticeable decrease for the Core Bank, in total income, which benefited from non-recurring items (primarily remeasurement of hybrid instruments) in the financial year 2015. In the Core Bank, the positive operating earnings performance will be driven by the Corporates, Real Estate Clients and Shipping divisions.

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

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

In the first quarter of 2016, new business concluded in an overall highly competitive environment, particularly in the corporate clients sector, is below that of the same period in the previous year.

## Opportunities and risks in the earnings forecast

### Opportunities

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

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

Furthermore, a sharper, strategic focus of the Corporate Clients division on the renewable energy sector among others as well as other possible strategic alignments such as, for example, the planned expansion of asset management activities for institutional clients could have a positive impact on the Core Bank's total income. A sharper than planned increase in the US dollar viewed in isolation would have a positive impact on income generated by the US dollar business.

### Risks

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

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

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

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

Should uncertainties arise in relation to the risks described in the Capital and RWA forecast and formal decision in the EU state aid proceedings sections, this may result in a significant negative effect on the earnings situation. Even in the event that the viability review of the new corporate structure and approval of the acquisition by the EU Commission that is required in connection with the privatisation process to be concluded by 28 February 2018 is not or not fully successful or not successful within the specified time frame, this may then have a significant adverse impact on the development of new business, cross-selling, and the refinancing of the Bank and lead to a burden on the future earnings situation.

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

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

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

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

#### Forecast for administrative expenses

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

HSH Nordbank is assuming a further moderate reduction in administrative expenses for 2016 compared to 2015. Planning is based on the cost reduction programme initiated in 2014 and other measures still to be defined in detail. Against the backdrop of the already implemented portfolio reduction and planned federal state and market transactions it is therefore intended, for example, to more closely integrate the Restructuring Unit into the CRO's area of responsibility in order to better exploit efficiency potential across divisions. In principle, the Bank undertakes under the catalogue of conditions and commitments, which forms the basis for the formal decision of the EU Commission, to gradually reduce administrative expenses during the divestiture period to € 540 million (excluding any potential IFRS 10 effects) in 2017.

The aim of the cost reduction programme is, inter alia, the further streamlining of the organisational structure, simplification of key processes, optimisation of the product portfolio and realignment of the Bank's IT and has already had an effect in the past year. Administration expenses decreased significantly in 2015 compared to the previous year.

Additional expenses arising from the consolidation of companies upon application of IFRS 10 have to be taken into account again in this context. These additional expenses are largely offset in the Group by income from these companies (Other operating income). Further extraordinary restructuring expenses are expected to be incurred in subsequent years for the implementation of 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 were incurred in 2015 in operating expense categories, particularly in the IT area, based on the measures initiated.

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

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

The number of employees will be gradually reduced further by 2017 as part of the cost reduction measures. An additional moderate reduction is planned for the year 2016. However, there remains the important task of retaining qualified staff at HSH Nordbank in order to secure key competences and limit operational risk.



## Opportunities and risks in the forecast for administrative expenses

### Opportunities

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

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

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

### Risks

If the cost-saving measures are not implemented as planned, it cannot be ruled out that some costs cannot be reduced to the extent desired or not as quickly as planned. In addition, unexpected cost increases in individual divisions resulting from, inter alia, the constantly increasing regulatory requirements could offset cost reductions achieved in other areas. The amount of these increases is difficult to estimate, but unavoidable consequences for administrative expenses are possible.

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

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

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

## Forecast for loan loss provisions

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

The currency translation gain or loss recorded in loan loss provisions 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 covered by the guarantee in 2016 will be largely compensated for under the guarantee. Compared to the disclosure of loan loss provision income after compensation under the guarantee in 2015, a significant reduction in the positive figure disclosed for the Group for 2016 is expected, as the one-off reversal of future premiums disclosed under loan loss provision expense in the 2015 Group financial statements will no longer apply in future due to the informal agreement reached with the EU Commission. In view of the expected losses arising from the intended portfolio sales to the federal states and in the market, the payment defaults in the portfolio covered by the second loss guarantee will already increase in 2016 to above the Bank's first loss piece of € 3.2 billion and then result in actual payments by the guarantors under the guarantee.

The loan loss provision plan is based on valuation models that also take into account the regulatory environment, the expected development of risk parameters over time as well as the Bank's empirical values in critical situations in addition to portfolio developments and key macroeconomic data (including the EUR/USD exchange rate, charter rates and second hand prices). A key driver of the amount of loan loss provisions is also the breakdown of impaired loan commitments into "capable of recovery" (and therefore recognition of an individual valuation allowance based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of an individual valuation allowance based on the assumption of a workout). The estimates concerning long-term

loan loss provisions are based on the assumption of a recovery in the shipping markets and/or a significant recovery in the container shipping industry as well as the continuation in general of the current recovery strategy and therefore the assumption of HSH Nordbank's willingness to continue to finance problem loans remaining after the planned transactions have been executed in order to achieve the planned significant reversals of impairment losses in the future.

Details on the loan loss provision plan and expected payment defaults are set out in the Default risk section (Planning for loan loss provisions and losses) in the risk report of the 2015 management report.

### Opportunities and risks in the forecast for loan loss provisions

#### Opportunities

Loan loss provisions would be lower than expected, if the relevant market parameters and macroeconomic environment developed more favourably than assumed. It is conceivable that the world economy could grow more strongly in 2016 than forecast, which in turn could support a gradual recovery of the shipping markets.

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

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

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

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

#### Risks

Estimates regarding the long-term trend in 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 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 as well as second hand prices, which are key input parameters for determining the loan loss provisions. In view of the existing or increasing overcapacity in the shipping markets, also due to low liquidity costs, it cannot be ruled out

that the extent and timing of the market recovery and recoverability of individual commitments may not be achieved in the planning period as assumed in the loan loss provision plan. Due to this, and in particular in the case of falling charter rates, loan loss provisions required may continue to increase significantly. This could have a substantial impact over the long-term on the total expected payment defaults and therefore on the expected drawdown of the guarantee and, in this regard, also on the guarantee premiums payable by the Bank in the future. A higher drawdown of the guarantee will result in a reduction of the guarantee premiums payable in the future. Financial burdens for HSH Nordbank would mainly arise from higher than planned loan loss provisions in the non-guaranteed portfolio.

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

Furthermore, it can also not be ruled out that the euro debt crisis will once again become the centre of attention, which would lead to a weakening in the Bank's relevant markets. This in turn could result in additional impairment losses having to be recognised. Market turbulence in emerging countries as well as geopolitical risks, such as those surrounding Russia and Ukraine, could have a negative impact.

Further financial burdens may arise if the alternative structured solutions to further reduce risk positions, especially in the shipping loan portfolio (Nautilus structures), cannot be implemented as planned. Under these structures ships are transferred from insolvent companies and companies facing insolvency to new structures with new equity and debt capital and the existing loan financing is partially replaced or written off with the effect that HSH Nordbank no longer has a commitment for the original loan amount. Against this backdrop it cannot be excluded that additional loan loss provisions would have to be recognised in the future.

Further significant loan loss expense could arise in connection with the transfer of loan portfolios to the federal state owners of an initial amount of € 5 billion as provided for under the informal agreement reached with and decision of the EU Commission, if the transaction is not executed by 31 August 2016 and a reassessment of the portfolio by the EU Commission would become necessary. With regard to the sale of loan portfolios totalling € 3.2 billion in the market this could lead to material loan loss provision expenses, if the actual transaction prices are lower than the prices assumed by the Bank as at the respective transaction date on which the loan loss provision calculation is based. Additional loan loss provision expense could also be incurred in connection with changes in the composition of the portfolios selected by the Bank (for example, due to transfer obstacles on individual assets).

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

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

Furthermore, unscheduled losses could also be incurred beyond 2016, if additional assets were to be sold at market value in an unfavourable environment as part of a further acceleration in the reduction in risk or the recovery strategy, particularly the Bank's willingness to continue to finance problem loans, were to be changed. A change in the recovery strategy and, as a result, the recognition of loan loss provisions based on the assumption of the resolution of loan commitments would restrict the recognition of planned future reversals of loan loss provisions due to the planned recovery in the shipping markets.

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

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

### Capital and RWA forecast

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

Changes in RWA are primarily influenced by new business, the further portfolio reduction including the planned portfolio transactions totalling € 8.2 billion, risk and market parameters, particularly the trend in charter rates, and the EUR/USD exchange rate. For 2016, HSH Nordbank expects, based on a stable EUR/USD exchange rate, largely stable RWA due to the planned new business taking into account the federal state transactions planned for 2016. The relief provided by the planned market transactions is not expected to take effect until a later date.

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

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



## Opportunities and risks in the capital and RWA forecast

### Opportunities

Opportunities for the capital ratios and RWA result from more favourable trends in the relevant market and risk parameters and a more rapid reduction in risk in the guaranteed legacy portfolio. The intended use of the RWA relief resulting from a volume of up to € 3.2 billion provided for under the informal agreement reached with the EU Commission and the formal decision of the EU Commission for the sale of receivables in the market could be used more quickly than previously planned.

Further improvements may arise as a result of a stronger euro against the US dollar, although the sensitivity to EUR/USD fluctuations will decrease following the execution of the planned transaction with the federal states institution and sale of receivables.

### Risks

Material risks for the capital ratios and RWA result from a potential deterioration in market and risk parameters in the Bank's core markets including a stronger US dollar, a lower than planned reduction in the portfolios and the regulatory environment, for instance from supervisory audits. In 2015, the ECB carried out a review of the accounting applied to the second loss guarantee for regulatory purposes. The Bank expects that the ECB will inform the Bank of the implementation and change requirements resulting from its review during the course of 2016. This may lead to a significant reduction in the relief provided by the guarantee, particularly in relation to the guarantee buffer and associated hedging effect for the Bank's capital ratio, which results from the difference between the regulatory minimum risk weight and the significantly lower calculated risk weight of the hedged portfolio. It can also not be excluded that the guarantee buffer remaining after implementing the ECB review findings in conjunction with the intended sale of the federal state portfolios to the workout institution formed by the federal states will be used up during the course of 2016. In this case, developments that result in an increase in risk-weighted assets (RWA) in the hedged portfolio (these include, for example, declining charter rates or a lower EUR/USD exchange rate), also have a direct, adverse impact on the Bank's CET1 ratio. Non-occurrence of the recovery in the shipping markets assumed in the plan may result in a significant negative impact on the capital ratios. The impact of such developments in the guaranteed portfolio on the capital ratio was offset in the past by a corresponding guarantee buffer.

Any potential deterioration in the market values determined by the Bank for the planned sale of loan portfolios in the market up to the planned date of sale at the end of 2016 or in the middle of 2017 or an

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

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

There is a risk with regard to the future financial holding group subject to banking supervision that not all capital buffer requirements, which exceed the Pillar 1 minimum requirements pursuant to CRR (CET1 4.5%), cannot be complied with at the financial holding group level. Non-compliance with the capital buffer requirements, which exceed the Pillar 1 minimum requirements pursuant to CRR, would mean that a capital conservation plan would have to be prepared for the Group in accordance with Section 10i (3) KWG and, until its approval, additional restrictions under Section 10i (3) KWG, for example regarding the possibility of making distributions on equity instruments, would have to be observed.

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

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

The forecast of the medium-term CET1 ratio is based on the assumption that the operation of the guarantee structure remains unchanged under the regulations currently applicable to securitisations. A tightening of the supervisory set or rules regarding securitisation due to the further development of the Basel III framework (Basel 3.5), which is likely to come into force at the latest by 2020 through its implementation in the EU could significantly reduce the RWA relieving effect and therefore the efficiency of the guarantee.

Delays in implementing the portfolio sale of € 5.0 billion to the federal states planned for 30 June 2016 or delayed settlement of the resulting losses under the guarantee could have a negative effect on the planned capital ratios.

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

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

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

The movement in the EUR/USD exchange rate has a marked effect on the RWA trend. A lower than planned exchange rate would lead to an

increase of the RWA and immediately reduce the CET1 ratio of the Bank.

### Funding forecast

The Bank expects to continue to successfully implement its diversified funding strategy in 2016. The Bank's asset business will continue to be refinanced primarily by providing bond products for the client business of the savings banks and other financial institutions and placing secured and unsecured bonds with institutional investors and the deposit business transacted with the Bank's corporate clients.

The funding plan is based on access to the relevant markets including the German Savings Banks Association and other financial institutions. In addition, the retention of the investment grade rating is a key prerequisite for the implementation of the funding strategy. Another focus is on the issuing of covered bonds (Pfandbriefe) as private placements as well as on the public sector capital market, to the extent permitted by market conditions. An additional form of potential funding are asset-based transactions, to which HSH Nordbank attaches great importance especially for the refinancing of the US dollar asset business.

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

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

Furthermore, the sales of portfolios to the federal states (€ 5 billion) and in the market (up to € 3.2 billion) planned as part of the informal agreement reached with the EU Commission and the formal decision of the EU Commission will ease the liquidity position in the future. In this regard, the Bank has assumed in its liquidity planning that the purchase price payments at the respective transaction dates and associated settlement of losses in cash for the federal state portfolios (insofar as the first loss piece of losses settled under the guarantee of € 3.2 billion is not exceeded as a result) are made immediately after the sale, and for the market portfolios six to nine months after the respective transaction is concluded. It is assumed that the federal state portfolio will be sold as at 30 June 2016 and the market portfolio as at 31 December 2016 or until 30 June 2017, respectively. Stable access also in unfavourable market conditions to refinancing sources that are not dependent for the most part on the performance of the capital markets such as the German Savings Bank Association and other financial networks as well as to collateralised refinancing sources such as Pfandbriefe and asset-based funding, which is also important for refinancing US dollar business, is paramount.

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

The two rating agencies, Moody's and Fitch, regard the conclusion of the EU proceedings as important milestones and assess the structural measures, which ought to lead to an improvement in the financial and risk profile, as positive in principle. Nevertheless, the agencies consider, in particular, the uncertainty during the divestiture period, the ambitious time frame for a change in ownership as well as the one-off payment and liquidity resources to be provided to the holding company to be a burden. An overall assessment of the EU decision will probably be made by the agencies in the summer months.

Due to the postponement of the publication of the single entity financial statements and Group financial statements as at 31 December 2015, the Bank suspended its issuing activities during the first quarter for a short period of time from the date of the ad hoc announcement regarding this (3 March 2016). This also resulted in the temporary increase in incoming cash flows from deposits and issues. The resulting effects were accordingly taken into account in the funding plan.

### Opportunities and risks in the funding forecast

#### Opportunities

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

The currently limited access to the capital markets would gradually improve by the conclusion of the ongoing EU proceedings and implementation of the planned structural measures, as these would reduce an important uncertainty factor. 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.

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

#### Risks

Execution of funding measures in the market would be made more difficult by potential tensions in the financial markets. For example, a central bank monetary policy that is more restrictive than expected emanating 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. The privatisation of HSH Nordbank required under the catalogue of conditions and commitments, the viability review of the new corporate structure required in this connection and approval of the acquisition by the EU Commission might also lead to possible investor reluctance in the long-term area which could have a significant adverse impact on the funding of the Bank.

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

If there are delays in settling the losses and sales prices of the portfolios to be sold to the federal state owners and in the market or an agreement cannot be reached with the federal state owners on a planned specification of the process for the quick settlement of losses, this may have a negative impact – as at the respective settlement date – on the Bank's liquidity position. Furthermore, the planned liquidity relief could be delayed compared to the assumptions made in the Bank's planning in case it takes longer to settle losses, particularly in the case of the settlement of losses arising on the sale of market portfolio.



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

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

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

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

Because of the marked influence of the EUR/USD exchange rate on the Bank's liquidity position due to the need to provide collateral for EUR/USD basis swaps the focus continues to be placed on the reduction of US dollar assets in different asset classes in the course of the winding down of portfolios in the Restructuring Unit. This may result in unscheduled losses that could not be invoiced under the guarantee. Furthermore, the restrictions on US dollar business will be maintained.

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

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

### Formal decision in the EU state aid proceedings

The replenishment of the second loss guarantee from € 7 billion to € 10 billion executed by the federal state owners in June 2013 against the backdrop of changed underlying conditions and future regulatory

requirements was initially provisionally approved by the EU Commission on 2 May 2016. This guarantee measure was provisionally approved by the EU Commission in the 2013 financial year and has strengthened the Bank's CET1 capital ratio since then. At the same time, the EU Commission instituted state aid proceedings to investigate whether the replenishment of the guarantee is consistent with the state aid rules. These state aid proceedings were concluded by the final decision of the EU Commission.

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

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

In addition to the one-off relief recognised in the 2015 single entity and Group financial statements, long-term structural improvements to the financial and risk situation are expected on the full implementation of the agreed measures, such as the significant reduction in the base premium payable in the future by the operating company and agreed portfolio sales. The aim is a further rapid reduction in the legacy portfolios remaining at the Bank, which continue to be covered by the guarantee facility provided by the federal states. This will improve the conditions for a sustainable long-term business model for the Bank. The operating company's capital backing is to be strengthened by improved profit retention opportunities. As the assets to be sold within the framework of portfolio transactions mainly comprise US dollar transactions, the sensitivity of capital ratios to the volatile US dollar will also decrease noticeably. Furthermore, the operating company's funding requirements, particularly in the US dollar business, will also decrease due to the removal of loan transactions from the balance sheet. This also strengthens the Bank's liquidity situation affected by movements in the US dollar.

The replenishment of the second loss guarantee has been technically classified by the EU Commission as so-called resolution aid, and HSH Nordbank is regarded as not being viable in terms of state aid prior to the restructuring. The operating company is to be restructured in such a way that enables the successful sale of this company until 28 February 2018. This divestiture period is met with the signing of a sales agreement and may be extended by six months with the consent of the EU Commission, if the technical implementation of the model is delayed due to circumstances over which the federal states have no direct influence. The transfer in rem of the shares to a buyer (closing) may be made at a later date. The sale is intended to be made in an open, non-discriminatory, competitive and transparent process, in which other Landesbanks may also participate. Public savings banks may also take a minority interest in an acquisition by a private third party or by one or several Landesbanks, if the buyer is independent of HSH Nordbank AG and the public sector (Landesbanks are regarded as being independent of the public sector for these purposes). The participating bidders must have the necessary financial resources and proven sector expertise to manage the operating company as a profitable and active competitor.

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

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

payments in the amount legally permitted from the operating company to the holding company to be formed.

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

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

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

#### Opportunities

Following the final conclusion of the EU state aid proceedings, the successful implementation of the planned structural measures agreement would create a sound basis for establishing a sustainable long-term business model for the Bank and facilitating a successful privatisation process.

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

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

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

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

### Risks

Should the implementation of the final structural measures provided for in the formal decision not be successful in full or in part within the specified time frame, this would significantly jeopardise the further implementation of the business model and thereby the Bank's future prospects.

The measurement of the portfolios to be sold in the market could be lower at the actual dates of sale than previously assumed in the planning and calculation of loan loss provisions. The federal state owners are not precluded in respect of the portfolios to be sold to HSH Portfoliomanagement AöR from setting the transfer values determined by the EU Commission under state aid aspects at a lower amount as at the date of the portfolio transfer. In addition, execution of the portfolio sales could be delayed. Subsequent changes in the composition of the portfolios to be sold to the federal states or in the market, for example, in the course of the implementation of the transactions, may also have an additional adverse impact on loan loss provisions. The above-mentioned effects may have a significant adverse impact on the earnings, net assets and financial position as well as the CET1 ratio.

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

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

In addition, there is the risk that the implementation of the formal decision will fail due to statutory, supervisory or contractual conditions or it is not implemented within the specified time frame, which could have a negative effect on HSH Nordbank's access to the capital

markets, HSH Nordbank's rating, planning and ultimately its long-term survival.

Under the catalogue of conditions and commitments, the Bank is required to limit annual new shipping business to € 1.2 billion. Furthermore, total assets may not exceed € 98 billion at the end of 2017 (on an average USD exchange rate of 1.10). In addition, the catalogue of conditions and commitments contains restrictions relating to the Corporates division (restricted to German clients and their investments in Germany and abroad as well as foreign clients, provided that they are seeking transactions in Germany), a waiver on the part of the Bank not to resume the already discontinued asset-based aircraft financing business, a restriction on external growth by prohibiting the acquisition of control in other companies and an extension of the ban on proprietary trading. In the event that the trend in the shipping markets is significantly better than planned or good business opportunities arise in other business sectors, these restrictions could have a negative effect on potential transactions.

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

Due to the above-described consequences of the implementation of the formal decision of the EU Commission there is the risk that HSH Nordbank AG may no longer be member of the DSGV and therefore also of the joint liability scheme of the German Savings Banks Finance Group in the event that its ownership structure is changed in favour of private owners after a two-year transition period. This could increase HSH Nordbank AG's refinancing costs and make it difficult to access funding channels.

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

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



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

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

#### **Overall appraisal and net income forecast**

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

At the same time, HSH Nordbank will further expand its new business activities based on its strong presence in the markets and operating progress made over recent years. The Bank will use the expanded business opportunities in the corporate clients sector included in the catalogue of conditions and commitments compared to the original applicable catalogue of conditions and commitments in the previous EU decision to consistently implement the new business plan taking account of the strict internal risk and income requirements. Furthermore, HSH Nordbank is reviewing additional strategic and operating improvements to ensure its competitiveness in a challenging environment. The aim is a further rapid reduction in the legacy portfolios remaining at the Bank, which continue to be covered by the guarantee facility issued by the federal states, following the adjustments made in the past year and transactions planned in connection with the implementation of the formal decision of the EU Commission.

Overall, the basis for a sustainable, viable alignment of the Bank is strengthened and a business model created for the future operating company, which, as a minimum, should convince clients, employees and investors and facilitate a successful privatisation process.

There are still major challenges and uncertainties regarding future developments arising primarily from the continuing difficult situation in the shipping industry including the assessment of the long-term trend of loan loss provisions (also in the event of a sharper reduction in risk), volatility in the financial and currency markets (especially the US dollar), implementation of the formal decision of the EU Commission, changing assessments made by rating agencies as well as the further development of requirements of the European Banking Authority.

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

The future results of HSH Nordbank are likely to benefit noticeably over the coming years from the implementation of the planned structural measures of the EU proceedings and further implementation of the strategy. The Bank expects to record a significant reduction in net income before taxes at the Group level compared to the previous year due to the material non-recurring items recognised in the 2015 financial year relating to the reversal of guarantee premiums as a result of the informal agreement (with the exception of the one-off payment and the provision of liquidity to the holding company to be made under the formal decision of the EU Commission). Against the same backdrop, the return on equity for the Group will probably decline significantly in 2016 compared to the previous year.

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

The Bank will make further efforts to ensure a competitive cost-income ratio. The cost-income ratio is benefitting from further reductions in administrative expenses. The positive non-recurring items recognised in connection with the informal agreement on the income side in the 2015 Group financial statements are likely to result in a moderate increase in the cost-income ratio in the Group and slight decrease in the Core Bank in 2016.

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

At the same time, the complexity of the figures disclosed by HSH Nordbank should decrease noticeably in future, since the complex guarantee premium structure comprising additional premiums, ex ante base premiums and debt waivers (apart from the one-off payment and the liquidity backing of the holding company to be made under the formal decision of the EU Commission) was dissolved in the 2015 annual and Group financial statements on account of the informal agreement reached with the EU Commission and loan loss provisions recognised in connection with the informal agreement were determined based on the assumption of revised commitment strategies and on market values as at the planned date of sale. Accordingly, this should increase transparency and informative value regarding the Bank's operating performance.

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

In order to fulfil the net income forecast as well as for future distributions starting from 2020, HSH Nordbank's plan needs to be implemented as intended and the risks described in this management report do not materialise.

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

## RISK REPORT

### 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. Since the beginning of 2016 comprehensive requirements resulting from the Supervisory Review and Evaluation Process (SREP) have to be observed.

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 redefined. Amongst 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 HSH Nordbank also include transformation risk and reputation risk.

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 in particular responsible for reviewing HSH Nordbank's overall risk tolerance and strategy. In addition it advises the Supervisory Board on the current and future overall risk tolerance and strategy and supports the Supervisory Board in monitoring the implementation of this strategy by the Management Board. 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 the risk controlling of HSH Nordbank AG, 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 as well as Loan and Collateral Management.

The division 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.

Amongst 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 (RU), 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 recovery 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. With regard to restructuring cases of the Core Bank the Core Bank remains responsible for taking the relevant decisions.

Internal Audit reviews the effectiveness, efficiency and appropriateness of risk management, the internal control system and the monitoring processes in a targeted and systematic manner. It monitors and validates the timely elimination of deficiencies identified by the Bank's own activities or external audits. As a tool used by HSH Nordbank's Overall Management Board it is an essential component of corporate governance. It regularly provides the Overall Management Board and Audit Committee of the Supervisory Board with information on the findings of its audits, which are carried out on the basis of a risk-based audit plan that is approved by the Overall Management Board on an annual basis. In general, Internal Audit provides independent, objective and risk-based audit services that, in principle, cover all business activities and processes of the Core Bank, Restructuring Unit, outsourcing arrangements and equity holdings and also includes projects and changes in operational processes and structures.

The CRO and the chief representative (Generalbevollmächtiger, GBV) of the Restructuring Unit (RU) 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 control-

ling 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 (NMNP 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 on 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 as well as additional entities, as the case may be, that make a contribution to risk that is identified as relevant by HSH Nordbank. Those companies that are to be specifically monitored at the Group level due to material risks are selected from this population that comprises all relevant risk positions. The risks of other companies not included in the "economic scope of consolidation" are fully taken into account at the aggregate level (for instance 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 body composed of division heads taking decision independently at the level of material individual loan transactions. The use of the resources liquidity, economic and regulatory capital is managed by the TC, based on the requirements concerning resource management of the Group defined by ALCO. Furthermore, the TC plays an active portfolio management role.

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 selected division heads, regularly monitors 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 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 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 pre-

pared 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 as well as the Solvency 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 sub-process structure (process map), which also includes the domestic and foreign branches. A person responsible for the process is designated for all main processes.

Furthermore, a so-called ICS cycle is implemented, which is to be run regularly with the following steps:

- classification of (sub-)processes in accordance with inherent risk;
- updating/collecting of the process, risk and control documentation;
- conceptual assessment of the appropriateness of the controls;
- assessment and review of the effectiveness of the controls (testing);
- determination and implementation of measures to be taken with regard to weaknesses identified in the controls;
- re-assessment and second review of the effectiveness of the control(s) 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. Furthermore, the ICS makes a significant contribution to the effectiveness of the processes by specifying uniform rules. 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 as well as the enhancement of the methodology 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. The ICS Office is responsible for the steps to be taken in connection with the control cycle. 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 determines the processes for running the control cycle are defined annually based on the risk established and the last cycle run for each process. Approximately 65% of the processes were scheduled for a run of the control cycle in 2015. It was possible to remedy all control weaknesses identified for these processes. The management of the outsourcing of material functions by the ICS is reported to the Management Board on an annual 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 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. The written rules including all internal instructions and regulations form the essential basis of the ICS.

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

The 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 transac-

tions in Germany and the transactions in subsidiaries and foreign branches. Amongst 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 for default, market and operational risks as well as for risks resulting from credit valuation adjustment (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 (COREP) 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 further implementation of the Basel III rules in 2015 were implemented within the framework of projects. For example, the implementation of new liquidity ratios (LCR based on Commission Delegated Regulation (EU) 2015/61 and the net stable funding ratio (NSFR)) was driven forward in the reporting year.

In accordance with the requirements of Part 8 CRR in conjunction with Section 26a (1) Sentence 1 KWG 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 for nearly the whole portfolio, 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 2015 is available on our website, [www.hsh-nordbank.de](http://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 and risk management.

As part of the monitoring of its risk-bearing capacity HSH Nordbank regularly compares the total economic capital required to cover all major quantifiable types of risk (overall risk) to the available amount of economic risk coverage potential and reports it to the supervisory authorities of the Bank. HSH Nordbank analyses its risk-bearing capacity comprehensively on a quarterly basis as well as within the framework of its annual planning process.

The primary management process for our calculation of risk-bearing capacity is a liquidation approach which focuses on protection of creditors (so-called gone concern approach). In addition to equity capital modified for economic purposes the risk coverage potential takes into account, amongst other things, unrealised gains and losses arising on securities, equity holdings, the lending business and the liabilities 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 2015, the risk coverage potential amounted to € 10.2 billion (31 December 2014: € 7.7 billion). The increase is mainly attributable to a reduction in the present value of the second loss guarantee costs deducted from the risk coverage potential as a result of the reduction in guarantee fees provided for under the informal agreement reached with, and formal decision of, the EU Commission and to an increase in the economically adjusted regulatory capital.

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 € 0.3 billion compared to the end of 2014 and amounted to € 2.5 billion as at the reporting date (31 December 2014: € 2.8 billion). This decrease is mainly attributable to a decrease of default risk thanks to a lower exposure at default (EaD) in the reporting year.

The utilisation of risk coverage potential amounted to 25% as at the reporting date (31 December 2014: 36%). 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.

#### RISK-BEARING CAPACITY OF THE GROUP

| (€ bn)   | 31.12.2015  | 31.12.2014 |
|--|-------------|------------|
| <b>Economic risk coverage potential<sup>1)</sup></b> | <b>10.2</b> | <b>7.7</b> |
| <b>Economic capital required</b>                     | <b>2.5</b>  | <b>2.8</b> |
| of which for default risks <sup>2)</sup>             | 1.3         | 1.5        |
| for market risks                                     | 0.8         | 0.8        |
| for liquidity risks                                  | 0.2         | 0.3        |
| for operational risks                                | 0.2         | 0.2        |
| <b>Risk coverage potential buffer</b>                | <b>7.6</b>  | <b>4.9</b> |
| <b>Utilisation of risk coverage potential (in %)</b> | <b>25</b>   | <b>36</b>  |

<sup>1)</sup> After deduction of the amount retained under second loss guarantee of the federal states of Hamburg and Schleswig-Holstein in the amount of € 3.2 billion.

<sup>2)</sup> 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 buffer). 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. In the course of the reporting year, a global buffer was reported that ensured adherence to the risk tolerance determined in the risk strategy at all times.

#### 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 macro-economic scenarios, such as a severe economic downturn, a delayed recovery of the shipping markets as well as historical scenarios are calculated in this connection. Furthermore, the risk of excessive debt is analysed in the form of a stressed leverage ratio and reported for the first time for this financial year. 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 available for 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 HSH Nordbank.

The framework linked to HSH Nordbank's recovery plan under Ma-San 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 pre-defined 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 stress scenarios.

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 HSH Nordbank's ability to survive. The potential impact of the persistent low interest rate environment is analysed amongst other things. This information is also used by HSH Nordbank's Management Board as additional guidance for explaining and deciding upon the action required for reviewing the sustainability of the business model in the event of developments that threaten the Bank's existence.

In addition to 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.

### 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 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. 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 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 the Group Risk Management division. 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, recognised based on the definition of a loan under Article 389 of the Capital Requirements Regulation (CRR), 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 group of connected clients (GCC) in accordance with Article 4 (39) CRR, 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, and 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.

As a result of portfolio reduction implemented in the year under review, economic capital required for default risk decreased slightly to € 1.3 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.

Non-performing exposure (NPE, total of all risk positions of borrowers in default) will be implemented in the future as an important management indicator in order to take account of the importance assigned to this key indicator by the banking supervisor and market participants.

In addition information on the non-performing portfolio will also continue to be disclosed in the IFRS reports (Note 57). Under the informal agreement with the EU Commission, which in principle was confirmed and set out in more detail in the formal decision, HSH Nordbank AG is to be relieved of a substantial portion of its troubled legacy portfolios. According to the formal decision it is intended that non-performing loans in the amount of € 5 billion be initially transferred at market prices to the federal state owners and an additional portfolio volume of up to € 3.2 billion be sold in the market. The volume of non-performing loans will decrease clearly thanks to these measures, which in turn will lead to a significant improvement of HSH Nordbank's non-performing exposure (NPE) ratio.

### 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 Landesbanks 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 Bank Association (DSGV).



HSH Nordbank uses rating modules for banks, corporates, international sub-sovereigns, country and transfer risk, insurance companies, leveraged finance and leasing 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 trend is monitored. At the end of 2015 the material risk concentrations of HSH Nordbank were in the shipping portfolios of the Core Bank and Restructuring Unit, which accounted for 24% of the overall portfolio as well as in the US dollar business, which accounted for 30%. 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 of cases under both procedures are discussed in the regular Concentration Management Meetings where risk-reducing measures are discussed and their implementation is monitored.

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 receivable class equity holdings. In this context, regulatory law considers equity holding risk to be a sub-category of the default risk. HSH Nordbank has significantly reduced its equity holding portfolio and thereby equity holding risk over recent years, thus successfully bringing it in line with the Bank's strategic realignment. The acquisition of equity holdings only takes place, if it meets the strategic objectives of HSH Nordbank. The risks and rewards associated with a potential equity holding are analysed extensively prior to the conclusion of the transaction.

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 equity holdings of HSH Nordbank. Important equity holdings are subject to a more detailed analysis in this context.

Furthermore, all equity holdings in the portfolio are analysed once a year, with a focus on the identification of risks in the individual companies, amongst other things. Measures are derived from the analysis in order to be able to actively counter the identified risks.

The articles of association and by-laws 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 pricing and actual costing**

HSH Nordbank applies a uniform method across the Bank for the pricing 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 pricing by means of the standard risk costs. In the same way, an actual costing (profit centre accounting) is made for all transactions on a monthly basis, taking the cost elements stated above into account. 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 are based on the EaD. 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 EaD amount outstanding was € 98,037 million as at 31 December 2015.

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 € 53,927 million or 55% of

the total exposure (previous year: € 60,738 million or 55%). The loan amount outstanding for investment grade exposures amounts to € 44,670 million or 63% (previous year: € 46,690 million or 64%) for the Core Bank and € 9,257 million or 34% (previous year: € 14,048 million or 38%) for the Restructuring Unit. 42% of the Overall Bank portfolio is covered by the second loss guarantee (previous year: 48%). For the Core Bank a share of 26% is guaranteed (previous year: 29%) and for the Restructuring Unit 85% (previous year: 85%). At 92% (previous year: 92%) the share of the guaranteed portfolio is particularly high in the default categories 16 to 18.

### DEFAULT RISK STRUCTURE BY RATING CATEGORY<sup>1)</sup>

| (€ m)                       | 2015          |                    |               |                            | 2014          |                    |                |                            |
|-----------------------------|---------------|--------------------|---------------|----------------------------|---------------|--------------------|----------------|----------------------------|
|                             | Core Bank     | Restructuring Unit | Total         | of which guaranteed (in %) | Core Bank     | Restructuring Unit | Total          | of which guaranteed (in %) |
| 1(AAAA) to 1 (AA+)          | 18,285        | 4,784              | 23,069        | 19                         | 20,296        | 6,829              | 27,125         | 24                         |
| 1(AA) to 1 (A-)             | 8,075         | 2,060              | 10,135        | 29                         | 10,721        | 2,738              | 13,459         | 27                         |
| 2 to 5                      | 18,310        | 2,413              | 20,723        | 23                         | 15,673        | 4,481              | 20,154         | 38                         |
| 6 to 9                      | 14,922        | 2,202              | 17,124        | 38                         | 15,521        | 4,002              | 19,523         | 47                         |
| 10 to 12                    | 2,219         | 1,192              | 3,411         | 66                         | 2,210         | 1,423              | 3,633          | 83                         |
| 13 to 15                    | 1,883         | 2,956              | 4,839         | 75                         | 2,149         | 3,435              | 5,584          | 81                         |
| 16 to 18 (default category) | 6,770         | 11,638             | 18,408        | 92                         | 6,303         | 13,522             | 19,825         | 92                         |
| Other <sup>2)</sup>         | 208           | 120                | 328           | -                          | 395           | 105                | 500            | -                          |
| <b>Total</b>                | <b>70,672</b> | <b>27,365</b>      | <b>98,037</b> | <b>42</b>                  | <b>73,268</b> | <b>36,535</b>      | <b>109,803</b> | <b>48</b>                  |

<sup>1)</sup> 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.

<sup>2)</sup> 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)                        | 2015          |                    |               | 2014          |                    |                |
|------------------------------|---------------|--------------------|---------------|---------------|--------------------|----------------|
|                              | Core Bank     | Restructuring Unit | Total         | Core Bank     | Restructuring Unit | Total          |
| Industry                     | 8,507         | 1,379              | 9,886         | 8,095         | 1,597              | 9,692          |
| Shipping                     | 15,392        | 7,427              | 22,819        | 15,791        | 8,378              | 24,169         |
| Trade and transportation     | 3,352         | 1,159              | 4,511         | 3,867         | 2,076              | 5,943          |
| Credit institutions          | 8,262         | 850                | 9,112         | 8,993         | 1,397              | 10,390         |
| Other financial institutions | 2,929         | 3,461              | 6,390         | 2,884         | 5,988              | 8,872          |
| Land and buildings           | 10,211        | 4,881              | 15,092        | 9,469         | 6,633              | 16,102         |
| Other services               | 6,331         | 1,534              | 7,865         | 6,312         | 2,588              | 8,900          |
| Public sector                | 15,192        | 6,101              | 21,293        | 16,963        | 7,196              | 24,159         |
| Private households           | 496           | 573                | 1,069         | 894           | 682                | 1,576          |
| Other                        | -             | -                  | -             | -             | -                  | -              |
| <b>Total</b>                 | <b>70,672</b> | <b>27,365</b>      | <b>98,037</b> | <b>73,268</b> | <b>36,535</b>      | <b>109,803</b> |

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

**DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES**

| (€ m)                  | 2015          |                    |               | 2014          |                    |                |
|------------------------|---------------|--------------------|---------------|---------------|--------------------|----------------|
|                        | Core Bank     | Restructuring Unit | Total         | Core Bank     | Restructuring Unit | Total          |
| Up to 3 months         | 8,776         | 3,959              | 12,735        | 11,872        | 3,373              | 15,245         |
| > 3 months to 6 months | 2,062         | 729                | 2,791         | 2,333         | 1,516              | 3,849          |
| > 6 months to 1 year   | 3,919         | 823                | 4,742         | 3,882         | 3,240              | 7,122          |
| > 1 year to 5 years    | 35,395        | 9,041              | 44,436        | 32,241        | 12,834             | 45,075         |
| > 5 years to 10 years  | 15,613        | 6,794              | 22,407        | 17,529        | 7,104              | 24,633         |
| > 10 years             | 4,907         | 6,019              | 10,926        | 5,411         | 8,468              | 13,879         |
| <b>Total</b>           | <b>70,672</b> | <b>27,365</b>      | <b>98,037</b> | <b>73,268</b> | <b>36,535</b>      | <b>109,803</b> |

The following table provides an overview of the foreign exposure by region, which reached € 39,650 million as at 31 December 2015 (previous year: € 50,827 million).



**FOREIGN EXPOSURE BY REGION**

| EaD (€ m)                   | 2015          |                    |               | 2014          |                    |               |
|-----------------------------|---------------|--------------------|---------------|---------------|--------------------|---------------|
|                             | Core Bank     | Restructuring Unit | Total         | Core Bank     | Restructuring Unit | Total         |
| Western Europe              | 14,916        | 9,991              | 24,907        | 15,229        | 13,772             | 29,001        |
| of which eurozone countries | 9,810         | 6,035              | 15,845        | 10,191        | 8,195              | 18,386        |
| Central and Eastern Europe  | 1,034         | 337                | 1,371         | 1,083         | 465                | 1,548         |
| of which eurozone countries | 52            | 42                 | 94            | 55            | 126                | 181           |
| Africa                      | 939           | 276                | 1,215         | 852           | 307                | 1,159         |
| North America               | 1,939         | 2,656              | 4,595         | 5,636         | 5,083              | 10,719        |
| Latin America               | 633           | 453                | 1,086         | 684           | 546                | 1,230         |
| Middle East                 | 48            | 808                | 856           | 56            | 949                | 1,005         |
| Asia-Pacific region         | 3,318         | 1,459              | 4,777         | 3,178         | 2,046              | 5,224         |
| International organisations | 815           | 28                 | 843           | 911           | 30                 | 941           |
| <b>Total</b>                | <b>23,642</b> | <b>16,008</b>      | <b>39,650</b> | <b>27,629</b> | <b>23,198</b>      | <b>50,827</b> |

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 Croatia, Cyprus, Greece, Italy, Portugal and Spain. The exposure to Russia is also being monitored more closely as a result of the crisis concerning Ukraine as is the exposure to Turkey due to Turkey's interior and geopolitical development.

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 16% compared to the previous year and amounted to € 6,180 million in total as at 31 December 2015 (previous year: € 7,341 million).

**EXPOSURE AT DEFAULT IN SELECTED EUROPEAN COUNTRIES**

| (€ m)        | Country    |              | Banks     |            | Corporates/Other |              | Total        |              |
|--------------|------------|--------------|-----------|------------|------------------|--------------|--------------|--------------|
|              | 2015       | 2014         | 2015      | 2014       | 2015             | 2014         | 2015         | 2014         |
| Greece       | -          | 6            | -         | -          | 1,163            | 1,224        | 1,163        | 1,230        |
| Italy        | 445        | 691          | -         | 1          | 639              | 683          | 1,084        | 1,375        |
| Croatia      | -          | -            | -         | -          | 106              | 117          | 106          | 117          |
| Portugal     | 223        | 270          | 4         | 3          | 29               | 51           | 256          | 324          |
| Russia       | -          | -            | 4         | 6          | 135              | 128          | 139          | 134          |
| Spain        | 156        | 211          | 58        | 134        | 1,328            | 1,592        | 1,542        | 1,937        |
| Turkey       | -          | -            | 22        | 44         | 473              | 476          | 495          | 520          |
| Cyprus       | -          | -            | -         | 21         | 1,395            | 1,683        | 1,395        | 1,704        |
| <b>Total</b> | <b>824</b> | <b>1,178</b> | <b>88</b> | <b>209</b> | <b>5,268</b>     | <b>5,954</b> | <b>6,180</b> | <b>7,341</b> |

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 55 includes more information on the selected European countries.

### Loan loss provisions

Within the framework of risk management, HSH Nordbank 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 and provisions for contingent liabilities in the amount of the potential loss in accordance with Group-wide standards. HSH Nordbank also recognises portfolio valuation allowances for latent default risks, which have already occurred but are not yet known to the Bank as at the balance sheet date.

All restructuring and workout commitments are subject to a comprehensive two-step review process every quarter. In a first step, a review is carried out on the basis of objective criteria (so-called trigger events) to determine whether the receivable could be impaired (impairment identification). If this is the case, the loans identified are reviewed in a second step to determine whether a loan loss provision

is actually required and the amount thereof (impairment measurement). The amount of the loan loss provision is calculated by deducting the present value of all expected future incoming payments from the IFRS carrying amount of the receivable. The expected incoming payments comprise in particular all expected interest and redemption payments, as well as payments from the liquidation of collateral.

The overall trend in loan loss provisions, significant loan loss provision cases and potential changes to the loan loss provisions and the creation of new loan loss provisions are addressed in the monthly Provisioning Meeting, in which the CRO, the authorised chief representative (Generalbevollmächtigter) responsible for the Restructuring Unit and the heads of the relevant departments participate.

The following tables show the loan loss provision trend by segment:

### CHANGES IN LOAN LOSS PROVISIONS

(€ m)

01.01. – 31.12.2015

|   | Individual valuation allowances/provisions | Portfolio valuation allowances | Loan loss provisions before currency translation and compensation | Net income from foreign currency from loan loss provisions | Compensation item | Total       | Hedging effect of credit derivative second loss guarantee | LLP incl. hedging effect credit derivative |
|---|--|--------------------------------|---|--|-------------------|-------------|---|--|
| Shipping, Project & Real Estate Financing | -1,546                                     | 35                             | -1,511  | 0  | 0                 | -1,511      | 0   | -1,511                                     |
| Corporates & Markets                      | -29  | 80                             | 51  | 0  | 0                 | 51          | 0   | 51   |
| Corporate Center                          | 0  | -440                           | -440  | 37   | 0                 | -403        | 0   | -403                                       |
| Consolidation Core Bank                   | -2   | 1                              | -1  | -192   | 1,839             | 1,646       | 282   | 1,928                                      |
| <b>Total Core Bank</b>                    | <b>-1,577</b>                              | <b>-324</b>                    | <b>-1,901</b>   | <b>-155</b>  | <b>1,839</b>      | <b>-217</b> | <b>282</b>  | <b>65</b>                                  |
| Restructuring Unit                        | -1,192                                     | 73                             | -1,119  | 0  | 0                 | -1,119      | 0   | -1,119                                     |
| Consolidation Restructuring Unit          | 0  | 0                              | -   | -256   | 1,238             | 982         | 376   | 1,358                                      |
| <b>Total Restructuring Unit</b>           | <b>-1,192</b>                              | <b>73</b>                      | <b>-1,119</b>   | <b>-256</b>  | <b>1,238</b>      | <b>-137</b> | <b>376</b>  | <b>239</b>                                 |
| <b>Group</b>                              | <b>-2,769</b>                              | <b>-251</b>                    | <b>-3,020</b>   | <b>-411</b>  | <b>3,077</b>      | <b>-354</b> | <b>658</b>  | <b>304</b>                                 |

CHANGES IN LOAN LOSS PROVISIONS<sup>1)</sup>

|   | 01.01. – 31.12.2014                        |                                |   |  |                   |            |   |  |
|---|--|--------------------------------|---|--|-------------------|------------|---|--|
|   | Individual valuation allowances/provisions | Portfolio valuation allowances | Loan loss provisions before currency translation and compensation | Net income from foreign currency from loan loss provisions | Compensation item | Total      | Hedging effect of credit derivative second loss guarantee | LLP incl. hedging effect credit derivative |
| Shipping, Project & Real Estate Financing | -411                                       | 8                              | -403  | -  | -                 | -403       | -   | -403                                       |
| Corporates & Markets                      | -44  | -12                            | -56   | -  | -                 | -56        | -   | -56  |
| Corporate Center                          | -  | -                              | -   | 63   | -                 | 63         | -   | 63   |
| Consolidation Core Bank                   | -3   | 1                              | -2  | -164   | 497               | 331        | 1   | 332  |
| <b>Total Core Bank</b>                    | <b>-458</b>                                | <b>-3</b>                      | <b>-461</b>   | <b>-101</b>  | <b>497</b>        | <b>-65</b> | <b>1</b>  | <b>-64</b>                                 |
| Restructuring Unit                        | -69  | 44                             | -25   | -  | -                 | -25        | -   | -25  |
| Consolidation Restructuring Unit          | -  | -                              | -   | -238   | 904               | 666        | -   | 666  |
| <b>Total Restructuring Unit</b>           | <b>-69</b>                                 | <b>44</b>                      | <b>-25</b>  | <b>-238</b>  | <b>904</b>        | <b>641</b> | <b>-</b>  | <b>641</b>                                 |
| <b>Group</b>                              | <b>-527</b>                                | <b>41</b>                      | <b>-486</b>   | <b>-339</b>  | <b>1,401</b>      | <b>576</b> | <b>1</b>  | <b>577</b>                                 |

<sup>1)</sup> The way in which loan loss provisions are presented has changed compared to the previous year. The previous year figures have been adjusted for purposes of comparability.

Loan loss provisions are mainly characterised by the impact of the changed commitment strategies, taking market values as at the planned date of sale of the transaction portfolios, loan loss provisions recognised on the Bank's remaining shipping loan portfolio as well as the reversal of the guarantee premiums, except for the payments to be expected after the formal decision of the EU Commission (one-off payment and provision of liquidity to the holding company) and cancellation of the debt waiver into account.

Net loan loss provision expense amounted to € -3,020 million before taking the compensation effects under the guarantee into account.

This includes additional net loan loss provisions of € 1,584 million due to the effects of the changed commitment strategies taking market values as at the planned date of sale of the portfolios to be transferred to the federal states agency (shipping loans) or sold in the market (shipping, real estate and energy loans) into account.

Furthermore, loan loss provisions had to be increased more than planned for shipping loans not included in the transaction portfolios.

The continued gloomy market situation and worsened outlook in shipping was taken into account by HSH Nordbank through the higher loan loss provisions for shipping loans. The additional loan loss provision expense for legacy shipping portfolios was mainly accounted for by loans for bulkers and container ships due to the weak

charter rate trends in these ship segments. The other loan portfolios of the Bank continued to develop comparatively unremarkable Net reversals of loan loss provisions which were recognised in total in the corporate loan portfolio.

Individual valuation allowances and direct write-downs excluding the transaction portfolios amounted in total to € -1,436 million. In addition, HSH Nordbank had to recognise extensive portfolio valuation allowances in order to reflect the risks arising from the very challenging environment in the shipping markets, and take account of new standards to be observed in shipping.

Loan loss provisions recognised in particular for the legacy shipping portfolios and the additional loan loss provisions recognised for the transaction portfolios due to the changed commitment strategies that take account of market values as at the planned date of sale were largely compensated for by the guarantee.

The relief regarding guarantee fees, agreed under the informal agreement and set out in more detail in the formal decision, had a positive effect on loan loss provisions and comprised the reversal of guarantee premiums, except for the payments still to be expected after the formal decision of the EU Commission (one-off payment of € 210 million and provision of liquidity of € 50 million to the holding company), offset by the reversal and recognition of the debt waiver as an expense (€ 781 million).



In total, HSH Nordbank disclosed loan loss provisions of € –354 million including the hedging effect of the financial guarantee contract as at the 2015 year end (previous year: € 576 million). Including the hedging effect of the credit derivative loan loss provisions would have been a positive amount of € 304 million (previous year: € 577 million).

Detailed information on the development of loan loss provisions in the individual divisions is set out in the Segment reporting section.

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

#### TOTAL LOAN LOSS PROVISIONS

| (€ m)   | 2015          | 2014          |
|---|---------------|---------------|
| Loans and advances to customers                                       | 56,575        | 67,336        |
| Loans and advances to banks   | 5,595         | 6,915         |
| Volume of impaired loans  | 15,766        | 13,303        |
| Non-current assets held for sale and discontinued operations (IFRS 5) | 5,082         |               |
| Individual valuation allowances for loans and advances to customers   | -7,601        | -5,777        |
| Portfolio valuation allowances for loans and advances to customers    | -611          | -343          |
| Individual valuation allowances for loans and advances to banks       | -14           | -14           |
| Portfolio valuation allowances for loans and advances to banks        | -1            | -1            |
| <b>Total loan loss provisions for balance sheet items</b>             | <b>-8,227</b> | <b>-6,135</b> |
| Provisions for individual risks in the lending business               | -57           | -47           |
| Provisions for portfolio risks in the lending business                | -50           | -51           |
| <b>Total loan loss provisions for off-balance sheet items</b>         | <b>-107</b>   | <b>-98</b>    |
| <b>Total loan loss provisions (before compensation item)</b>          | <b>-8,334</b> | <b>-6,233</b> |
| Compensation item   | 7,162         | 4,074         |
| <b>Total loan loss provisions (including compensation item)</b>       | <b>-1,172</b> | <b>-2,159</b> |

The loss rate in the Group amounted to 1.35% in the reporting year (previous year: 1.00%). The loss rate is calculated based on the actually realised defaults as a ratio of the credit risk exposure. The total amount of actually realised defaults in 2015 was € 1,316 million (previous year: € 1,136 million) and the credit risk exposure € 97,554 million (previous year: € 113,255 million). The credit risk exposure includes all balance sheet and off-balance sheet assets, taking account of the individual and portfolio valuation allowances for loans and advances to customers and banks that are subject to default risk. Total loan loss provisions (including compensation items) for the Group amounted to € –1,172 million as at 31 December 2015 (previous year: € –2,159 million).

Total individual valuation allowances amounted to € –7,672 million (previous year: € –5,838 million), comprising individual valuation allowances of € –7,615 million (previous year: € –5,791 million) for loans and advances to banks and customers, € –55 million (previous year: € –38 million) for contingent liabilities and irrevocable loan commitments and € –2 million (previous year: € –9 million) for other off-balance sheet transactions.

The portfolio valuation allowances totalled € –662 million (previous year: € –395 million) and were composed of portfolio valuation allowances of € –612 million (previous year: € –344 million) for loans and advances to banks and customers and € –50 million (previous year: € –51 million) for contingent liabilities and irrevocable loan commitments.

Details regarding the total loan loss provisions are presented in Notes 14, 26 and 42.

#### 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 as well as utilisations and reversals of loan loss provision 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.

The effects arising from the transfer of a portfolio of initially € 5 billion to the federal state owners and a sale of up to € 3.2 billion have been taken into account in the years 2016 and 2017 charging the resulting losses against the guarantee. Further information on the EU state aid proceedings is set out in the Forecast, opportunities and risks report section.

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.

The payment defaults expected in the portfolio covered by the second loss guarantee will probably exceed the amount retained by the Bank of € 3.2 billion starting from 2016 and will result in actual payments under the second loss guarantee. 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 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 recovery of the shipping markets and/or a clear recovery in in container shipping as well as basically a continuation of the current recovery strategy and therefore the assumption of HSH Nordbank’s willingness on a case by case basis to continue to finance problem loans remaining after the intended transactions, with the aim of achieving the planned 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 the trend in the individual asset classes and/or sub-portfolios as well as recommended measures by means of the portfolio batch reports. In this context, particular importance is attached to risk concentrations.

Other regular reports on default risk include the tied-up capital and funding requirement 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 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 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 Asset Liability Management (ALM) department in the Finance division (former 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 Section I. F) of Note 7 Accounting policies, Note 10 Result from hedging, Note 27 Positive fair values of hedging derivatives, Note 40 Negative fair values of hedging derivatives and Note 60 Report on business in derivatives.

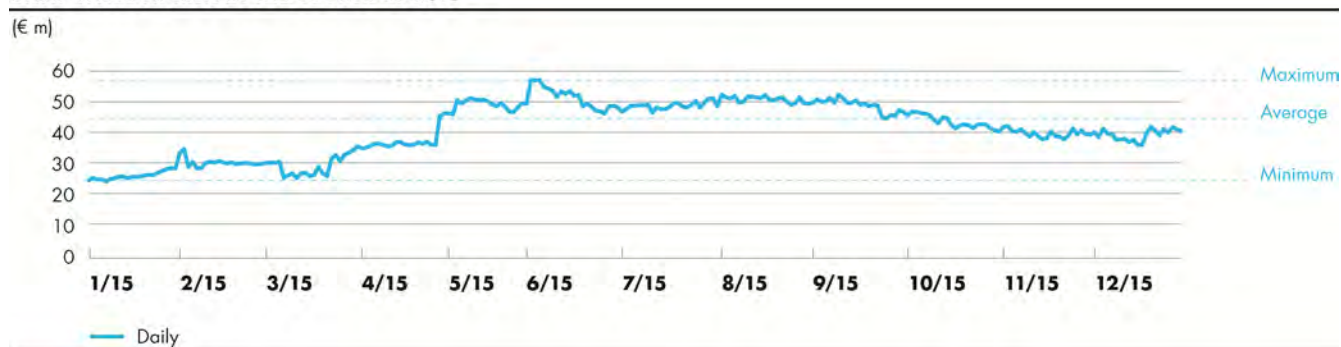
Market risks arising from the lending business and liabilities of the Bank are transferred to the trading divisions and taken into account in the corresponding risk positions. There they are managed as part of a proactive portfolio management process and hedged through external transactions.

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 2015.

**DAILY VALUE-AT-RISK IN THE COURSE OF 2015**



Market risk fluctuated between € 25 million and € 57 million. The key driver behind the increase in the overall VaR in the first six months was temporary market volatility.

The VaR of the trading book positions amounted to € 2 million as at 31 December 2015, while that of the banking book transactions amounted to € 40 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 € 41 million as at the reporting date. This resulted in a limit utilisation of 58% based on a VaR limit of € 70 million.

The following table shows the change in overall VaR by individual market risk type. 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 <sup>1)</sup> |      | Credit spread risk <sup>1)</sup> |      | Foreign exchange risk |      | Equity risk |      | Commodity risk |      | Total <sup>2)</sup> |      |
|-------------------|----------------------------------|------|----------------------------------|------|-----------------------|------|-------------|------|----------------|------|---------------------|------|
|                   | 2015                             | 2014 | 2015                             | 2014 | 2015                  | 2014 | 2015        | 2014 | 2015           | 2014 | 2015                | 2014 |
|                   | Average                          | 18.3 | 9.1                              | 23.0 | 18.4                  | 19.5 | 11.3        | 2.9  | 2.3            | –    | 0.2                 | 41.6 |
| Maximum           | 24.9                             | 13.7 | 28.0                             | 25.3 | 25.4                  | 16.1 | 6.2         | 5.7  | 0.2            | 0.5  | 57.3                | 28.4 |
| Minimum           | 11.4                             | 6.2  | 17.7                             | 15.3 | 10.3                  | 8.0  | 1.1         | 0.8  | –              | –    | 24.7                | 16.2 |
| Period end amount | 19.4                             | 12.1 | 24.0                             | 18.4 | 21.3                  | 9.9  | 4.1         | 1.1  | –              | 0.1  | 40.9                | 26.0 |

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

<sup>2)</sup> Due to correlations the VaR does not result from adding up individual values.

Overall VaR increased by € 15 million to € 41 million compared to the previous year. With regard to the risk types there mainly was an increase in interest rate and foreign exchange risk. This is attributable to the temporary increase in market volatility, which is reflected in new increased risk scenarios during the period of historical simulation.

The market risk of the Core Bank is primarily characterised by interest rate 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. Furthermore, market risk includes, to a lesser extent, credit risk spread risk on securities positions. Equity and commodity risks are marginal.

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.

**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 forecast 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 2015 five outliers were recorded both in the month of June and December at the HSH Nordbank Group level. Nevertheless, the outliers identified do not indicate any fundamental weakness in the model. The reason for this is more the increased market volatility, to which the Bank's market risk model gradually adapts. Appropriate surcharges were added to total VaR in the following month to take account of the increasing volatility and reduce the number of outliers.

**Stress tests**

In addition to the limit-based management of the daily VaR, at least weakly 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.

**Reports on market risk**

The Management Board is informed on a daily basis with regard to the trend in market risk and results as well as limit utilisations. In addition, weekly or monthly reporting to the ALCO or GRC, respectively, takes place.

**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 52 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 ALM department in the Finance division (former 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 ALM in managing liquidity for all time buckets and enable it to counter possible risks at an early stage.

The ALCO is the central committee responsible for managing the resource liquidity and is assisted by the Transaction Committee in this task by means of an active portfolio management at the level of material individual transactions.

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 be-

tween 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 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 component of liquidity potential. 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. ALM 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 spread 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 a 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 ALM department. 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.

HSH Nordbank uses the so-called expected case liquidity development report as well as the stress case forecast, which contain expected cash flows and are prepared for a period extending beyond the current financial year, as the basis for managing the medium-term liquidity base. The Management Board defines the limits for the funding requirements of the individual divisions.

The collateral pool of HSH Nordbank consisting of cash balances, securities and loan receivables that are eligible for funding is coordinated by ALM 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. Market liquidity crisis, severe economic downturn) and institution-specific scenarios (e.g. rating downgrade of HSH Nordbank AG, capital market rumours) 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 and severe economic downturn.

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 and stressed liquidity gaps. 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.

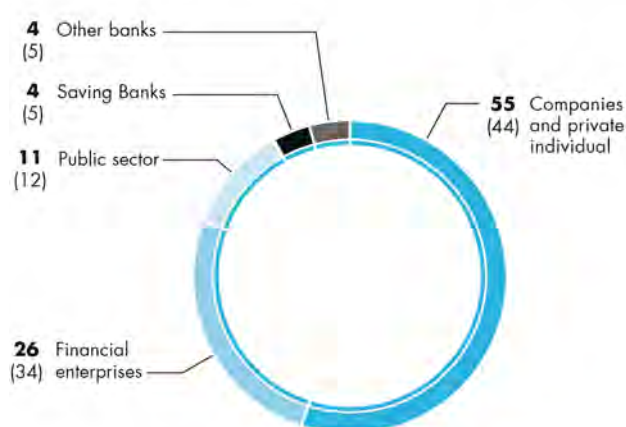
### Risk concentrations

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 2015<sup>1)</sup>

in % (previous year figures)



<sup>1)</sup> In addition to call term deposits this illustration also includes demand deposits for the first time.

Quantitative measures are calculated for the purposes of analysing existing 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 with regard to existing depositor concentrations, 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 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 amongst 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 US dollar 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. The depositor

structure is characterised by a large proportion of short-term deposits resulting from the build-up of excess liquidity in advance of the extensive maturities of bonds covered by the guarantor liability in 2015 and the current concentration on few depositors.

**Quantification of liquidity risk**

The following illustration 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 2015 as well as at the end of 2014. 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 %)



Risk tolerance of HSH Nordbank with regard to liquidity risk is reflected, amongst other things, in the definition of a minimum survival period, which describes how long a utilisation of a liquidity potential lower than 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 78% in the sixth month as at the reporting date. All limits within the minimum survival period of twelve months defined by the Bank were thereby adhered to. The stress case liquidity development report (combined scenario-economic downturn and rating downgrade - based on the assumption of a gradual increase in the US dollar, amongst 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 2015 are even adhered to for a period of four months. Compared to the 2014 year end, utilisation levels have mainly increased in the normal case and stress case liquidity development

report. The increase in utilisation is attributable in particular to the shortening of maturities and maturities of liabilities covered by the guarantor liability. Critical limit utilisation levels were recorded neither in the normal case nor in the stress case liquidity development report in the course of the period under review.

The results of the market-specific and Bank-specific stress scenarios determined in addition to the stress case liquidity development report show that as at December 2015 the liquidity requirement of HSH Nordbank was covered for four months up to twelve months despite the 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 € 0.2 billion (31 December 2014: € 0.3 billion). The decrease is attributable to the reduction of long-term financing requirements as well as the elimination of historical scenarios during the period of historical simulation.

### Regulatory liquidity ratios

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation (LiqV). With values between 1.47 and 2.13, HSH Nordbank's liquidity ratio remained above the regulatory minimum value at all times throughout the reporting year. The average value for 2015 was 1.89 (previous year: 1.96), and 1.89 as the reporting date (31 December 2014: 1.99).

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 since the Delegated Regulation (EU) 2015/61 entered into force on 1 October 2015, whereby the compliance rate increases from an initial 60% to 90% in 2018. As at the reporting date, the LCR was 115% within the framework of the provisional data capture sheet of the Delegated Regulation (EU) 2015/61 (previous year: 147%) which means that it was above the future minimum threshold.

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 also must be at least 100% after full implementation. As at the end of the last quarter of 2015 the NSFR amounted to 95% (previous year: 96%) within the framework of the QIS (regulatory framework under Basel).

### Refinancing situation

The implementation of the funding strategy was successfully driven forward during the course of the financial year thereby strengthening the liquidity profile of the Bank. Besides the issuing activities a stable level of deposits contributed to the refinancing of the business. The regulatory requirements concerning the liquidity ratios have been complied with at all times in the reporting period, despite the challenges presented by the increased volume of maturing liabilities covered by the guarantor liability and US dollar volatility. The measures stepped up in the year to date to reduce risk positions, thereby releasing liquidity, had a positive impact. However, there is no unrestricted access to the capital markets. Future funding and HSH Nordbank's rating continue to be key challenges despite this positive development. In the reporting year HSH Nordbank accelerated the winding down of legacy portfolios, particularly in the US dollar area, to reduce the effect of changes in exchange rates on, inter alia, the Bank's liquidity and strengthen the liquidity position against the backdrop of liabilities covered by the guarantor liability maturing in December 2015. Restrictions were also placed on new US dollar business. In the event of a sustained appreciation in the US dollar HSH Nordbank has prepared

measures that aim at further reducing the asset volume to be refinanced. Furthermore, the sales of portfolios totalling € 8.2 billion to the federal states and in the market planned as part of the informal agreement reached with the EU Commission will significantly ease funding requirements and the liquidity position in the future.

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. This includes in addition to the analysis of insolvency risk and maturity transformation risk in the normal case and stress case 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 the risk of loss resulting from legal risk and compliance risk.

Operational risks are determined in accordance with the modified 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 2015 (31 December 2014: € 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 OpRisk 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.

In the reporting year 49% (previous year: 41%) of the operational loss events reported were incurred in the Employee risk category. This risk category includes, for example, processing errors or unauthorised actions. The proportion of operational loss events reported under the Internal processes risk category amounted to 24% (previous year: 29%). These include, for example, deficient or missing processes. The proportion of operational loss events reported under the External influences category (e.g. criminal acts, regulatory and statutory requirements) amounted to 23% (previous year: 24%). The proportion of loss events reported under the Internal infrastructure category (e.g. system failures, functionality or security) amounted to 4% (previous year: 6%).

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 for operational risk each year for the whole Group. Information about the risk situation of the divisions gained from this inventory supplements the reporting and

serves the purpose of preventive management and monitoring of operational risk. The Bank performs the risk inventory based on defined scenarios, which take into account both actual as well as potential loss events, 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. OpRisk Controlling 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 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 current 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.



The IT risk management methodology was adapted to current requirements and fundamentally revised at this occasion in 2015. 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 the fact that the information technology fails or service providers or employees are unavailable. 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.

### **Internal control system**

Operational risk is closely linked to the 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 risk**

Legal risks also fall under operational risk. Legal risks includes economic risks arising as a result of non-compliance or incomplete compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law. In case any of these risks materialise, this may lead to a higher financial burden than planned.

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 € 37 million (previous year: € 50 million) for litigation risks and costs as at the reporting date. In addition, contingent liabilities of € 40 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 up to now had to pay a total amount of € 54 million US dollar in the year 2013 due to decisions of Turkish courts. The plaintiffs have filed new claims under which

damages are asserted based on the same facts. Appropriate provisions were recognised for this in the previous years.

In addition, HSH Nordbank AG is being sued for damages in the amount of € 34 million by a service provider and is making a counter-claim thus far of approximately € 39 million in a cross-action.

Contingent liabilities relating to legal disputes result from several individual cases involving claims of up to € 7 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 € 3 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 € 56 million (previous year: € 159 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).

### **Management of compliance risk**

Compliance risk arises as a result of non-compliance with legal regulations and requirements that may lead to sanctions being imposed on the Bank by the legislator or supervisory authorities, financial losses or damage to the Bank's reputation.

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 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 standards are implemented at HSH Nordbank and complied with.

The Code of Conduct summarises the requirements of different legal sources and internal guidelines. It applies to all employees 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 of the Bank is regularly trained in compliance-relevant topics. The objective of the training is to firmly anchor compliance as part of 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 "whistle-blowing office", and forwards these to the responsible internal and external bodies. The whistle-blowing 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

Amongst 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 which are erroneous or based on incorrect assumptions, particularly with respect to decisions that could place the whole ongoing restructuring process at risk, or related to the performance of individual areas of business or the banking sector as a whole. Should 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.

Strategic risk is managed via the periodic review and updating of the business strategy. The responsibility for the strategy of HSH Nordbank 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 BRM that are held at least quarterly.

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. With the formal decision of the EU Commission regarding the approval of the replenishment of the guarantee facility and changes to the guarantee agreement HSH Nordbank's federal state owners and the EU Commission agreed on a series of measures to relieve the Bank of its legacy portfolios. Further information on the EU state aid proceedings is set out in the Business developments - Significant developments and events in the 2015 reporting year and in the Forecast, opportunities and risks report, particularly in the Formal decision in the EU state aid proceedings 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 2015 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 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 37%. The guarantee facility of € 10 billion as well as the ongoing winding down of risk positions made a positive contribution in this regard.

There are still some challenges facing the Bank in particular with regard to risk concentrations in the shipping 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.

On the other hand, the transfer agreed under the informal agreement reached with the EU Commission and confirmed by the formal decision of the EU Commission of non-performing loans in the amount of initially € 5 billion to the federal state owners at market prices, together with the sale of a portfolio of up to € 3.2 billion in the market, will provide relief in the future.

The implementation of the new supervisory requirements will continue to be a focus of our activities in 2016. 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. In addition, the requirements of the EBA/ ECB resulting from the supervisory review and evaluation process (SREP) have to be met. The requirements mentioned above will be implemented within 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 of HSH Nordbank Group 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.

Hamburg/Kiel, 31 May 2016



Constantin von Oesterreich



Stefan Ermisch



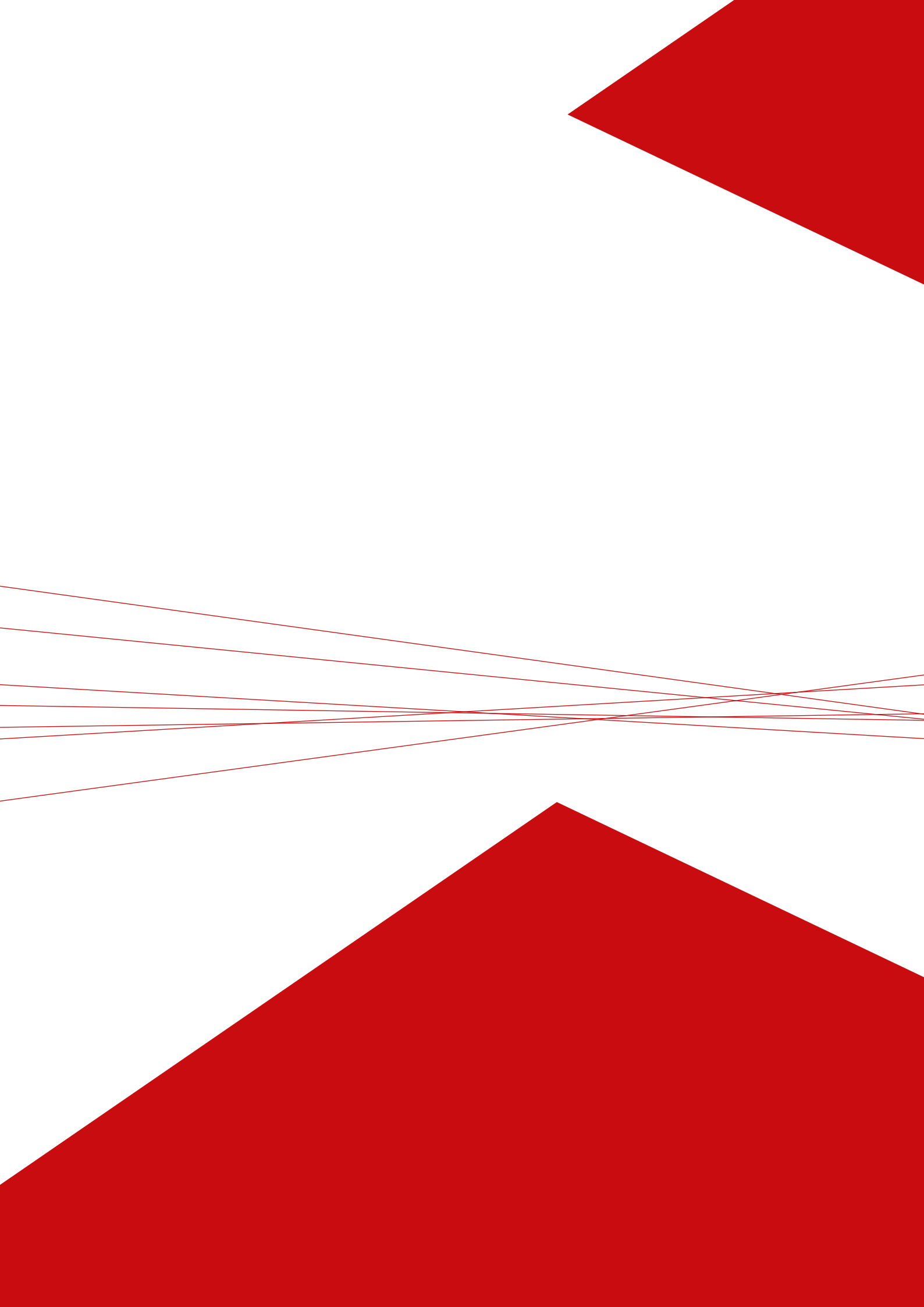
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## GROUP STATEMENT OF INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2015

| (€ m)   | Note | 2015         | Following adjustment<br>(see Note 3)<br>2014 | Change in % |
|---|------|--------------|--|-------------|
| Interest income   |      | 4,397        | 5,138  | - 14        |
| Negative interest resulting from deposits and derivatives                   |      | - 55         | - 19   | > 100       |
| Interest expense  |      | - 3,443      | - 4,332                                      | - 21        |
| Positive interest resulting from borrowings and derivatives                 |      | 29           | 6  | > 100       |
| Net income from hybrid financial instruments                                |      | 104          | - 207  | > 100       |
| <b>Net interest income</b>  | (8)  | <b>1,032</b> | <b>586</b>                                   | <b>76</b>   |
| Net commission income   | (9)  | 114          | 130  | - 12        |
| Result from hedging   | (10) | 12           | - 40   | > 100       |
| Net trading income  | (11) | 84           | 61   | 38          |
| Net income from financial investments                                       | (12) | 54           | 169  | - 68        |
| Net income from financial investments accounted for under the equity method | (13) | -            | 2  | - 100       |
| <b>Total income</b>   |      | <b>1,296</b> | <b>908</b>                                   | <b>43</b>   |
| Loan loss provisions  | (14) | - 354        | 576  | > 100       |
| Hedging effect of the credit derivative second loss guarantee               | (2)  | 658          | 1  | > 100       |
| Administrative expenses   | (15) | - 634        | - 724  | - 12        |
| Other operating income  | (16) | 38           | 123  | - 69        |
| Expenses for bank levy and deposit guarantee fund                           | (17) | - 50         | - 1  | > 100       |
| <b>Net income before restructuring</b>                                      |      | <b>954</b>   | <b>883</b>                                   | <b>8</b>    |
| Result from restructuring   | (18) | - 31         | - 84   | 63          |
| Expenses for government guarantees  | (19) | - 473        | - 521  | - 9         |
| <b>Net income before taxes</b>  |      | <b>450</b>   | <b>278</b>                                   | <b>62</b>   |
| Income taxes  | (20) | - 352        | - 118  | > 100       |
| <b>Group net result</b>   |      | <b>98</b>    | <b>160</b>                                   | <b>- 39</b> |
| Group net result attributable to non-controlling interests                  |      | - 1          | 1  | >- 100      |
| Group net result attributable to HSH Nordbank shareholders                  |      | 99           | 159  | - 38        |

### EARNINGS PER SHARE

| (in €)                             | Note | 2015       | 2014       |
|------------------------------------|------|------------|------------|
| Undiluted                          | (22) | 0.33       | 0.53       |
| Diluted                            | (22) | 0.33       | 0.53       |
| <b>Number of shares (millions)</b> |      | <b>302</b> | <b>302</b> |

## GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2015

### RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

| (€ m)   | 2015       | Following adjustment<br>(see Note 3)<br>2014 |
|---|------------|--|
| <b>Group net result</b>   | <b>98</b>  | <b>160</b>                                   |
| <b>Income and expense that have been reclassified to the statement of income or may be reclassified at a later date</b> |            |  |
| Changes in fair value of AFS financial instruments  |            |  |
| Unrealised gains and losses (before taxes)  | 30         | 184  |
| Gains and losses (before taxes) reclassified to the statement of income   | -43        | -99  |
| of which from exchange rate effects   | 11         | 14   |
| Income taxes recognised   | 8          | -7   |
| of which from exchange rate effects   | 1          | 1  |
|   | <b>-5</b>  | <b>78</b>                                    |
| Differences resulting from currency translation   | 57         | 44   |
|   | <b>57</b>  | <b>44</b>                                    |
| Changes in other net income from financial investments accounted for under the equity method                            | -          | -3   |
|   | <b>-</b>   | <b>-3</b>                                    |
| <b>Subtotal</b>   | <b>52</b>  | <b>119</b>                                   |
| <b>Income and expense that will not be reclassified to the statement of income at a later date</b>                      |            |  |
| Changes resulting from the revaluation of net defined benefit liabilities (before taxes)                                | 94         | -262   |
| Income taxes recognised   | -30        | 83   |
|   | <b>64</b>  | <b>-179</b>                                  |
| <b>Subtotal</b>   | <b>64</b>  | <b>-179</b>                                  |
| <b>Other comprehensive income for the period</b>  | <b>116</b> | <b>-60</b>                                   |
| <b>Total comprehensive income</b>   | <b>214</b> | <b>100</b>                                   |
| Total comprehensive income attributable to non-controlling interests  | -2         | 1  |
| Total comprehensive income attributable to HSH Nordbank shareholders  | 216        | 99   |

## GROUP STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

### ASSETS

| (€ m)   | Note | 2015          | Following adjustment<br>(see Note 3)<br>2014 | Change in % |
|---|------|---------------|--|-------------|
| Cash reserve  | (23) | 3,394         | 5,967  | -43         |
| Loans and advances to banks                                 | (24) | 5,595         | 6,915  | -19         |
| Loans and advances to customers                             | (25) | 56,575        | 67,336                                       | -16         |
| Loan loss provisions  | (26) | -1,065        | -2,061                                       | -48         |
| Credit derivative second loss guarantee                     | (2)  | 663           | 3  | >100        |
| Positive fair values of hedging derivatives                 | (27) | 783           | 1,405  | -44         |
| Positive adjustment item from portfolio fair value hedges   |      | 408           | 510  | -20         |
| Trading assets  | (28) | 7,356         | 9,160  | -20         |
| Financial investments                                       | (29) | 16,636        | 18,688                                       | -11         |
| Financial investments accounted for under the equity method | (30) | 2             | 1  | 100         |
| Intangible assets   | (31) | 16            | 27   | -41         |
| Property, plant and equipment                               | (32) | 474           | 399  | 19          |
| Investment property   | (32) | 64            | 185  | -65         |
| Non-current assets held for sale and disposal groups        | (33) | 5,082         | 34   | >100        |
| Current tax assets  | (34) | 79            | 85   | -7          |
| Deferred tax assets   | (35) | 748           | 1,190  | -37         |
| Other assets  | (36) | 163           | 238  | -32         |
| <b>Total assets</b>   |      | <b>96,973</b> | <b>110,082</b>                               | <b>-12</b>  |



**LIABILITIES**

| (€ m)  | Note | <b>2015</b>   | Following<br>adjustment<br>(see Note 3)<br>2014 | Change in % |
|--|------|---------------|---|-------------|
| Liabilities to banks                                     | (37) | 14,398        | 14,547  | - 1         |
| Liabilities to customers                                 | (38) | 44,567        | 43,165  | 3           |
| Securitised liabilities                                  | (39) | 18,616        | 27,634  | -33         |
| Negative fair values of hedging derivatives              | (40) | 727           | 1,156   | -37         |
| Negative adjustment item from portfolio fair value hedge |      | 872           | 1,202   | -27         |
| Trading liabilities                                      | (41) | 6,758         | 9,246   | -27         |
| Provisions   | (42) | 1,517         | 1,699   | - 11        |
| Liabilities relating to disposal groups                  |      | 1             | -   | > 100       |
| Current tax liabilities                                  | (44) | 151           | 129   | 17          |
| Deferred tax liabilities                                 | (45) | -             | 81  | - 100       |
| Other liabilities  | (46) | 1,029         | 1,044   | - 1         |
| Subordinated capital                                     | (47) | 3,452         | 5,507   | -37         |
| Equity   | (48) | 4,885         | 4,672   | 5           |
| Share capital  |      | 3,018         | 3,018   | -           |
| Capital reserve  |      | 175           | 487   | -64         |
| Retained earnings  |      | 1,464         | 929   | 58          |
| Revaluation reserve                                      |      | 103           | 108   | -5          |
| Currency conversion reserve                              |      | 42            | - 16  | > 100       |
| Group net result   |      | 99            | 159   | -38         |
| Total before non-controlling interests                   |      | 4,901         | 4,685   | 5           |
| Non-controlling interests                                |      | - 16          | - 13  | 23          |
| <b>Total equity and liabilities</b>                      |      | <b>96,973</b> | <b>110,082</b>                                  | <b>- 12</b> |

## GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

|  | Note | Share capital | Capital reserve | Retained earnings |
|--|------|---------------|-----------------|-------------------|
| <b>As at 1 January 2014</b>  |      | <b>3,018</b>  | <b>594</b>      | <b>1,775</b>      |
| Group net result   |      | -             | -               | -                 |
| Changes resulting from the revaluation of net defined benefit liabilities          |      | -             | -               | -179              |
| Changes in fair value of AFS financial instruments                                 |      | -             | -               | -                 |
| Exchange rate changes  |      | -             | -               | -                 |
| Changes resulting from financial investments accounted for under the equity method |      | -             | -               | -                 |
| Changes resulting from non-current assets held for sale and disposal groups        |      | -             | -               | -                 |
| Other comprehensive income   |      | -             | -               | -179              |
| <b>Comprehensive income as at 31 December 2014</b>                                 |      | <b>-</b>      | <b>-</b>        | <b>-179</b>       |
| Reclassification of retained earnings  |      | -             | -               | -7                |
| Compensation for the Group net loss for the previous year                          |      | -             | -107            | -660              |
| Changes in the scope of consolidation  |      | -             | -               | -                 |
| <b>As at 31 December 2014</b>  |      | <b>3,018</b>  | <b>487</b>      | <b>929</b>        |
| <b>As at 1 January 2015</b>  |      | <b>3,018</b>  | <b>487</b>      | <b>929</b>        |
| Group net result   |      | -             | -               | -                 |
| Changes resulting from the revaluation of net defined benefit liabilities          |      | -             | -               | 64                |
| Changes in fair value of AFS financial instruments                                 |      | -             | -               | -                 |
| Exchange rate changes  |      | -             | -               | -                 |
| Changes in the scope of consolidation  |      | -             | -               | -                 |
| Other comprehensive income   |      | -             | -               | 64                |
| <b>Comprehensive income as at 31 December 2015</b>                                 |      | <b>-</b>      | <b>-</b>        | <b>64</b>         |
| Compensation for the Group net loss for the previous year                          |      | -             | -312            | 471               |
| Changes in the scope of consolidation  |      | -             | -               | -                 |
| <b>As at 31 December 2015</b>  | (48) | <b>3,018</b>  | <b>175</b>      | <b>1,464</b>      |

|  | Currency conversion reserve | Revaluation reserve | Financial investments accounted for under the equity method | From non-current assets held for sale and disposal groups | Group net result | Total before non-controlling interests | Non-controlling interests | Total        |
|--|-----------------------------|---------------------|---|---|------------------|--|---------------------------|--------------|
|  | <b>-61</b>                  | <b>27</b>           | <b>3</b>  | <b>3</b>  | <b>-767</b>      | <b>4,592</b>                           | <b>-13</b>                | <b>4,579</b> |
|  | -                           | -                   | -   | -   | 159              | 159                                    | 1                         | 160          |
|  | -                           | -                   | -   | -   | -                | -179                                   | -                         | -179         |
|  | -                           | 67                  | -   | -   | -                | 67                                     | -                         | 67           |
|  | 44                          | 14                  | -   | -   | -                | 58                                     | -                         | 58           |
|  | -                           | -                   | -3  | -   | -                | -3                                     | -                         | -3           |
|  | -                           | -                   | -   | -3  | -                | -3                                     | -                         | -3           |
|  | 44                          | 81                  | -3  | -3  | -                | -60                                    | -                         | -60          |
|  | <b>44</b>                   | <b>81</b>           | <b>-3</b>   | <b>-3</b>   | <b>159</b>       | <b>99</b>                              | <b>1</b>                  | <b>100</b>   |
|  | -                           | -                   | -   | -   | -                | -7                                     | -                         | -7           |
|  | -                           | -                   | -   | -   | 767              | -                                      | -                         | -            |
|  | 1                           | -                   | -   | -   | -                | 1                                      | -1                        | -            |
|  | <b>-16</b>                  | <b>108</b>          | <b>-</b>  | <b>-</b>  | <b>159</b>       | <b>4,685</b>                           | <b>-13</b>                | <b>4,672</b> |
|  | <b>-16</b>                  | <b>108</b>          | <b>-</b>  | <b>-</b>  | <b>159</b>       | <b>4,685</b>                           | <b>-13</b>                | <b>4,672</b> |
|  | -                           | -                   | -   | -   | 99               | 99                                     | -1                        | 98           |
|  | -                           | -                   | -   | -   | -                | 64                                     | -                         | 64           |
|  | -                           | -17                 | -   | -   | -                | -17                                    | -                         | -17          |
|  | 57                          | 12                  | -   | -   | -                | 69                                     | -1                        | 68           |
|  | 1                           | -                   | -   | -   | -                | 1                                      | -                         | 1            |
|  | 58                          | -5                  | -   | -   | -                | 117                                    | -1                        | 116          |
|  | <b>58</b>                   | <b>-5</b>           | <b>-</b>  | <b>-</b>  | <b>99</b>        | <b>216</b>                             | <b>-2</b>                 | <b>214</b>   |
|  | -                           | -                   | -   | -   | -159             | -                                      | -                         | -            |
|  | -                           | -                   | -   | -   | -                | -                                      | -1                        | -1           |
|  | <b>42</b>                   | <b>103</b>          | <b>-</b>  | <b>-</b>  | <b>99</b>        | <b>4,901</b>                           | <b>-16</b>                | <b>4,885</b> |



## GROUP CASH FLOW STATEMENT

### CASH FLOW STATEMENT

| (€ m)  | 2015   |               | 2014   |               |
|--|--------|---------------|--------|---------------|
| Net result for the period  |        | 98            |        | 160           |
| Reconciliation with cash flow from operating activities  |        |               |        |               |
| Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property |        | 3,173         |        | 653           |
| a) Loans and advances to customers and banks   | 3,111  | -             | 528    | -             |
| b) Financial investments   | -5     | -             | -      | -             |
| c) Property, plant and equipment/intangible assets/investment property   | 67     | -             | 125    | -             |
| Changes in provisions  |        | -50           |        | 395           |
| Other non-cash expenses/income   |        | -2,494        |        | -379          |
| Profit/loss from disposal of financial investments and property, plant and equipment/investment property   |        | -74           |        | -195          |
| a) Financial investments   | -65    | -             | -180   | -             |
| b) Property, plant and equipment/investment property   | -9     | -             | -15    | -             |
| Other adjustments  |        | -1,020        |        | -387          |
| <b>Subtotal</b>  |        | <b>-367</b>   |        | <b>247</b>    |
| Changes in loans and advances  |        | 5,793         |        | -1,122        |
| a) to banks  | 1,314  | -             | -1,924 | -             |
| b) to customers  | 4,479  | -             | 802    | -             |
| Changes in trading assets  |        | 2,253         |        | -895          |
| Changes in other assets from continuing operations   |        | 59            |        | 207           |
| Changes in liabilities   |        | 1,364         |        | -1,721        |
| a) to banks  | -114   | -             | -4,269 | -             |
| b) to customers  | 1,478  | -             | 2,548  | -             |
| Changes in securitised liabilities   |        | -8,966        |        | -903          |
| Changes in trading liabilities   |        | -3,046        |        | 2,666         |
| Changes in other liabilities from continuing operations  |        | -168          |        | -256          |
| Interest and dividends received  |        | 4,380         |        | 5,112         |
| Interest paid  |        | -3,738        |        | -4,587        |
| Income tax payments  |        | 4             |        | 8             |
| <b>Cash flow from operating activities</b>   |        | <b>-2,432</b> |        | <b>-1,244</b> |
| Receipts from disposals of   |        | 4,900         |        | 6,305         |
| a) securities  | 4,755  | -             | 6,212  | -             |
| b) interests in affiliated companies and equity holdings   | 18     | -             | 32     | -             |
| c) property, plant and equipment   | 127    | -             | 61     | -             |
| Purchases of   |        | -2,547        |        | -3,546        |
| a) securities  | -2,429 | -             | -3,520 | -             |
| b) interests in affiliated companies and equity holdings   | -12    | -             | -15    | -             |
| c) property, plant and equipment   | -106   | -             | -11    | -             |
| <b>Cash flow from investing activities</b>   |        | <b>2,353</b>  |        | <b>2,759</b>  |

**CASH FLOW STATEMENT**

| (€ m)  | 2015 |               | 2014 |              |
|--|------|---------------|------|--------------|
| Payments received (+) from subordinated capital                        |      | –             |      | 37           |
| Payments made (-) from subordinated capital                            |      | -2,097        |      | -49          |
| <b>Cash flow from financing activities</b>                             |      | <b>-2,097</b> |      | <b>-12</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b>        |      | <b>5,967</b>  |      | <b>4,851</b> |
| Cash flow from operating activities                                    |      | -2,432        |      | -1,244       |
| Cash flow from investing activities                                    |      | 2,353         |      | 2,759        |
| Cash flow from financing activities                                    |      | -2,097        |      | -12          |
| Changes in cash and cash equivalents due to exchange rate fluctuations |      | -397          |      | -387         |
| <b>Cash and cash equivalents at the end of the period</b>              |      | <b>3,394</b>  |      | <b>5,967</b> |

Cash and cash equivalents are equivalent to the Cash reserve item in the statement of financial position and comprise cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange. Contrary to IAS 7.6 demand deposits are not included in cash and cash equivalents in line with liquidity management.

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

The following cash flows resulted from the obtaining or loss of control over subsidiaries during the financial year:

**CASH FLOW**

| (€ m)                               | Obtaining control | Loss of control |
|-------------------------------------|-------------------|-----------------|
| Consideration paid/received         | –                 | 1               |
| of which: cash and cash equivalents | –                 | 1               |
| Amount of cash and cash equivalents | –                 | 5               |

Assets and liabilities of subsidiaries, over which control was obtained or lost during the financial year, comprise the following:

**ASSETS**

| (€ m)                         | Obtaining control | Loss of control |
|-------------------------------|-------------------|-----------------|
| Financial investments         | –                 | 1               |
| Property, plant and equipment | 138               | –               |
| Investment property           | –                 | 103             |
| Other assets                  | –                 | 3               |

**LIABILITIES**

| (€ m)                    | Obtaining control | Loss of control |
|--------------------------|-------------------|-----------------|
| Liabilities to customers | –                 | 89              |
| Current tax liabilities  | –                 | 2               |
| Other liabilities        | 1                 | 54              |

# GROUP EXPLANATORY NOTES

## GENERAL INFORMATION

### 1. ACCOUNTING PRINCIPLES

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

The supplementary provisions of Section 315a HGB are taken into account and are shown individually in Note 67.

The Group financial statements are prepared in accordance with IFRS as published by the IASB and adopted as European law by the European Union (EU).

The Group financial statements of HSH Nordbank are prepared in line with IFRS 10 according to uniform Group-wide measurement and accounting policies. In accordance with IAS 1, the Group financial statements consist of the statement of income, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the explanatory notes, including segment reporting. In addition to the Group financial statements a Group management report in accordance with Section 315 HGB was prepared.

Accounting and measurement are based on the assumption that the Bank is a going concern. The Bank's corporate planning forms 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 struc-

tural measures are discussed in the Group Management Report in the section Forecast, opportunities and risks report.

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

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

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

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

Group income and expenses are accrued on a pro rata temporis basis. They are recognised and disclosed in the period to which they must be assigned economically. Accounting for assets, liabilities, income and expenses takes place on a consistent basis. Deviations are only made in justified exceptional cases which are explained separately in the Notes on the relevant items in the HSH Nordbank Group financial statements.

Unless explicitly stated otherwise, all amounts are in millions of euros (€ m).

The reporting year corresponds to the calendar year.

IFRS 7.31 et seqq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the Group financial statements. Availing itself of this option, HSH Nordbank has published disclosures about financial instruments as permitted by IFRS 7.31 et seqq. predominantly in the Group risk report within the Group management report. Specifically, this relates to the overall qualitative and quantitative risk information disclosed under IFRS 7.33 et seqq. and the total market risk reporting under IFRS 7.40 to 7.42 as well as the description of how liquidity risk is managed as required by IFRS 7.39 (c).

In addition, as part of the supplementary German commercial regulations the Group observed the following German Accounting Standards (GAS) in preparing these Group financial statements and this Group management report:

- GAS 20 Management Reporting
- GAS 17 Reporting on the Remuneration of Members of Governing Bodies.

Apart from the new standards and interpretations stated below, which may have a significant influence on the Group financial statements a number of additional standards and interpretations were adopted which, however, are expected not to have any influence on the Group financial statements.

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

#### **IFRIC 21 – Levies**

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The question as to when does a present obligation arise on levies collected by public authorities and when is a provision or liability to be recognised is clarified in particular. The Interpretation does not apply in particular to fines and penalties resulting under public law contracts or to levies that fall within the scope of other IFRS standards, e.g. IAS 12 Income Taxes. Under IFRIC 21 a liability is to be recognised for levies when the event that triggers payment of the levy occurs. This obligatory event is in turn based on the wording in the underlying standard, the formulation of which is critical for the accounting treatment in this respect.

#### **Improvements to IFRS 2011 – 2013**

Changes were made to four Standards as part of the Annual Improvement Project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. The standards IFRS 1, IFRS 3, IFRS 13 and IAS 40 are affected by this.

The changes did not materially affect the accounting of HSH Nordbank.

HSH Nordbank is not planning the early application of the following new or amended Standards or Interpretations for which application is only mandatory in later financial years. To the extent not indicated otherwise, all effects on the financial statements of HSH Nordbank are currently under review.

*Already endorsed by the EU:*

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

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

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

These amendments have to be applied for the first time in financial years which start on or after 1 January 2016.

#### **Amendments to IAS 1 – Disclosure Initiative**

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

These amendments have to be applied for the first time in financial years which start on or after 1 January 2016.

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

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



These amendments have to be applied for the first time in financial years beginning on or after 1 January 2016.

### **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions**

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

These amendments have to be applied for the first time in financial years beginning on or after 1 February 2015.

### **Improvements to IFRS 2010–2012**

Amendments to seven standards were made as part of the annual improvement project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. There are also amendments that affect the note disclosures. The standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 are affected by this.

The amendments have to be applied for the first time in financial years beginning on or after 1 February 2015. The amendments to IFRS 2 and IFRS 3 are to be applied for transactions that take place on or after 1 July 2014.

### **Improvements to IFRS 2012–2014**

Amendments to four standards were made as part of the annual improvement project. Amendments to the wording of the individual IFRS/IAS should serve to clarify the existing rules. The standards IFRS 5, IFRS 7, IAS 19 and IAS 34 are affected by this.

These amendments have to be applied for the first time in financial years beginning on or after 1 January 2016.

*EU endorsement still pending:*

### **IFRS 9 – Financial Instruments**

The final version of IFRS 9, published in July 2014, replaces the existing guidelines contained in IAS 39 on the recognition and measurement of financial instruments.

Material changes compared to IAS 39 relate to the following issues:

- Classification and measurement of financial assets: Revised categorisation model: Financial assets are classified into measurement categories on the basis of the business model (portfolio level) or the contractual terms or cash flow characteristics (instrument level). A distinction is made between the amortised cost (AC), fair value

through other comprehensive income (FVOCI, measurement at fair value directly in equity) and fair value through profit or loss (FVPL, measurement at fair value through profit or loss) measurement categories. Compared to IAS 39, the new rules will tend to result in an increase in financial assets being measured at fair value.

- Measurement and disclosure of financial liabilities designated at fair value: Fair value changes arising from own credit risk are no longer to be disclosed through profit or loss but directly in equity in other comprehensive income (OCI).
- Embedded derivatives: Application of the separation rules only for host contracts that are financial liabilities or not of a financial nature.
- Write-downs or impairment New loan loss provision model. Credit losses are no longer to be recognised on the basis of “incurred losses” but of “expected losses”. A distinction between levels is made in determining these losses. Allocation to a loan loss provision level is dependent on whether the instrument has suffered a significant increase in credit risk since initial recognition or whether the instrument is “impaired”. A provision is always recognised for the 12-months expected loss at a minimum. A provision for the lifetime expected loss is recognised on a significant increase in credit risk since initial recognition or if the instrument is “impaired”. Compared to IAS 39, the new rules result in loan loss provisions being recognised earlier and in a higher amount.
- Hedging relationships: Various changes to hedge accounting rules compared to IAS 39. However, new rules for the recognition of (dynamic) portfolio or macro hedges respectively are not included in IFRS 9. For this reason IFRS 9 contains options concerning continued application of the IAS 39 hedge accounting and IAS 39 portfolio fair value hedge accounting rules.

HSH Nordbank has been making intensive preparations as part of several projects since the end of 2014 for the initial application of IFRS 9, after preliminary projects had been stopped at the end of 2013 due to an uncertain or delayed initial application date. The purpose of these projects is to fully implement the new requirements related to classification, hedge accounting and the determination of loan loss provisions into the IT systems and processes concerned. Besides adjustments to existing IT systems there is also a need to implement new software. This applies in particular to the topic of the complex new rules for determining loan loss provisions. Another objective of the projects is to initially classify and measure all instruments within the scope of IFRS 9 and to prepare an opening balance sheet as at 1 January 2018 in accordance with IFRS 9 (probable date of initial application) including a reconciliation with the closing balance sheet as at 31 December 2017. The first interim financial statements in 2018 will therefore be prepared in accordance with IFRS within the framework of the projects.

The functional specification phase of the projects is currently nearing completion. The first IT systems have already been implemented. The focus in 2016 will be on further IT designs and implementation of IT systems. As there is currently still considerable uncertainty in some IFRS 9 topic areas regarding the interpretation of the new rules, it is planned from the fourth quarter 2016 to update the existing specifications.

The impact of the new IFRS 9 accounting rules will be assessed in the further course of the projects. For this purpose simulated calculations are prepared for the portfolios based on indicative classifications and allocations to loan loss provision levels of the transactions. A sufficiently reliable quantification of the impact is currently not yet possible. On the one hand, this results from the long period of time until initial application, which makes a forecast difficult. On the other hand, there are, as described above, still uncertainties regarding the interpretation of the new rules.

Subject to the still-pending adoption into EU law – IFRS 9 needs to be applied for the first time in financial years which start on or after 1 January 2018. Early application is permitted.

#### **IFRS 15 – Revenue from Contracts with Customers as well as amendments to IFRS 15: Date of initial application of IFRS 15**

IFRS 15 Revenue from Contracts with Customers sets out a comprehensive framework for determining whether, at what level and when revenue is recognised. It replaces existing guidelines on recognising revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Subject to the still-pending adoption into EU law, IFRS 15 needs to be applied for the first time in financial years which start on or after 1 January 2018. Early application is permitted.

#### **Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address a known inconsistency between the provisions in IFRS 10 and those in IAS 28 (2011) in the event of the sale of assets to an associate or joint venture and/or the contribution of assets to an associate or joint venture.

Under IFRS 10 a parent must recognise total profit or loss from the sale of a subsidiary on the statement of income when control is lost. In contrast, the currently applicable IAS 28.28 requires that the sale proceeds in the case of sales transactions between an investor and an equity holding measured at equity – whether it is an associate or a joint venture – are only recognised in the amount of the share of the other shareholders in this entity.

In future, the entire profit or loss on a transaction is only to be recognised if the sold or received assets constitute a business operation as defined in IFRS 3. This applies regardless of whether the transaction is structured as a share or asset deal. Conversely, if the assets do not constitute a business operation, it is only permissible to recognise proportionate net income.

Initial application of the amendments was postponed for an indefinite period of time by the IASB on 17 December 2015.

#### **Amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities: Applying the Consolidation Exception**

The amendments serve to clarify various questions relating to the application of the exemption from the consolidation obligation under IFRS 10, if the parent meets the definition of an “investment entity”. Parents are accordingly also released from the obligation to prepare consolidated financial statements if the higher-level parent does not consolidate its subsidiaries, but accounts for them at fair value in accordance with IFRS 10.

Distinctions are applied as follows concerning the accounting treatment of the subsidiaries of an investment entity: Subsidiaries that themselves are investment entities are to be accounted for at fair value in line with the general principle of the investment entity exception. In contrast, those subsidiaries that are not investment entities but provide services relating to the parent company's investment activities, and so could be regarded as an extension of the parent's operation, have to be consolidated.

Finally it is clarified that an investor which does not meet the definition of an investment entity and applies the equity method to an associate or joint venture may retain the fair value measurement which the investment company applies to its equity holdings in subsidiaries.

In addition, the amendments envisage that an investment entity which measures all its subsidiaries at fair value must provide the information on investment entities as prescribed by IFRS 12.

Subject to adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2016.

## 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 and including the financial year 2014, among other things. The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee One is recognised in the Group financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee Two is recognised as a credit derivative.

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

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

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

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. A one-off payment of € 275 million became payable, however, for the re-increased amount 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 2015 € 69 million was recognised through profit or loss in the Expenses for government guarantees line item (previous year: € 116 million). The EU Commission provisionally approved the replenishment of the guarantee and at the same time initiated a formal review process (current state aid proceedings).

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

Since January 2014, HSH Nordbank calculates the supervisory capital ratio on the basis of IFRS data (until 31 December 2013 HGB data were used). In the event that the common equity ratio falls below 10%, a waiver by the guarantor HSH Finanzfonds AöR will be recognised to income from the additional premium. However, under the new provisions of the capital protection clause, a debtor warrant is no longer issued immediately upon declaration of the debt waiver but is subject to certain conditions. Only when these conditions are met does the obligation from the debtor warrant arise.

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 the Expenses for government guarantees line item.

As long as and insofar as a 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 partial guarantee One recognised in the balance sheet is accounted for on a net basis. The Bank initially determines individual and portfolio valuation allowances without taking the hedging effect of the second loss guarantee into account and then records the balance sheet hedging effect through the use of a

compensation item that reduces the loan loss provision amount disclosed on the balance sheet accordingly. The individual and portfolio valuation allowances recognised are not changed by the accounting applied to the hedging effect. The hedging effect of partial guarantee Two is not disclosed separately as a compensation item in Loan loss provisions but in a separate line item in the statement of financial position and the statement of income within the framework of accounting for the credit derivative at fair value.

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. The current hedging effect of the second loss guarantee is used as the measurement basis for calculating the additional premium (ex post). The anticipated total loss payable by the guarantor is the measurement basis for the calculation of the additional premium (ex ante). 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 the partial guarantee Two under the framework agreement that falls under the definition of a credit derivative under IFRS, 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.

In the year 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 2015 financial year and decisions of the EU Commission**

The hedging effect of the financial guarantee granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the face of the balance sheet for the first time as at 31 December 2010, amounted to € 7,422 million as at 31 December 2015 (previous year: € 4,999 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 had to be recognised for the first time starting in the 2012 reporting year in loan loss provisions on the basis of this. These amounted to € 575 million at the end of the 2014 financial year and are offset against the compensation item. An amount of € 384 million is attributable to the future additional premium (ex ante additional premium) and € 191 million to the future base premium (ex ante base premium).

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) as well as the debt waiver and the debtor warrant are netted.

In October 2015 the Federal Republic of Germany, the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein reached an informal agreement with the Directorate-General for Competition of the EU Commission in the current state aid proceedings before the EU Commission regarding the replenishment of the second loss guarantee. According to this agreement the Bank has to be split into a holding company and an operating company to be privatised. The operating company will hold all the assets and liabilities of HSH Nordbank AG and the second loss guarantee. For this, it will only pay in future a premium of 2.2% p.a. on the not yet drawn down portion of the guarantee. The holding company will be responsible for all other remuneration components of the second loss guarantee.

On 2 May 2016 the EU Commission issued a formal decision in the current EU state aid proceedings and thereby approved the replenishment of the second loss guarantee provided by the federal states from € 7.0 billion to € 10.0 billion. The formal decision confirms and sets out the informal agreement in principle in concrete terms and is based on a catalogue of conditions and commitments provided by the Federal Republic of Germany to the EU Commission.



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

Due to a binding statement of the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein vis-à-vis HSH Nordbank AG existing as at the balance sheet date concerning the implementation of the informal agreement, in particular with regard to the assumption of guarantee obligations (additional premium and parts of the base premium), it has become unlikely that such payments excluding those payments still to be expected after the formal decision of the EU Commission (one-off payment of € 210 million and provision of liquidity of € 50 million to the holding company) will be made by HSH Nordbank in the future.

In the case of partial guarantee One HSH Nordbank AG has therefore reversed the obligations resulting from the additional premium of € 1,123 million and future portions of the base premium of € 583 million, which were recognised in the compensation item in the past, excluding those payments still to be expected after the decision of the EU Commission (one-off payment of € 210 million and provision of liquidity of € 50 million to the holding company) through profit or loss in the total amount of € 1,446 million. The capital protection clause that ensures a minimum common equity ratio therefore no longer applies. As a result, the guarantors' debt waiver of the additional premium of € 781 million was derecognised through profit or loss.

The basis for recognising future portions of the base premium is eliminated at the Bank, as the base premium will only be calculated on the guarantee facility not yet drawn down as from 2016.

Payments totalling € 260 million still to be expected after the decision of the EU Commission are disclosed in the Remaining payment obligations for guarantee premiums line item in the compensation item.

The implementation of the change in the components of the compensation item produces a total positive income effect of € 665 million. As at 31 December 2015 a compensation item disclosed on the balance sheet of € 7,162 million (previous year: € 4,074 million) results from the hedging effect of partial guarantee One which is offset under the Loan loss provisions item. The corresponding compensation effect in loan loss provisions in the statement of income amounts to € 3,077 million (previous year: € 1,401 million).

The partial guarantee Two is disclosed as a credit derivative under the "Credit derivative second loss guarantee" line item in the statement of financial position (previous year: "Trading assets"). Changes in the measurement of the credit derivative at fair value are disclosed under the "Hedging effect of the credit derivative second loss guarantee" line item in the statement of income. The fair value of the partial guarantee Two was € 663 million as at 31 December 2015 (previous year: € 3 million). The increase in the hedging effect is attributable to the allocation of transactions to the federal states based on the portfolio transfer provided for under the informal agreement and the formal decision and the intended portfolio sales in the market from partial guarantee One to partial guarantee Two, which do not meet the conditions for recognition under the financial guarantee contract.

Insofar as the reference commitments previously allocated to partial guarantee One are now included in the hedging effect of partial guarantee Two, the compensation item (hedging effect before guarantee costs) previously recognised under the net accounting approach was derecognised in total loan loss provisions in the amount of € 651 million.

The hedging effect of partial guarantee Two is presented by recognising a credit derivative under the Credit derivative second loss guarantee line item in the statement of financial position with a positive fair value of € 663 million (previous year: € 3 million). Income of € 658 million (previous year: € 1 million) has been recognised under the "Credit derivative second loss guarantee" line item in the statement of income.

**HEDGING EFFECT OF THE GUARANTEE**

| (€ m)  | 2015                 |                   | 2014                 |                   | 2015                 |           |                                  | 2014                 |            |                                  |
|--|----------------------|-------------------|----------------------|-------------------|----------------------|-----------|----------------------------------|----------------------|------------|----------------------------------|
|  | Balance sheet        |                   | Balance sheet        |                   | Statement of income  |           |                                  | Statement of income  |            |                                  |
|  | Loan loss provisions | Credit derivative | Loan loss provisions | Credit derivative | Loan loss provisions | Interest  | Hedging effect credit derivative | Loan loss provisions | Interest   | Hedging effect credit derivative |
| Hedging effect before guarantee costs                | 7,422                | -                 | 4,999                | -                 | 2,423                | -         | -                                | 960                  | -          | -                                |
| Additional premium ex post                           | -                    | -                 | -1,123               | -                 | 1,123                | -         | -                                | -373                 | -          | -                                |
| Debt waiver  | -                    | -                 | 781                  | -                 | -781                 | -         | -                                | 781                  | -          | -                                |
| Base and additional premium ex ante                  | -                    | -                 | -575                 | -                 | 572                  | 3         | -                                | 33                   | -40        | -                                |
| Claim for compensation of interest                   | -                    | -                 | -8                   | -                 | -                    | 8         | -                                | -                    | -1         | -                                |
| Remaining payment obligations for guarantee premiums | -260                 | -                 | -                    | -                 | -260                 | -         | -                                | -                    | -          | -                                |
| <b>Compensation under the second loss guarantee</b>  | <b>7,162</b>         | <b>-</b>          | <b>4,074</b>         | <b>-</b>          | <b>3,077</b>         | <b>11</b> | <b>-</b>                         | <b>1,401</b>         | <b>-41</b> | <b>-</b>                         |
| Fair value credit derivative                         | -                    | 663               | -                    | 3                 | -                    | -         | 658                              | -                    | -          | 1                                |
| <b>Hedging effect of the guarantee</b>               | <b>7,162</b>         | <b>663</b>        | <b>4,074</b>         | <b>3</b>          | <b>3,077</b>         | <b>11</b> | <b>658</b>                       | <b>1,401</b>         | <b>-41</b> | <b>1</b>                         |

Since the 2009 reporting year the Bank has recorded premium expense totalling € 3,480 million for the provision of the second loss guarantee. € 3,139 million has been paid to date, of which € 2,364

million is attributable to the current base premium and € 775 million to one-off payments.

**3. ADJUSTMENTS TO PREVIOUS YEAR COMPARATIVE FIGURES**

These financial statements contain various adjustments to the comparative figures.

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

The correction has an impact on the composition of other comprehensive income in the Group statement of comprehensive income, without influencing the income for the period or total comprehensive income.

**I. Correction in accordance with IAS 8.41 et seqq.**

A data collection error led to recyclable income and expense being disclosed as non-recyclable in the statement of comprehensive income.

Disclosures for the previous year period were adjusted. The following table shows the effects of the adjustment on the reconciliation with total comprehensive income/loss:

## ADJUSTMENT 2014

## RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

| (€ m)   | 2014              |            |                      |
|---|-------------------|------------|----------------------|
|   | Before adjustment | Adjustment | Following adjustment |
| <b>Group net result</b>   | <b>160</b>        | <b>-</b>   | <b>160</b>           |
| <b>Income and expense that have been reclassified to the statement of income or may be reclassified at a later date</b> |                   |            |                      |
| Changes in fair value of AFS financial instruments  | -                 | -          | -                    |
| Unrealised gains and losses (before taxes)  | 187               | -3         | 184                  |
| Gains and losses (before taxes) reclassified to the statement of income   | 8                 | -107       | -99                  |
| of which from exchange rate effects   | 14                | -          | 14                   |
| income taxes recognised   | -38               | 31         | -7                   |
| of which from exchange rate effects   | 1                 | -          | 1                    |
|   | <b>157</b>        | <b>-79</b> | <b>78</b>            |
| Differences resulting from currency translation   | 44                | -          | 44                   |
|   | <b>44</b>         | <b>-</b>   | <b>44</b>            |
| Changes in other net income from financial investments accounted for under the equity method                            | -3                | -          | -3                   |
|   | <b>-3</b>         | <b>-</b>   | <b>-3</b>            |
| Changes resulting from non-current assets held for sale and disposal groups   | -3                | 3          | -                    |
|   | <b>-3</b>         | <b>3</b>   | <b>-</b>             |
| <b>Subtotal</b>   | <b>195</b>        | <b>-76</b> | <b>119</b>           |
| <b>Income and expense that will not be reclassified to the statement of income at a later date</b>                      |                   |            |                      |
| Changes in fair value of AFS financial instruments  | -107              | 107        | -                    |
| income taxes recognised   | 31                | -31        | -                    |
|   | <b>-76</b>        | <b>76</b>  | <b>-</b>             |
| Changes resulting from the revaluation of net defined benefit liabilities (before taxes)                                | -262              | -          | -262                 |
| income taxes recognised   | 83                | -          | 83                   |
|   | <b>-179</b>       | <b>-</b>   | <b>-179</b>          |
| <b>Subtotal</b>   | <b>-255</b>       | <b>76</b>  | <b>-179</b>          |
| <b>Other comprehensive income for the period</b>  | <b>-60</b>        | <b>-</b>   | <b>-60</b>           |
| <b>Total comprehensive income</b>   | <b>100</b>        | <b>-</b>   | <b>100</b>           |
| Total comprehensive income attributable to non-controlling interests  | 1                 | -          | 1                    |
| Total comprehensive income attributable to HSH Nordbank shareholders  | 99                | -          | 99                   |

## II. Changes in presentation

The presentation of the statement of income and statement of financial position was amended during the reporting year. Information regarding positive interest is now recorded in Interest expense and regarding negative interest recorded in Interest income (see Note 8). The fair value changes of the credit derivative under the second loss guarantee are disclosed in the statement of income under a separate line item (see Note 2), as are expenses for the bank levy and deposit guarantee scheme (see Note 17). This results in the presentation of a truer and fairer view of Group earnings. The adjustment affects disclosure in the statement of income and statement of financial position as well as the explanatory notes.

Furthermore, the credit derivative under the second loss guarantee is also disclosed under a separate line item in the statement of financial position and in a separate class for the disclosures required under IFRS 7 and IFRS 13 (see Note 53). The amount of € 3 million relating to the credit derivative under the second loss guarantee, which was disclosed in the Trading assets line item in the previous year, was reclassified.

#### 4. CONSOLIDATION PRINCIPLES

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The Group financial statements present the parent company HSH Nordbank AG together with the consolidated subsidiaries as an economic unit. Subsidiaries also include structured entities that are controlled by HSH Nordbank. Structured entities are entities in which voting rights and similar rights do not constitute the dominant factor in assessing control. These also include entities whose relevant activities are predetermined by a narrow objective defined in the articles of association/partnership agreement or in other contractual agreements or in which there is a lasting restriction of the decision-making powers of the management. HSH Nordbank mainly includes ABS conduits and other securitisation and refinancing vehicles as well as investment funds (including private equity funds) within structured entities. Structured entities are included in the scope of consolidation if they are subsidiaries and are material to the presentation of the net assets, financial condition and earnings or to the assessment of the risk situation of the HSH Nordbank Group. Disclosures of the nature of the risks in connection with shares in consolidated structured entities are included in Note 5. Reference is made to Note 58 with regard to unconsolidated structured entities.

Control over a subsidiary prevails when HSH Nordbank is exposed to variable incoming cash flows from the exposure to this entity or has rights to such cash flows and is able to influence the cash flows through its decision-making power over the entity. HSH Nordbank possesses decision-making power over an entity if it has rights that confer on it, either directly or indirectly via third parties, the current possibility of controlling the entity's relevant activities. Relevant activities are deemed to be those which materially affect the entity's incoming cash flows depending on the nature and purpose of the entity. Variable incoming cash flows are all those which can vary depending on the entity's performance. Incoming cash flows from the exposure to another entity may accordingly be positive as well as negative. Variable incoming cash flows include dividends, fixed and variable interest, remuneration and fees, fluctuations in the value of investments and other financial advantages.

The assessment as to whether decision-making power exists is made on the basis of the relevant activities of the entity and the powers of HSH Nordbank to influence them. Voting rights as well as other contractual rights are considered in reviewing the control of relevant activities provided there are no economic or other obstacles to the exercise of the existing rights and HSH Nordbank would benefit from exercising those rights. The Bank has decision-making power based on voting rights if as a result of equity instruments or contractual

agreements HSH Nordbank holds more than 50% of the voting rights and this proportion of the voting rights is allied to a substantial decision-making right with regard to the relevant activities. Other contractual rights that may facilitate a controlling influence are primarily rights to appoint members of executive bodies, recall them, to liquidate and to make other decisions. HSH Nordbank controls a subsidiary if based on the total contractual rights it has the possibility to control the relevant activities of the entity.

A subsidiary is also controlled by HSH Nordbank if the decision-making power is exercised by third parties in the interests of and for the benefit of HSH Nordbank. Whether such delegated decision-making power exists is judged by considering the existing powers to appoint members of executive bodies, the legal and de facto scope for making decisions and the structure of the economic incentives. HSH Nordbank itself does not exercise any delegated powers to make decisions that would benefit third parties.

Due to agreements ceding control and insolvency proceedings currently pending, HSH Nordbank in individual cases holds equity interests in companies exceeding 50% which are not tied to any corresponding voting rights and therefore do not result in any controlling influence. In such cases, for purposes of defining the scope of consolidation as well as for purposes of preparing the list of shareholdings, the voting rights ratios were adjusted to the extent deemed reasonable under the special circumstances described above. Conversely, HSH Nordbank possesses a controlling influence in individual cases based on contractual rights, although it holds less than 50% of the voting rights.

Shares held by third parties in the equity of the subsidiary are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Non-controlling equity shares in subsidiaries and the resulting profit or loss as well as summarised financial information on subsidiaries with material non-controlling shares are presented in Note 5. Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are to be classified as debt in the Group financial statements under IAS 32 and disclosed under Other liabilities. Changes in value are recognised in Other operating income/expenses in the consolidated statement of income.



Subsidiaries are included by way of full consolidation in the Group financial statements of HSH Nordbank. In consolidating the capital the carrying amount of the equity holding in each subsidiary is set off against the share of HSH Nordbank in the subsidiary's equity capital. Goodwill connected to this is accounted for using the acquisition method in accordance with IFRS 3. Intra-Group receivables, liabilities and income are eliminated within the framework of debt and/or expense and income consolidation for the purpose of the Group financial statements. Expenses and gains arising from the transfer of assets within the Group are eliminated as well.

Shares in subsidiaries which were not consolidated because of their subordinate importance for HSH Nordbank Group's net assets, financial condition and earnings are accounted for as available for sale (AFS) financial instruments using the recognition and measurement guidelines of IAS 39.

Structured entities within the meaning of IFRS 12 are entities designed so that voting rights or similar rights do not represent the dominant factor in terms of assessing whether control is being exercised. Voting rights in such entities only relate to contractually specified administrative functions. Similar rights would refer, for example, to potential voting rights such as options on voting rights.

HSH Nordbank does not classify single asset companies and project companies as structured entities, because as a rule they are not designed to ensure that holding voting rights is only for the purpose of performing contractually governed administrative functions. Structured entities are also characterised by a narrowly defined business purpose, a limited field of activity and comparatively low equity capital. If a company is not controlled by voting rights but by means of contractual rights, it is classified as a structured entity.

Joint arrangements are based on contractual agreements under which two or more partners establish an economic activity under shared management. Joint management is present if the partners have to cooperate in order to steer the relevant activities of the joint arrangement and decisions require unanimous approval from the participating partners. Such a joint arrangement is a joint venture if the partners who exercise joint management hold rights and obligations to the net assets of the arrangement. If, conversely, the partners have direct rights to the assets or liabilities attributable to the joint arrangement

for their debts, the arrangement is a joint operation. If a joint arrangement is embodied in a legally independent partnership or corporation with its own assets, so that HSH Nordbank only has a proportionate claim to the net assets of the company based on its shares in the company, this entity is normally a joint venture. In order to determine whether a joint venture or a joint operation is concerned in the case of joint arrangements, the contractual provisions and the purpose of the joint arrangement are used in addition. If neither the legal form nor the contractual provisions or other facts and circumstances provide an indication that HSH Nordbank has direct rights to the assets and/or obligations for the debts of the joint arrangement, it is a joint venture.

Associates are companies where the HSH Nordbank AG can exercise a significant but not controlling influence directly or indirectly via subsidiaries. Significant influence refers to the possibility of influencing decisions affecting the financial and business policy of another entity but not controlling it. Significant influence is found in principle if HSH Nordbank as an investor directly or indirectly holds 20% or more of the voting rights through subsidiaries. It may also be an associate if HSH Nordbank has less than 20% of the voting rights but because of other factors has the possibility of influencing the company's decisions concerning financial and business policy. This in particular includes the representation of HSH Nordbank in the entity's decision-making body and contractual rights to manage or dispose of assets including investment decisions in the case of investment funds. If HSH Nordbank only holds rights to approve, agree or veto, significant influence is not presumed to exist.

Interests in joint ventures and associates that are material to the proper presentation of the Group's net assets, financial position and results of operations are consolidated under the equity method. In doing so, the Group's interest in a joint venture / share in an associate is initially measured at cost of acquisition and thereafter increased or decreased depending on the Group's share in the joint venture's/associate's profit or loss. The relevant shares are stated in the statement of financial position under a separate line item. Details of the risks associated with the shares of HSH Nordbank in joint ventures and associates as well as summarised financial information on these entities are presented in Note 6. With regard to joint ventures and associates that in themselves are not material, the summarised financial information is presented in aggregate form in Note 29.

Interest in joint ventures and associates, respectively, which were not consolidated under the equity method because of their subordinate importance for HSH Nordbank Group's net assets, financial condition and earnings have been accounted for as financial instruments of the category AfS using the reporting and measurement guidelines of

IAS 39 and are disclosed under financial investments. Where HSH Nordbank has no information as of the reporting date which would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost.

## 5. SCOPE OF CONSOLIDATION

In addition to the parent company, HSH Nordbank AG, Hamburg/Kiel, the scope of consolidation includes 61 fully consolidated subsidiaries (previous year: 64).

One associate (previous year: three) and one joint venture (previous year: one) consolidated under the equity method as at the balance sheet date were included in the Group financial statements.

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

### CONSOLIDATED COMPANIES

Subsidiaries in which HSH Nordbank AG directly or indirectly holds 100 % of the equity interests

|   | Registered office | 2015 Share of equity capital in % | 2014 Share of equity capital in % |
|---|-------------------|-----------------------------------|-----------------------------------|
| 1. Avia Management S.à.r.l.   | Luxembourg        | 100.0                             | 100.0                             |
| 2. BINNENALSTER-Beteiligungsgesellschaft mbH  | Hamburg           | 100.0                             | 100.0                             |
| 3. Bu Wi Beteiligungsholding GmbH   | Hamburg           | 100.0                             | 100.0                             |
| 4. CAPCELLENCE Dritte Fondsbeteiligung GmbH <sup>4)</sup>                             | Hamburg           | 100.0                             | 100.0                             |
| 5. CAPCELLENCE Erste Fondsbeteiligung GmbH <sup>3)</sup>                              | Hamburg           | 100.0                             | 100.0                             |
| 6. CAPCELLENCE Holding GmbH & Co. KG <sup>6)</sup>                                    | Hamburg           | 100.0                             | 100.0                             |
| 7. CAPCELLENCE Zweite Fondsbeteiligung GmbH <sup>4)</sup>                             | Hamburg           | 100.0                             | 100.0                             |
| 8. CHIOS GmbH   | Hamburg           | 100.0                             | 100.0                             |
| 9. DEERS Green Power Development Company S.L. <sup>8)</sup>                           | Madrid            | 100.0                             | 100.0                             |
| 10. GODAN GmbH  | Hamburg           | 100.0                             | 100.0                             |
| 11. HSH Auffang- und Holdinggesellschaft mbH & Co. KG                                 | Hamburg           | 100.0                             | 100.0                             |
| 12. HSH Facility Management GmbH  | Hamburg           | 100.0                             | 100.0                             |
| 13. HSH Gastro+Event GmbH <sup>5)</sup>   | Hamburg           | 100.0                             | 100.0                             |
| 14. HSH N Finance (Guernsey) Limited  | St. Peter Port    | 100.0                             | 100.0                             |
| 15. HSH N Residual Value Ltd.   | Hamilton          | 100.0                             | 100.0                             |
| 16. HSH Nordbank Securities S.A.  | Luxembourg        | 100.0                             | 100.0                             |
| 17. HSH Private Equity GmbH   | Hamburg           | 100.0                             | 100.0                             |
| 18. Ilex Integra GmbH <sup>1)</sup>   | Hamburg           | 100.0                             | 100.0                             |
| 19. ISM Agency LLC <sup>7)</sup>  | New York          | 100.0                             | 100.0                             |
| 20. Neptune Finance Partner S.à.r.l.  | Luxembourg        | 100.0                             | 100.0                             |
| 21. Neptune Finance Partner S.à.r.l.  | Luxembourg        | 100.0                             | 100.0                             |
| 22. Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.                        | Luxembourg        | 100.0                             | 100.0                             |
| 23. Solar Holding S.à.r.l.  | Luxembourg        | 100.0                             | 100.0                             |
| 24. Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung | Hamburg           | 100.0                             | 100.0                             |
| 25. 2200 Victory LLC  | Dover             | 100.0                             | 100.0                             |

**CONSOLIDATED COMPANIES**

Subsidiaries with non-controlling interests

|  | Registered office | 2015<br>Share of equity<br>capital in % | 2014<br>Share of equity<br>capital in % |
|--|-------------------|---|---|
| 26. Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG <sup>9)</sup> | Mainz             | –                                       | –                                       |
| 27. Amentum Aircraft Leasing No. Five Limited <sup>9)</sup>                          | Dublin            | 49.0                                    | 49.0                                    |
| 28. Amentum Aircraft Leasing No. Six Limited <sup>9)</sup>                           | Dublin            | 49.0                                    | 49.0                                    |
| 29. Amentum Aircraft Leasing No. Three Limited <sup>9)</sup>                         | Dublin            | 49.0                                    | 49.0                                    |
| 30. Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG <sup>2)</sup>         | Hamburg           | 83.3                                    | 83.3                                    |
| 31. Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG <sup>2)</sup>         | Hamburg           | 83.3                                    | 83.3                                    |
| 32. Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | 83.3                                    |
| 33. Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | 83.3                                    |
| 34. CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | 83.3                                    |
| 35. CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | 83.3                                    |
| 36. CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | 83.3                                    |
| 37. CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | 83.3                                    |
| 38. CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG <sup>2)</sup>            | Hamburg           | 83.3                                    | –                                       |
| 39. Castellum ABF S.A.   | Luxembourg        | –                                       | –                                       |
| 40. GmbH Altstadt Grundstücksgesellschaft <sup>9)</sup>                              | Mainz             | 50.0                                    | 50.0                                    |
| 41. HSH Care+Clean GmbH <sup>5)</sup>  | Hamburg           | 51.0                                    | 51.0                                    |
| 42. HSH Move+More GmbH <sup>5)</sup>   | Kiel              | 51.0                                    | 51.0                                    |
| 43. HSH N Funding II <sup>9)</sup>   | George Town       | 56.3                                    | 56.3                                    |
| 44. Life Insurance Fund Elite LLC <sup>9)</sup>                                      | New York          | –                                       | –                                       |
| 45. Life Insurance Fund Elite Trust <sup>9)</sup>                                    | Minneapolis       | –                                       | –                                       |
| 46. Mitco Real Estate A S.à.r.l. <sup>9)</sup>                                       | Canach            | –                                       | –                                       |
| 47. Mitco Resolution 1 S.à.r.l. <sup>9)</sup>  | Canach            | –                                       | –                                       |
| 48. Mitco Resolution 2 S.à.r.l. <sup>9)</sup>  | Canach            | –                                       | –                                       |
| 49. Mitco Resolution 3 S.à.r.l. <sup>9)</sup>  | Canach            | –                                       | –                                       |
| 50. Mitco Resolution 4 S.à.r.l. <sup>9)</sup>  | Canach            | –                                       | –                                       |
| 51. Mitco Resolution 5 S.à.r.l. <sup>9)</sup>  | Canach            | –                                       | –                                       |
| 52. Next Generation Aircraft Finance 2 S.à.r.l. <sup>9)</sup>                        | Munzbach          | 49.0                                    | 49.0                                    |
| 53. Next Generation Aircraft Finance 3 S.à.r.l. <sup>9)</sup>                        | Munzbach          | 49.0                                    | 49.0                                    |
| 54. OCEAN Funding 2013 GmbH <sup>9)</sup>  | Frankfurt a.M.    | –                                       | –                                       |
| 55. RDM Limited <sup>9)</sup>  | George Town       | –                                       | –                                       |
| 56. RESPARCS Funding Limited Partnership I <sup>9)</sup>                             | Hong Kong         | 0.0                                     | 0.0                                     |
| 57. RESPARCS Funding II Limited Partnership <sup>9)</sup>                            | St. Helier        | 0.0                                     | 0.0                                     |
| 58. Senior Assured Investment S.A. <sup>9)</sup>                                     | Luxembourg        | –                                       | –                                       |
| 59. Senior Preferred Investments S.A. <sup>9)</sup>                                  | Luxembourg        | –                                       | –                                       |
| 60. SPE II Pissarro SAS <sup>9)</sup>  | Paris             | –                                       | –                                       |
| 61. Stratus ABF S.A. <sup>9)</sup>   | Luxembourg        | –                                       | –                                       |

## COMPANIES CONSOLIDATED AT EQUITY

|  | Registered office | 2015 Share of equity capital in % | 2014 Share of equity capital in % |
|--|-------------------|-----------------------------------|-----------------------------------|
| <b>Associates consolidated under the equity method</b>     |                   |                                   |                                   |
| 1. SITUS NORDIC SERVICES ApS                               | Copenhagen        | 40.0                              | 40.0                              |
| <b>Joint ventures consolidated under the equity method</b> |                   |                                   |                                   |
| 2. Kontora Family Office GmbH                              | Hamburg           | 51.0                              | 75.0                              |

<sup>1)</sup> Subsidiary of Bu Wi Beteiligungsholding GmbH.

<sup>2)</sup> Subsidiary of CAPCELLENCE Holding GmbH & Co. KG.

<sup>3)</sup> Subsidiary of Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG.

<sup>4)</sup> Subsidiary of Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG.

<sup>5)</sup> Subsidiary of HSH Facility Management GmbH.

<sup>6)</sup> Subsidiary of HSH Private Equity GmbH.

<sup>7)</sup> Subsidiary of Life Insurance Fund Elite LLC.

<sup>8)</sup> Subsidiary of Solar Holdings S.à.r.l.

<sup>9)</sup> Structured entities.

## I. Information on subsidiaries - changes to the scope of consolidation

### A) Additions

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

- BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg
- GmbH Altstadt Grundstücksgesellschaft, Mainz
- Castellum ABF S.A., Luxembourg
- CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg
- CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG, Hamburg

BINNENALSTER-Beteiligungsgesellschaft mbH, which is wholly owned by HSH Nordbank AG, holds 50% of the capital and voting rights of GmbH Altstadt Grundstücksgesellschaft (GmbH Altstadt), whose principal assets comprise properties which are leased to the HSH Nordbank Group on a long-term basis. HSH Nordbank holds a purchase option on the leased assets of GmbH Altstadt, which is exercisable at the end of the lease agreement term. GmbH Altstadt had previously been controlled by voting rights and was classified as a joint venture. The company had not previously been consolidated in the Group financial statements due to immateriality.

The significant contractual basis between HSH Nordbank and the special-purpose company was amended with effect from 1 April 2015.

These amendments, which address the requirements of HSH Nordbank as lessee, consist mainly of the replacement of GmbH Altstadt's external financing by HSH Nordbank and the adjustment of the lease agreements to the new financing structure.

At the time the above-mentioned structural adjustments were made, control as defined in IFRS 10 was reassessed. As a result of this reassessment the special purpose company is now a structured entity, in which voting rights are not the dominant factor in assessing the power of disposal. The relevant activity of GmbH Altstadt – the management of the leased property at the end of the lease relationship – can be controlled by HSH Nordbank by means of the purchase option.

HSH Nordbank has had control over GmbH Altstadt since 1 April 2015 through this power of disposal. Obtaining control is based on a change to the contractual basis without change in the shareholding ratio.

The remeasurement of the shares already held by HSH Nordbank prior to the acquisition date in accordance with IFRS 3.42 did not have a material impact on income.

The fair values of the identified assets and liabilities of GmbH Altstadt after revaluation that were included in the first-time consolidation as at 1 April 2015 are summarised in the following overview:



| (€ m)  | Carrying amount before acquisition | Pre-existing relationship | Adjustment    | Fair value of |
|--|------------------------------------|---------------------------|---------------|---------------|
| <b>Assets</b>  |                                    |                           |               |               |
| Property, plant and equipment  | 150.7                              | -                         | - 12.7        | 138.0         |
| Other assets   | 0.4                                | -                         | -             | 0.4           |
|  | <b>151.1</b>                       | <b>-</b>                  | <b>- 12.7</b> | <b>138.4</b>  |
| <b>Liabilities</b>   |                                    |                           |               |               |
| Liabilities to banks   | 150.3                              | - 137.6                   | - 12.7        | 0.0           |
| Other liabilities  | 1.3                                | -                         | -             | 1.3           |
|  | <b>151.6</b>                       | <b>- 137.6</b>            | <b>- 12.7</b> | <b>1.3</b>    |
| <b>Net assets as at the acquisition date</b>                         | <b>- 0.5</b>                       | <b>137.6</b>              | <b>-</b>      | <b>137.1</b>  |
| <b>Share of net assets attributable to non-controlling interests</b> | <b>-</b>                           |                           | <b>-</b>      | <b>- 0.2</b>  |
| <b>Fair value of old shares</b>                                      |                                    |                           |               | <b>0.0</b>    |
| <b>Total consideration</b>   |                                    |                           |               | <b>150.3</b>  |
| <b>Difference</b>  |                                    |                           |               | <b>13.0</b>   |

The consideration shown in the overview results from the fair value of the loan relationship (€ 137.6 million) deemed to have been fulfilled through the business combination and the amount by which the lease relationship deemed to have been fulfilled by the business combination is unfavourable for HSH Nordbank (€ 12.7 million). A cash consideration was not paid to obtain control. A difference of € 13.0 million arises from the business combination as defined in IFRS 3, which is initially recognised as goodwill.

Under IFRS 3 the previous loan and lease relationships are deemed to have been fulfilled or terminated by the business combination. A loss of € 12.7 million arising from the termination of the loan relationship was recognised in the reporting period, which is disclosed under Other operating income. A profit of € 12.7 million arising from the termination of the previous lease relationship was recognised in the reporting period, which is disclosed under Other operating income.

The cumulative results of GmbH Altstadt included in the Group financial statements as at 31 December 2015 amount to € -0.6 million.

As the goodwill resulting from the business combination with GmbH Altstadt was allocated to the Corporate Center cash-generating unit, an unscheduled impairment test was performed for the cash-generating unit based on the determination of the value in use. Discount rates of 9.8% (for the detailed forecast period) and 10.3% (including a growth surcharge for perpetual annuities) were applied in determining the value in use. As a result of the impairment test (negative recoverable amount) the allocated goodwill (€ 13.0 million) was fully written off and is disclosed under Other operating income. No impairment requirement was determined for other assets of the CGU Corporate Center that fall under the scope of IAS 36.

The structured entity Castellum ABF S.A. started its business activities in the reporting period and is controlled by HSH Nordbank AG by means of contractual rights.

The companies CAPCELLENCE Dritte Fondsbeteiligung GmbH and CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG, in which HSH Nordbank holds the majority of voting rights are included for the first time in the scope of consolidation on a fully consolidated basis.

**B) Disposals**

Contrary to the inclusion as at 31 December 2014, the following companies are no longer included in the scope of fully consolidated companies:

- AGV Irish Equipment Leasing No. 1 unlimited, Dublin
- Amentum Aircraft Leasing No. Ten Limited, Dublin
- Franz Portfolio 2 GmbH & Co. KG, Hamburg
- HSH N Financial Securities LLC, Wilmington
- HSH N Funding I, George Town
- Kontora Family Office GmbH, Hamburg
- K/S Angered, Copenhagen
- LCG Finance II B.V., Vught, Luxembourg

AGV Irish Equipment Leasing No. 1 unlimited was not included in the scope of consolidation due to its liquidation on 20 May 2015. The deconsolidation did not have any material effect on income.

Amentum Aircraft Leasing No. Ten Limited is a special purpose company in the field of aviation where the decision-making power is exercised by third parties in the interests of and for the benefit of HSH Nordbank. The material assets of the company were sold in the third quarter of 2015. Since it is planned to liquidate the company in the short term and no material income effects are to be expected until this moment for the Group statement of income of HSH Nordbank, the subsidiary was deconsolidated. A loss in the amount of € 1.6 million resulted from the deconsolidation, which is recognised under the item Other operating income.

Franz Portfolio 2 GmbH & Co. KG was a property company in the real estate sector, for which the decision-making power was exercised by third parties in the interest of and for the benefit of HSH Nordbank. This company was liquidated in the fourth quarter as part of restructuring under corporate law. A loss in the amount of € 3.4 million resulted from the deconsolidation, which is recognised under the item Other operating income.

With effect from 3 September 2015, HSH Nordbank AG disposed of its shares in HSH N Financial Securities LLC and consequently lost its control over the company. The deconsolidation did not have any material effect on income.

HSH N Funding I was not included in the scope of consolidation due to its liquidation on 31 March 2015. The deconsolidation did not have any material effect on income.

HSH Nordbank AG sold 24.02% of its shares held in Kontora Family Office GmbH under a purchase agreement dated 3 December 2015. With 51% of the voting rights remaining after the sale HSH Nordbank AG can no longer control decisions made regarding the relevant activities of Kontora Family Office GmbH, as these require a qualified majority of 75%. Following the partial sale Kontora Family Office GmbH now constitutes a joint venture, which is included in HSH Nordbank's Group financial statements under the equity method. A profit of € 0.7 million resulted from the deconsolidation due to the loss of control, which is disclosed under Other operating income. Measurement of the shares still held by HSH Nordbank AG (51%) at fair value contributed € 0.4 million to this positive deconsolidation result.

K/S Angered is a borrower, whose purpose is to hold and manage a property financed by HSH Nordbank AG. HSH Nordbank AG has held an option, exercisable at any time, on the company's shares since June 2013. Due to these potential voting rights K/S Angered has been consolidated as a subsidiary in the Group financial statements since June 2013. Due to a change in strategy performed by HSH Nordbank in May 2015, the option is considered not to be economically advantageous from that moment in time which means that the rights associated with the option no longer are substantial. HSH Nordbank has thereby lost control of K/S Angered. A profit of € 28.1 million resulted from the deconsolidation of K/S Angered due to the loss of control, which is disclosed under other operating income.

Insolvency proceedings regarding the assets of LCG Finance II B.V. were commenced on 3 March 2015. Following the commencement of insolvency proceedings HSH Nordbank no longer has any decision-making powers over the relevant activities of this company. A profit of € 8.9 million resulted from the deconsolidation, which is disclosed under other operating income.

**C) Modification of holdings in subsidiaries**

There were no material changes in the ownership interests held by HSH Nordbank in a subsidiary in the period under review that did not lead to a loss of control.

**D) Mergers after the end of the reporting period**

In January 2016 HSH Nordbank gained control over the following companies:

- FSL Holdings Pte. Limited, Singapore (hereinafter referred to as: FSL Holdings)
- FSL Asset Management Pte. Limited, Singapore
- FSL Trust Management Pte. Limited, Singapore

FSL Holdings is a holding company, whose principal asset is an equity interest, through which significant influence is exerted, in the listed First Ship Lease Trust, Singapore (hereinafter referred to as FSL Trust). The acquisition of the equity interest in FSL Trust was mainly financed by a loan provided by HSH Nordbank AG. As at the reporting date HSH Nordbank held 20.0% of the shares in FSL Holdings via its subsidiary, GODAN GmbH. This company was not consolidated as an associate as at 31 December 2015 because of its immateriality with regard to the net assets, financial position and earnings of the Group.

Following the changes made to the shareholder structure of FSL Holdings in January 2016 (redemption of capital shares held by all other shareholders) HSH Nordbank holds 100% of the voting rights and therefore has control over this company and its subsidiaries, FSL Asset Management Pte. Limited and FSL Trust Management Pte. Limited (both service companies) from that moment in time. FSL Trust, whose business activities mainly comprise the chartering of its own ship portfolio, constitutes an associate of HSH Nordbank from January 2016.

The first-time consolidation of the FSL Group using the purchase method of accounting had not been completed as at the preparation date of these Group financial statements. The consideration results from the fair value of the pre-existing lending relationship that is deemed to be fulfilled or terminated by the business combination. A cash consideration was not paid to obtain control. Based on information currently available net assets of the FSL Group to be identified as part of the first-time consolidation as at the acquisition date consist primarily of the fair value of the shares held in FSL Trust. It is expected that the termination of the pre-existing lending relationship will not have a material effect on earnings and a material amount of goodwill will not result from the business combination under IFRS 3. No material impact on income is expected to result from the remeasurement of the shares in FSL Holdings already held by HSH Nordbank prior to the acquisition date in accordance with IFRS 3.42.

Further information regarding the transaction required under IFRS 3.B64 could not be determined due to the close proximity of the acquisition date and preparation date of these Group financial statements.

## II. Details of subsidiaries with material non-controlling shares

There are no subsidiaries with non-controlling shares material to HSH Nordbank as of the reporting date.

## III. Information on shares held in associates and joint ventures accounted for under the equity method

### A) General information

Contrary to the inclusion as at 31 December 2014, the following company will be consolidated for the first time under the equity method (until 3 December 2015 consolidation as subsidiary, please refer to Section 5.I.B for more details).

- Kontora Family Office GmbH, Hamburg

The following companies included in the scope of consolidation as at 31 December 2014 will no longer be consolidated under the equity method:

- Belgravia Shipping Ltd., London
- Prime 2006–1 Funding Limited Partnership, St. Helier
- Relacom Management AB, Stockholm

All shares held in Belgravia Shipping Ltd. were sold as at 30 November 2015.

The Prime 2006-1 Funding Limited Partnership was dissolved on 30 December 2015 through an entry in the Commercial Register.

The shares held in Relacom Management AB ( Restructuring Unit segment) previously accounted for under the equity method were reclassified as held for sale in the fourth quarter 2015 and have been separately disclosed since then in accordance with IFRS 5, because the sale of the shares is expected in the period between September and October 2016.

The effects of entities no longer consolidated under the equity method can be found in Note 13.

As at the reporting date HSH Nordbank does not hold any shares in material associates and joint ventures accounted for under the equity method.

### B) Changes in equity holdings

There were no changes in ownership interests of HSH Nordbank in an associate or joint venture in the period under review that did not cause a loss of joint control or of significant influence.

### C) Summarised financial information

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

**D) Risks and restrictions**

In connection with companies accounted for in the Group financial statements under the equity method, HSH Nordbank is neither exposed to risks from unrecognised obligations to these companies nor are there any restrictions within the meaning of IFRS 12.22 vis-a-vis these companies.

Additional information on companies accounted for under the equity method may be found under Notes 13 and 30.

**IV. Information on consolidated structured entities**

HSH Nordbank's scope of consolidation includes 25 fully-consolidated structured entities. These companies are controlled due to contractual rights and/or principal-agent relationships. Concerning three of these companies, the majority of the voting rights is also held.

The following disclosures represent the type of risks in connection with business relationships with consolidated structured entities:

HSH Nordbank AG is the sponsor of a consolidated structured entity and benefits from this company through the expanded funding volume. For this asset-based funding transaction, HSH Nordbank AG has transferred claims to the company for which, because of the opportunities and risks remaining with HSH Nordbank AG there has been no derecognition of the assets on the balance sheet. In addition to the granting of a junior loan by HSH Nordbank AG, the structured entity is funded in particular through the issuance of a senior promissory note bond. HSH Nordbank AG has guaranteed to the holder of the senior promissory note bond that its payment claims will be ser-

viced in the event that the structured entity defaults. In the case of the structured entity HSH Nordbank AG has a repurchase obligation applying to the receivables being transferred should specific contractually defined events occur.

HSH Nordbank AG is the sponsor of securitisation vehicles whose business purpose is the placement of acquired Silent Participations of HSH Nordbank AG through the issuance of securities on the capital market. HSH Nordbank has provided these consolidated structured entities with a guarantee facility. This guarantee facility serves to hedge the payment obligations of the structured entities in respect of the holders of the securities. These payment obligations arise if payment claims result for the structured entities against HSH Nordbank AG from the Silent Participations held by them.

HSH Nordbank AG has granted liquidity and credit facilities to consolidated structured entities. In terms of the amounts, these are of minor significance for the Group's financial position.

HSH Nordbank AG has a contractual obligation to bear the operating expenses for consolidated structured entities.

During the reporting year, HSH Nordbank did not provide consolidated or unconsolidated structured entities with any non-contractual support.

As of the balance sheet date there is no current intention to provide a consolidated structured entity any financial or other support within the definition of IFRS 12.17.

**6. MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS**

As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the Group financial statements of HSH Nordbank. All estimates and judgments necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, are continuously reassessed and are based on past experience and other factors including expectations of future events which appear reasonable under the circumstances. Specifically, the determination of the loan loss provisions taking into account the effects of the guarantee (see Note 7.I.C), determination of impairment losses in order to sell non-current assets held for sale and disposal groups (Note 33 and Note 26, respectively), future cash flows of Hybrid financial instruments (see

Note 7.I.E ), deferred taxes (see Note 7.III.6), the determination of fair values (see Note 7.I.D.), provisions for pensions and similar obligations and other provisions (see Note 7.III.5) and goodwill (see Note 7.III.1) are affected by uncertainty. Where estimates were necessary on a large scale, the underlying assumptions are presented in greater detail in the relevant note.

There was a change in estimate due to a change in the calculation of the underlying yield curve used to determine pension provisions (Note 43).



Compared to the previous year loan loss provisions were determined on the basis of market values as at the planned sale date taking account of revised commitment strategies for portfolios that are to be sold to the resolution institution of the federal states and in the market as a result of the informal agreement and the formal decision respectively, reached with the EU Commission (change in estimate) (see Note 26). Management has also revised its estimate for calculating the compensation effect of the second loss guarantee on the basis of this informal agreement reached with and the formal decision taken by the EU Commission (cf. Note 2).

With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods include:

- use of the fair value option for financial instruments (see Note 7.I.A);
- not classifying financial instruments as held to maturity (HtM);
- applying the current reclassification rules under IAS 39 (see Note 51);
- determining fair values for certain financial instruments, including a judgement regarding the existence of an active or inactive market;
- assessing whether HSH Nordbank controls another entity.

## 7. ACCOUNTING POLICIES

### I. Financial instruments

#### A) Categorisation of financial assets and liabilities

A financial instrument is an agreement which simultaneously creates a financial asset for one company and a financial liability or equity instrument for the other company. Under IAS 39 all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Financial assets and liabilities are stated in the statement of financial position if HSH Nordbank is counterparty under the contract for the corresponding financial instrument. Expected future transactions or contracts are not recognised.

Provided that they fulfil the criteria of IAS 39, pending transactions in the form of derivatives must always be stated in the statement of financial position as financial assets or liabilities and measured at fair value on the trading date. Spot transactions in non-derivative financial assets (so-called regular way contracts) are recognised as of the settlement date. The change in fair value between the trading date and settlement date is recognised according to the measurement rules for the category of asset. This means that changes in value of financial instruments in the category available for sale must be recognised in the revaluation reserve, while changes in value for the categories designated at fair value and held for trading are recognised in the statement of income in Net trading income.

Other non-derivative financial assets which do not result from spot transactions, for example loans granted, are recognised as of the settlement date.

Non-derivative financial liabilities are recognised if one of the two parties to the contract has fulfilled the contract (settlement date).

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

Derecognition of a financial asset takes place on the settlement date. In the case of derivatives, derecognition takes place on the trading date.

Subsequent measurement of financial assets and liabilities depends on which IAS 39 category they were assigned to at the time of acquisition. The following distinctions are made here:

1. Financial assets and liabilities which are financial instruments at fair value recognised in profit or loss include both instruments held for trading (HFT) as well as instruments which are voluntarily and irrevocably designated at fair value (DFV) at the time of first recognition:
  - a. All financial instruments held for trading and derivatives which are not part of a hedge accounting transaction are classified as held for trading (HFT).

They are initially and subsequently measured at fair value. Transaction costs are recognised through profit or loss on acquisition date. In accordance with IAS 39.43, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value and recognised in profit or loss. Where a market price exists in the form of an exchange quotation, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.

These trading instruments and derivatives are stated under Trading assets or Trading liabilities on the statement of financial position. Ongoing measurement gains and losses and realised gains and losses on these financial instruments are incorporated into Net trading income. Interest income and expenses as well as dividends arising from HfT transactions are recorded under Net interest income.

- b. In addition, certain complex structures arising from issued instruments and assets that contain derivatives requiring separation, as well as certain financial instruments which are a component of an economic hedge without satisfying the requirements of IAS 39 for hedge accounting, are also classified as designated at fair value (DFV). Furthermore, the fair value option may be applied at HSH Nordbank to portfolios whose management and performance measurement is done on a fair value basis in accordance with the documented risk management strategy. This is possible, for example, with special funds and similar assets to be consolidated.

The designation at HSH Nordbank serves to avoid or reduce accounting mismatches from securities and loans hedged with interest rate derivatives. In addition, the fair value option is generally applied to any structures otherwise required to be segregated.

Financial assets designated as DFV primarily relate to positions in the credit investment portfolio (asset-backed securities, synthetic collateralised debt obligations, credit linked notes) and convertible bonds. Financial liabilities designated as DFV specifically comprise structured registered and bearer instruments with imbedded interest, currency, equity and other risks.

Financial instruments in the fair value option are stated at fair value. These financial instruments are stated under Loans and advances to banks, Loans and advances to customers, Financial investments and Liabilities to banks, Liabilities to customers, Securitised liabilities and Subordinated capital. Gains or losses arising from ongoing measurement and realised gains or losses are stated under Net trading income. Interest income and expenses for these financial instruments are stated under Net interest income. To the extent dividend income is received, it is disclosed under Net interest income.

2. Loans and receivables, which are stated in the statement of financial position at amortised cost:

Non-derivative financial assets with fixed or determinable payments not traded on an active market when first recognised are shown under IAS 39.9 as loans and receivables (LaR). Exceptionally, this category also includes financial instruments which originally complied with the classification requirements as LaR and which have been reclassified from the HfT and AFS categories in accordance with the changes in IAS 39 (rev. 2008) because there was no longer any active market and there is an intention and ability to hold the financial asset for the foreseeable future or to maturity.

An active market exists when quoted prices are regularly provided, e.g. by an exchange or a broker, and these prices are representative of actual transactions between arms-length third parties.

Financial instruments in this category are stated at cost of acquisition, equivalent to fair value at the time of initial recognition and taking transaction costs into account. They are measured subsequently at amortised cost; whereby premiums or discounts are amortised according to the effective interest method over the term and recognised in Net interest income. Financial instruments in the LAR category are shown under Cash reserves, Loans and advances to banks and Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups or Other assets.

3. Financial assets available for sale (AfS) recognised at fair value under OCI and not taken through the statement of income:

The category available for sale (AfS) encompasses all non-derivative assets which cannot be assigned to any of the other categories. The Group's AfS holdings relate primarily to marketable fixed income securities, investment fund units and equity instruments such as interests in affiliated companies and equity holdings which are recognised in accordance with IAS 39. They are recognised under Cash reserves, Loans and advances to banks, Loans and advances to customers, Financial investments, Non-current assets held for sale and disposal groups or Other assets.

The initial measurement of financial assets available for sale is at the fair value at the time of acquisition plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. Subsequently, financial instruments AFS are measured at fair value in accordance with IAS 39.46, to the extent that this can be reliably determined. Particularly for equity securities which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39.A81. These are primarily equity instruments of unlisted companies for which no active market exists and realistic estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

Insofar as changes in value of AFS instruments measured at fair value are not attributable to impairment, they are recognised as Changes in fair value of AFS financial instruments under Other comprehensive income (OCI), taking deferred taxes into account, without affecting net income. By contrast, where hedged AFS instruments are concerned, the fluctuation relating to the hedged risk is recognised in the statement of income under Result from hedging and is separately disclosed as an adjustment item arising from the portfolio fair value hedge.

When an asset is sold or impaired the revaluation reserve is released through the statement of income, so that the profit or loss is reflected in the statement of income. Any write-ups required after

impairment are recognised directly in equity in Other comprehensive income (OCI) for equity securities and recognised in profit or loss for debt securities.

Amortisation of the difference between costs of acquisition and repayment amount for interest-bearing securities is stated under Net interest income, using the effective interest method.

#### 4. Other liabilities (LIA):

Other liabilities (LIA) include liabilities which are neither part of the trading portfolio nor classified as DFV.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. In subsequent periods, they are measured at amortised cost using the effective interest method.

#### **B) Classification of financial instruments**

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IAS 39 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The table below shows the classes of financial instruments at HSH Nordbank:

| Measurement method   | Classes  | Statement of financial position item/sub-item        |
|--|--|--|
|  | IAS 39 category                                      |  |
| Financial instruments measured at amortised cost               | Loans and Receivables (LaR)                          | Cash reserve   |
|  |  | Loans and advances to banks                          |
|  |  | Loans and advances to customers                      |
|  |  | Financial investments                                |
|  |  | Non-current assets held for sale and disposal groups |
|  |  | Other assets   |
|  | Other Liabilities (LIA)                              | Liabilities to banks                                 |
|  |  | Liabilities to customers                             |
|  |  | Securitised liabilities                              |
|  |  | Liabilities relating to disposal groups              |
|  |  | Subordinated capital                                 |
|  |  | Other liabilities                                    |
| Financial instruments measured at cost                         | Available for Sale (AFS)                             | Financial investments                                |
|  |  | Non-current assets held for sale and disposal groups |
|  |  | Other assets   |
| Financial instruments measured at fair value                   | Held for Trading (HfT)                               | Trading assets                                       |
|  |  | Credit derivative second loss guarantee              |
|  |  | Non-current assets held for sale and disposal groups |
|  |  | Trading liabilities                                  |
|  |  | Liabilities relating to disposal groups              |
|  |  | Designated at Fair Value (DFV)                       |
|  | Designated at Fair Value (DFV)                       | Loans and advances to banks                          |
|  |  | Loans and advances to customers                      |
|  |  | Financial investments                                |
|  |  | Non-current assets held for sale and disposal groups |
|  |  | Liabilities to banks                                 |
|  |  | Liabilities to customers                             |
|  | Designated at Fair Value (DFV)                       | Securitised liabilities                              |
|  |  | Liabilities relating to disposal groups              |
|  |  | Subordinated capital                                 |
|  |  | Available for Sale (AFS)                             |
|  |  | Cash reserve   |
|  |  | Loans and advances to banks                          |
| Designated at Fair Value (DFV)                                 | Loans and advances to customers                      |  |
|  | Financial investments                                |  |
|  | Non-current assets held for sale and disposal groups |  |
|  | n/a  |  |
|  | Negative fair value of hedging derivatives           |  |
|  | Negative fair value of hedging derivatives           |  |
| Financial instruments measured on the basis of other standards | n/a  | Receivables under finance leases                     |
| Off-balance-sheet transactions                                 | n/a  | Contingent liabilities                               |
|  |  | Irrevocable loan commitments                         |
|  |  | Other obligations                                    |



In addition to the holding categories a distinction is made with regard to the substance, characteristics and risk of the financial instruments for the classification of line items and sub-items in the statement of financial position as listed above that fall within the scope of IFRS 13 for disclosures under IFRS 13. These are defined in each case for non-derivative instruments and derivatives and comprise the following:

|                                      |  |
|--------------------------------------|--|
| Non-derivative financial instruments | Debt instruments                         |
|                                      | Contractually linked instruments         |
|                                      | Equity or near-equity instruments        |
|                                      | Other trading portfolios                 |
| Derivatives                          | Interest rate derivatives                |
|                                      | Cross-currency interest rate derivatives |
|                                      | Currency derivatives                     |
|                                      | Credit derivatives                       |
|                                      | Structured derivatives                   |
|                                      | Other derivatives                        |

Debt instruments are classified as follows for quantitative disclosures under IFRS 13 relating to financial instruments classified as loans and receivables in the Loans and advances to banks and Loans and advances to customers balance sheet line items.

| Statement of financial position item/sub-item | IAS 39 category             | Classes                                      |
|---|-----------------------------|--|
| Loans and advances to banks                   | Loans and Receivables (LaR) | Debt instruments<br>Payable on demand        |
|   |                             | Debt instruments<br>Other loans and advances |
| Loans and advances to customers               | Loans and Receivables (LaR) | Debt instruments                             |
|   |                             | Retail customers                             |
|   |                             | Corporate clients<br>Public authorities      |

### C) Loan loss provision and impairment of financial instruments

At every reporting date, a check is performed to establish whether there is objective evidence for the impairment of a financial asset which is not measured at fair value recognised in profit or loss.

An impairment test is performed if, after initial recognition of a financial instrument, there is objective evidence of an impairment which would have an impact on the anticipated future cash flows from the financial instrument.

Criteria for impairment are essentially major financial difficulties for the borrower and indications that, based on current information,

interest payments cannot be made and an improvement in the financial situation cannot be demonstrated. These also particularly include deferrals of interest and/or principal payments, concessions such as the granting of restructuring loans in particular for the purposes of supporting the liquidity of the borrower as well as the threat of insolvency.

In the case of securities, an initial check is performed as to whether the market value has decreased in the last twelve months, either permanently by at least 10% or once in the last six months by 20% below the cost of acquisition. This applies to both equity and debt instruments. If an equity instrument is involved, it must be written down to fair value in such a case.

However, if debt instruments meet either of these criteria, they are checked as part of a multi-step risk assessment process to see if there are any indicators for impairment. An indicator for an impairment of a security is, for example, a downgrade to non-investment grade. Where a security is already non-investment grade and the rating deteriorates by another three categories, this would be another indicator. Asset-backed security (ABS) transactions are checked to see if the over-collateralisation mechanisms have seen a significant deterioration since purchase or issue. For collateralised debt obligations (CDOs) the par value and interest cover tests can normally be used, for example.

Individual valuation allowances for interest-bearing securities are generally recognised in the amount of the difference between acquisition cost and fair value.

Identifiable default risks from the lending business are dealt with by making individual valuation allowances for the loan or advance in question. To calculate the amount of the individual valuation allowance, the net present value of the anticipated cash flows arising from the loan or advance – that is achievable amount – is compared to its carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. If the carrying amount is greater than the realisable amount, an individual valuation allowance is created in the amount of the difference.

Assessments as to the need for loan loss provisions are frequently made on the basis of information which is partly provisional in nature (e.g. planned restructuring of borrowers, draft reorganisation reports) or are subject to increased volatility (e.g. collateral value of real estate and ships). This results in increased uncertainty regarding estimates of key parameters of loan loss provisions. In such cases the large degree of uncertainty is mainly due to the assessment of expected cash flows which are dependent on borrowers, industries, the assessment of the overall economy among other factors. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary.

With respect to risks which have already occurred but have not yet been identified, portfolio valuation allowances are created for groups of assets which are comparable on the basis of their default risk. When determining the portfolio valuation allowance, current developments in the economic environment are taken into account through parameters from an expected loss approach. The portfolio valuation allowances are determined as of the reporting date on the basis of risk parameters derived from the determination of internal economic counterparty default risk. For the calculation the parameters probability of default (PD), loss given default (LGD) and for off-balance sheet items the credit conversion factor (CCF) are used. The loss identification period (LIP) in the calculation represents the interval between the occurrence of a default event and its announcement, transforming the expected loss approach to an incurred loss approach.

Additional portfolio valuation allowances had to be created for risks resulting from the challenging environment in particular in the shipping market.

Risks of uncertainties in assessment for the hedged portfolio are assumed by the guarantor under the second loss guarantee.

As the posting of the valuation allowance depends on the category of financial assets, the following distinctions must be made with regard to measurement:

- a. Financial instruments belonging to the category LaR which are measured at amortised cost

Impairments to loans and advances to banks and customers are recorded in separate valuation allowance accounts under the item Loan loss provisions. Loan loss provisions thus created are written off at the time when the amount of the actual default of the receivable is determined or the receivable defaults or is derecognised. Irrecoverable receivables for which no individual valuation allowance existed are written off directly as is the case for losses in the case of impaired receivables which exceed the recorded loan loss provisions. Impairments to LaR securities are recorded by means of direct write-downs to the securities. Recoveries on receivables written-off are recognised in profit or loss.

- b. Financial instruments belonging to the AfS category which are measured at fair value in OCI and not recognised in the statement of income

In the case of permanent or significant impairment to an AfS equity financial instrument, a direct write-down is recognised

in profit or loss. In the process, the cumulative gains taken through the statement of income and recognised as equity are rebooked to net income from financial investments. This approach is used for AfS debt instruments accordingly. In the case of debt securities only, if the reasons for impairment no longer apply a write-up to the maximum of amortised cost is made in profit or loss. Amounts beyond this and write-ups to equity securities are recognised directly in the revaluation reserve in OCI.

- c. Equity securities belonging to the AfS category not quoted on an active market and measured at the cost of acquisition as their fair value cannot be reliably determined

In the case of impairment to an AfS financial instrument measured at acquisition cost depreciation to the financial instrument is made, which is recognised in profit or loss.

Individual and portfolio valuation allowances are also made for off-balance-sheet transactions and carried on the statement of financial position as provisions in the lending business.

The individual and portfolio valuation allowances are determined at first without taking the hedging effect of the second loss guarantee into account. The hedging effect is then mapped in the balance sheet through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 2).

#### **D) Determining fair value**

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

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

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

### 1. Valuation techniques and models

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

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

The fair value of receivables and liabilities measured at amortised cost is mainly determined by discounting the cash flows of the financial instruments. In the case of receivables with a default rat-

ing, the fair values are determined based on the still to be expected future cash flows.

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

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

### 2. Parameters used in valuation techniques and models

The following are the parameters used to determine the fair value for each class of financial assets and liabilities. We refer to the information set out in Note 53 regarding the quantitative disclosures on significant, unobservable parameters.

#### a. Trading assets/trading liabilities (HfT):

Securities in the trading portfolio are valued using quoted market prices and prices from the liquid OTC market to a large extent. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

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

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

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

**b. Positive/negative fair value of hedging derivatives:**

This class contains exclusively plain vanilla interest rate and cross-currency interest rate swaps which can be measured using recognised techniques and models.

**c. Financial investments (AfS):**

HSH Nordbank's financial investments comprise mainly fixed income securities. Substantial parts are valued using liquid market prices, such as prices from the liquid OTC market. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

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

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

**d. Credit derivative second loss guarantee (HfT):**

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

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

Assets designated at fair value carried under financial investments and loans and advances to customers or banks primarily

comprise holdings in the credit investment business (ABS, synthetic CDOs, CLNs). The pricing hierarchy mentioned above is used for these products as well.

Liabilities designated at fair value disclosed under Securitised liabilities, Liabilities to customers or Liabilities to banks and Subordinated capital include complex structured registered and bearer securities with embedded interest, currency, equity and other risks, which are mainly directly hedged by corresponding derivatives (so-called back-to-back transactions). Where current market prices or OTC market prices are available for securitised liabilities on liquid markets, these are used. However, the vast majority of DFV liabilities is measured using valuation techniques and models. These make extensive use of complex techniques and models (such as option price models) which also use market parameters which are not directly observable.

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

**f. Assets not measured at fair value on the balance sheet (LaR):**

Cash flows are discounted using the discounted cash flow method to determine the fair value of loans and advances to customers and loans and advances to banks. Sectoral-dependent market interest rate curves as well as rating- and ratio-dependent credit spreads are used as significant parameters in this regard.

Financial instruments in the LaR category disclosed under financial investments are mainly interest-bearing securities. If a stock exchange price or a price from the liquid OTC market is not available, prices obtained from pricing services are used or the discounted cash flow method is applied, whereby rating- and sector-dependent interest rate curves derived from market data for interest-bearing securities are used as parameters for discounting the cash flows.



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

**g. Liabilities not measured at fair value on the balance sheet (LIA)**

The majority of financial instruments disclosed under the Liabilities to banks, Liabilities to customers, Securitised liabilities, Other liabilities and Subordinated capital balance sheet line items is allocated to the LIA category. These mainly comprise non-complex structured loan notes and bearer bonds as well as deposits. If a liquid stock exchange price or a price from the liquid OTC market is not available, mixed prices obtained from pricing services are used or the discounted cash flow method is applied, in order to determine the fair value. The spreads used for this are derived from the type of collateral and the ranking of the financial instrument in relation to other liabilities of the Bank. Any existing cancellation options are also taken into account.

For current liabilities (e.g. current accounts) the carrying amount is shown at fair value.

**3. Value adjustments**

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

Funding costs and benefits arise on the hedging of the risks relating to an uncollateralised OTC derivative with a collateralised OTC derivative. A funding valuation adjustment of € –20 million has been determined for the first time in this reporting period as part of the enhancement (change in estimate) to the method used to determine fair values for derivatives and included in the fair value of the uncollateralised OTC derivative for funding costs/benefits arising on the provision or receipt of collateral due to the hedging asymmetry of both the derivatives. Against the backdrop of associated market and industry sector developments a truer and fairer view of the net assets, financial position and earnings of the Group is presented in the Group financial statements through the additional recognition of funding valuation adjustments.

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

The portfolio-based valuation adjustment for funding costs and benefits as well as for credit risk is allocated to assets or liabilities in proportion to a corresponding valuation adjustment for the asset or liability respectively, excluding portfolio effects. Allocation only takes place to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called “relative fair value approach” – net approach).

**4. Day One Profit and Loss**

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

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

**5. Measurement processes**

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

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

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

The measurement procedures and models as well as the estimation technique used to determine the level 3 inputs and their parameterisation are periodically reviewed and, if applicable, developed further, recalibrated or replaced by new measurement procedures or models.

#### **E) Hybrid financial instruments**

IAS 39.A8 states that for financial instruments, not to be measured at fair value, the carrying amount of financial assets and liabilities must be adjusted and recognised in profit or loss if the estimated future cash flows associated with the instrument change. The new carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting. In subsequent years the discount effect reduces with constant effective interest rate, leading to a write-up for financial liabilities which is recognised in Net interest income.

Application of IAS 39.A8 had an effect in the year under review on valuation of the hybrid financial instruments issued by HSH Nordbank, as the estimated future cash flows differ from the contractual cash flows.

The term “hybrid financial instruments” covers silent participations, profit participations and bonds issued by consolidated subsidiaries measured at amortised acquisition cost. A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank.

The future cash flows whose amount and payment dates have to be estimated are payments of interest and principal which take into account:

- participations in loss by investors, where these will probably not be made up by the expected redemption date of an instrument;
- any contractually agreed retrospective coupon payments.

The loss situation of the reporting period is not viewed in isolation on the measurement of hybrid instruments in accordance with IAS 39.A8. Specifically, it involves more than assigning the prorated loss in the period under review. In addition, the possible effects of possible future assignment of loss and the cancellation or postponement of future interest payments must be recognised in profit or loss in the period in which the estimate is changed. This can mean that in future loss-making periods no further loss participations will be recognised in profit or loss, if these future losses correspond to the estimates made previously. The loss participation recognised in profit or loss is accordingly anticipated, rather than being left to the period in which the loss arises. Future loss-related reductions in interest also do not result in full relief to interest expenses, if the reduction in interest has already been taken into account in the estimate. Instead, the reversal of the effect of discounting applied in the year the estimate was changed is recognised in expenses (write-up of the liability due to the passage of time).

The estimation of future cash flows from hybrid financial instruments required in applying IAS 39.A8 requires material assumptions which are associated with uncertainties. The assumptions made are subject to a periodic review and are adapted to the changed underlying conditions where necessary. Among the key sources of uncertainty in estimation are the future income of HSH Nordbank, which depends specifically on the development of the economy. Assumptions are also required about the exercise of termination or extension options associated with the individual transactions. Based on the degree of knowledge about uncertainties at the time financial statements are drawn up, the possibility cannot be excluded that changing information in subsequent periods will require departure from previous assumptions, which would require new adjustments to the carrying amount of hybrid financial instruments recognised in profit or loss. In the case of declining expectations of loss, the participation in loss of investors would also decrease, which would be associated with an increase in our repayment obligations recognised in expenses. The same considerations apply to the reverse case.

Net income from hybrid financial instruments is shown as a separate item under Net interest income, and in addition to current interest expenses it includes the effects of applying IAS 39.A8 (see Note 8). Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the Group financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as securitised liabilities or as subordinated capital (see Notes 39 and 47).

#### F) Hedge accounting

Under IFRS, changes in value of items in IAS 39 categories AfS, LaR and LIA are not recognised in profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions in IAS 39 category AfS, LaR or LIA are hedged with derivatives, the result is to distort the statement of income so that it does not correspond to the economic reality. One possibility to avoid these distortions is to use fair value hedge accounting. In fair value hedge accounting the changes in value of hedged items, which are attributable to the hedged risk, are recognised in profit or loss.

HSH Nordbank uses derivatives to hedge market risks resulting from loans, issues and securities portfolios. Individual loans, issues and securities items as well as entire portfolios of such financial instruments are hedged in this way.

Micro and portfolio fair value hedge accounting are used to avoid distortions in the statement of income. Currently only hedges of fair value against interest rate risk are taken into account. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only interest rate and interest rate currency swaps are designated as hedging instruments.

Where individual lending, issuing or securities transactions are hedged by derivatives with non-Group counterparties and this hedging arrangement satisfies the requirements of IAS 39, micro fair value hedge accounting is applied. Where portfolios of hedged items are hedged, the hedging of these items with matching external derivatives is shown under portfolio fair value hedge accounting to the extent that this meets the requirements of IAS 39.

In the case of a micro fair value hedge, the carrying amount of the underlying transaction is adjusted through the statement of income for the fair value change attributable to the hedged risk. The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

In the case of portfolio fair value hedge for interest rate risks, portfolios of assets and liabilities hedged for interest rate risks are taken into account. This involves an iterative procedure. At the start of a hedging period, the financial instruments in the portfolios are allocated to maturity ranges on the basis of their anticipated maturity or interest adjustment dates, and the hedged amount is then determined for each maturity range. The hedging transactions are also allocated at the start of the hedging period. At the end of the hedging period, the hedge is recognised and measured and a new hedge is designated. The changes in the fair value of the hedged amounts of the underlying transactions due to the hedged risk are recognised in a separate item in the statement of financial position (asset or liability reconciling items from the portfolio fair value hedge). The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

Using fair value hedge accounting requires a series of conditions to be met. These principally relate to the documentation of the hedge and its effectiveness. HSH Nordbank documents all hedging relationships in accordance with the requirements of IAS 39, including the hedging instrument, the hedged item (underlying transaction), the hedged risk and the result and method of measuring effectiveness.

Future changes in value of underlying and hedging transactions are simulated using a regression model within the framework of the prospective effectiveness test. Any actual changes in value are used in retrospective effectiveness testing. The results of retrospective and prospective effectiveness measurement in micro fair value hedge accounting are analysed using regression analyses. In portfolio fair value hedge accounting, HSH Nordbank uses the dollar offset method to measure effectiveness retrospectively. This tests whether the relationship between the changes in value of underlying and hedging transactions lies within an interval of 80% to 125%.

Changes in value of underlyings and hedging transactions in effective hedges which are attributable to the hedged risk are recognised in the Result from hedging.

Income and expenses from the depreciation of reconciling items for the fair value hedge portfolio and proceeds from the closing of the underlying transactions which contributed to reconciliation items are reported as part of the Net interest income.

**G) Derecognition**

A financial asset is derecognised when all material risks and opportunities associated with ownership of the asset have been transferred, i.e. when contractual claims on cash flows from the asset have been extinguished. Where not all risks and opportunities are transferred, the HSH Nordbank carries out a control test to ensure that no continuing involvement due to opportunities and risks retained prevents it from being derecognised. Financial assets are also derecognised if the contractual rights to cash flows have expired. If the material contractual elements of an asset, particularly a loan, are altered as part of restructuring, this also results in a derecognition. Financial liabilities are derecognised when they are repaid, i.e. when the associated liability is settled or lifted or when due respectively.

**H) Repurchase agreements and securities lending transactions**

HSH Nordbank only enters into genuine repo transactions. Genuine repo transactions, repo agreements or sell-and-buy-back transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being the same in both cases.

For genuine repo transactions with assets sold under repurchase agreements, the securities continue to be recognised by HSH Nordbank, as the interest, credit rating and other material risks associated with the securities continue to be borne by HSH Nordbank. According to counterparty, the inflow of liquidity from the repo transaction is shown in the statement of financial position as a liability either to banks or customers. Interest payments are recognised under interest expense over the term of the transaction. Outflows of liquidity caused by reverse repos are reported as loans and advances to banks or customers. Correspondingly, the securities bought under repurchase agreements are not carried or measured in the statement of financial position. Agreed interest payments are booked as interest income over the term of the transaction. Receivables arising from repos are not netted against liabilities from repos involving the same counterparty, since the criteria for netting are not met.

The emphasis in repo transactions is on bonds from German public sector issuers and from bank issuers and the Bank's own bonds. Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalized on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out in equities with the emphasis being on bonds.

**I) Financial guarantee contracts**

Pursuant to IAS 39.9, a financial guarantee is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for the loss that the holder incurs because a specified debtor fails to make payment when due under the original or amended terms of a debt instrument. A credit derivative is treated as a financial guarantee based on the provisions of IAS 39 if the requirements of IAS 39.9 for the financial guarantee are met. Credit derivatives that do not meet the definition of a financial guarantee are allocated in accordance with the general valuation rules for the HfT category and valued at fair value.

Financial guarantees at HSH Nordbank are provided in the form of warranties, bank guarantees and letters of credit. Corresponding contingent liabilities are based on past events that may result in possible liabilities in the future. These liabilities arise as a result of the occurrence of unspecified future events where the amount required to meet them cannot be estimated with sufficient reliability. Financial guarantees are stated in accordance with the net method. If an adequately reliable estimate of the settlement amount is possible, a provision is recognised. If the premium payment to HSH Nordbank is distributed over the term of the financial guarantee, the guarantee will be stated as zero and the premium payment recognised on an accrual basis. If HSH Nordbank is the holder of a contract, the financial guarantee will be presented as collateral for the Group.

**II. Notes on selected items relating to financial instruments in the statement of financial position****1. Cash reserve**

Cash on hand, balances with central banks, treasury bills and discounted treasury notes are stated under cash reserve.

Both initial and subsequent measurement of assets (LaR) stated under cash reserve takes place at par value, which is equivalent to fair value due to its short-term nature.

Treasury bills and discounted treasury notes recognised under AfS are measured at fair value.

**2. Loans and advances**

Primarily assets from the loans and receivables (LaR) category are recognised in the statement of financial position under Loans and advances to banks and Loans and advances to customers. In addition, financial instruments in the categories DFV and AfS are recognised here. Carrying amounts of receivables which are an element of micro fair value hedge accounting are adjusted by the change in value attributed to the hedged risk.



Loans and receivables of the category LaR are stated gross (before deduction of impairments). Allowances for impairments are stated in a separate item Loan loss provisions, shown under Loans and advances as a deduction. Financial instruments in the DFV and AFS categories are stated net. Where loans and receivables have been acquired or incurred with the intention of trading, they are stated under trading assets. If the disposal of loans and advances was decided and initiated as at the balance sheet date and it is highly probable that it can be completed within the following twelve months, they are reclassified as Non-current assets held for sale and disposal groups.

Interest income from loans and advances to banks and customers is recorded under Interest income from lending and money market transactions. This also includes early repayment penalties from premature repayment of receivables. Premiums and discounts are accrued over the term of the loans and advances using the effective interest rate method. Accrued interest is also allocated to this item in the statement of financial position.

If it is determined that a loan or advance is impaired, the calculation of interest accruals in accordance with the contractual terms of the loan or advance is discontinued. Interest income is instead determined on the basis of the interest rate used to discount the future cash flows for determining the impairment amount (unwinding).

Fees charged that are directly linked to the granting of a loan are deferred and accrued over the term of the loan or advance. Fees for services that are provided over a certain period of time are recognised over this period in which the service is performed. Commissions associated with the provision of a certain service are recognised as at the date the service has been provided in full.

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

### 3. Positive and negative market value of hedge derivatives

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

### 4. Reconciling asset and liability items from the fair value hedge portfolio

The asset-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for assets. Similarly, the liability-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for liabilities.

### 5. Trading assets and trading liabilities

Only financial assets classified as HfT are stated under Trading assets. These include primary financial instruments held for trading purposes, particularly fixed income securities and pro rata interest, and also equities and other trading portfolios such as precious metals. Loans and loan commitments with hard syndication conditions are also reported here. A significant component continues to be derivatives with a positive market value which are either trading derivatives or not designated as a hedging derivative because they do not meet the requirements of hedge accounting.

Measurement gains and losses are recognised in Net trading income. Interest income and expenses as well as dividend income are disclosed under Net interest income. Dividends are recognised when the right to receive payment is established. Commission income and expenses are disclosed in Net commission income.

In a similar way to trading assets, trading liabilities only include financial obligations belonging to the category held for trading (HfT), which includes derivatives with a negative market value which are either trading derivatives or which have not been designated as a hedging derivatives because they do not meet the requirements of hedge accounting. Delivery commitments from short sales of securities and pro rata interest from these are also stated in this category.

### 6. Financial investments

Financial investments include particularly portfolios in the AFS category, and also securities or holdings in the categories LaR and to a lesser extent in the DFV category. This item includes fixed-interest securities including accrued interest, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, and holdings in joint ventures and associates not carried at equity. Realised gains and losses from financial investments are shown in the statement of financial position in Net income from financial investments to the extent they are not DFV holdings. Net interest income from financial investments is shown in Net interest income. Dividends on financial assets are recognised when the right to receive payment is established. If the disposal of equity holdings or interests in affiliated companies was decided

and initiated at the balance sheet date and it is highly probable that it can be completed within the following twelve months, they are reclassified as Non-current assets held for sale and disposal groups.

#### 7. Financial investments accounted for under the equity method

Shares in associates included in the Group financial statements under the equity method are reported in this item. Such ownership interests are measured in accordance with the guidelines of IAS 28 in conjunction with IFRS 11.

For the impairment testing of financial investments accounted for under the equity method the total carrying amount of the investment measured under the equity method is assessed for impairment as a single asset in accordance with IAS 36. Its realisable amount is always compared with the carrying amount for this purpose, if there are indications on applying IAS 39 that the investment could be impaired.

The realisable amount is defined as the greater of fair value less costs to sell and value in use. (See also Note 7.III.1 for details on the calculation of the value in use).

#### 8. Liabilities

Liabilities include financial liabilities in categories LIA and DFV. They are recognised as Liabilities to banks, Liabilities to customers, Subordinated debt and Securitised liabilities.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods securities categorised as LIA are measured pursuant to IAS 39.47 at amortised cost applying the effective interest method. Changes in the measurement of LIA financial instruments are only recorded when the relevant instrument is sold. Differences between acquisition costs and repayment amount (e.g. premiums and discounts) are allocated according to the effective interest rate method and taken to net interest income. Current gains and losses from measuring DFV financial instruments are stated under Net trading income.

The carrying amount of hedged liabilities which fulfil the requirements of micro fair value hedge accounting are adjusted by the gains and losses arising from fluctuations in fair value attributable to the hedged risk.

Repurchased own debentures are set off against securitised liabilities.

#### 9. Subordinated capital

Subordinated liabilities, silent participations and profit-sharing certificates are shown under Subordinated capital, due to their different nature from other liabilities. Silent participations are structured as so-called hybrid financial instruments without exception and so are some profit-sharing certificates (cf. Note 7.I.E.). No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met.

Based on their contractual structure and financial character, the participations of the typical silent partner represent debt, which is why they are stated under subordinated capital.

Subordinated capital categorised as LIA is recognised and measured initially at fair value (taking the transaction costs into account) and at amortised acquisition cost subsequently. Premiums and discounts are allocated on a constant effective interest rate basis.

Current gains and losses from measuring subordinated capital categorised as DFV are stated under Net trading income.

See Note 7.I.E. with regard to the treatment of hybrid financial instruments in the year under review.

### III. Notes on other items in the statement of financial position

#### 1. Intangible assets

Software acquired or developed in-house and acquired goodwill are accounted for under Intangible assets. In accordance with IAS 38.21, HSH Nordbank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss in the year they are incurred. Subsequent costs are only to be capitalised if they lead to a significant improvement of the software in the form of an expansion of the software's functionality. Since HSH Nordbank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Group's share in the remeasured net assets (shareholders' equity) of the company acquired.

The initial measurement of intangible assets is made at acquisition or production costs in accordance with IAS 38.24. They are subsequently measured at amortised acquisition or production cost.

Software developed in-house is subject to linear depreciation over two to ten years.

If there are indications of impairment, intangible assets are subject to an impairment test. For this test the carrying amount of these intangible assets is compared with the realisable amount. The realisable amount is defined as the greater of fair value less costs to sell and value in use. An asset is impaired if its carrying amount exceeds its realisable amount. Intangible assets with an indefinite useful life, intangible assets not ready for use as well as goodwill are subject to an annual impairment test even if there are no signs which suggest impairment.

Examination of the value of goodwill is carried out on the basis of cash-generating units. Cash-generating units of HSH Nordbank for non-strategic investments are defined based on the internal management level (global head structure). Each global head unit forms an own cash-generating unit. A company is regarded as a non-strategic investment if underlying subsidiaries are integrally involved in the business activities of the respective global heads. However, if the value in use is expected to be realised by cash inflows or an increase in value of a subsidiary alone, then the subsidiary itself continues to be a cash-generating unit (so-called strategic investment). Where the anticipated benefit can no longer be determined, a write-down is made.

The value in use of a cash generating unit is determined on the basis of forecast and discounted net cash flows. Net cash flows are usually determined on the basis of Group planning for a detailed planning period of five years. For subsequent periods the planned cash flows of the last year of the plan are taken into account allowing for a growth trend. The planned cash flows are based on a risk-adequate discount rate.

## 2. Property, plant and equipment

Land and buildings, plant and equipment and leasing assets under operating leases where HSH Nordbank acts as lessor are stated under this item. Property, plant and equipment is stated at cost of acquisition or production less linear depreciation in line with its expected useful life. Subsequent costs of acquisition or production

are capitalised provided they increase the economic utility of the asset concerned. Interest paid to finance acquisition costs of property, plant and equipment is recorded as an expense in the period concerned.

Physical wear and tear, technical obsolescence and legal and contractual restrictions are taken into consideration when determining useful life. For property, plant and equipment, linear depreciation is calculated over the following periods:

### CATEGORY OF PROPERTY, PLANT AND EQUIPMENT

|                           | Useful life in years   |
|---------------------------|--|
| Buildings                 | 50   |
| Leasehold improvements    | Calculation of residual life is based on the remaining term of the rental agreement. |
| Other operating equipment | 3 – 15   |
| Leasing assets            | Customary useful life  |

Property, plant and equipment is reviewed at each reporting date for signs which suggest impairment.

Gains and losses from the disposal of property, plant and equipment are shown under Other operating income in the statement of income. Repairs, servicing and other maintenance costs are recorded as an expense in the period concerned.

## 3. Investment property

Under the item Investment property properties are disclosed that are held to earn rental income or make capital gains but are not used for own operations. For mixed use properties a percentage allocation of the carrying amount is made. Own-used properties are reported under Property, plant and equipment; rented-out or empty parts are reported as Investment property. The properties are recognised at acquisition cost and depreciated on a straight-line basis. A useful life of 50 years is used for depreciation purposes. The capitalised income method is used in determining the fair value of investment properties, using market data from internal certified appraisers. The fair value is disclosed in Note 33.

#### 4. Non-current assets held for sale and disposal groups and liabilities relating to disposal groups

Non-current assets whose carrying amounts will be predominantly or primarily realised through a sale and not through continuing use must be classified as held for sale in accordance with IFRS 5 on the condition that a sale has already been decided on and initiated as of the reporting date, and is extremely likely to be completed within the following twelve months.

A disposal group is a group of assets which are sold to the same purchaser in a single transaction and at a single price. A disposal group can also include liabilities, if these are taken over by the purchaser together with the assets.

Non-current assets and disposal groups held for sale are to be measured at the lower of carrying amount or fair value less sale costs. Financial instruments continue to be measured according to the requirements of IAS 39.

#### 5. Provisions

Provisions are created where the Group has existing legal and actual obligations resulting from previous events and it is likely that meeting the obligation will require an outflow of resources and a reliable assessment of the amount of the obligation can be made. Provisions are examined and redetermined at least quarterly.

##### Pension provisions

The majority of employees of HSH Nordbank AG as well as employees of several domestic subsidiaries are entitled to benefits from different staff pension plans, which include both defined contribution and defined benefit plans.

In the case of defined contribution plans, contractual relationships with Provinzial NordWest Lebensversicherung AG for direct insurance policies partly financed by employees exist. As the insurance company is required to be a member of Protektor Lebensversicherungs-AG, the insured employees are protected against its insolvency, so that HSH Nordbank AG is not burdened even in the event of Provinzial NordWest Lebensversicherung AG's insolvency. These direct insurance policies represent insured benefits and are treated as defined contribution plans.

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and Section 2 (4) of the Investment Bank Act in the version of 23 January 1998. The pension payment amount depends on the final salary paid immediately prior to retirement, the salary trend up to retirement is irrelevant (no performance components). The pension plans provide for on-going pension payments and no capital payments. Minimum guarantees are not provided for. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

These defined benefit plans were closed in 2002.

HSH Nordbank AG also participates in a multi-employer plan which is run by BVV Versorgungskasse des Bankgewerbes e.V. Contributions are regularly paid with participation from the employees. The BVV tariffs provide for fixed pension payments with profit participation. For BVV, employers have a subsidiary liability for the liabilities of their employees. HSH Nordbank AG classifies the BVV plan as a defined-benefit joint pension scheme provided by a number of employers. As the BVV relief fund does not fully allocate its assets neither to the beneficiaries nor the member companies and as the information available for its accounting treatment as a defined benefit plan is insufficient to be able to allocate the assets and pension commitments to the current and former employees of the individual member companies, the plan is treated as a defined contribution plan for accounting purposes. It appears unlikely that there will be any call based on the statutory subsidiary liability.



The remeasurement of net defined benefit liabilities is disclosed under Other net income and under Equity in Retained earnings in the year in which they arise. Pension provisions are discounted as long-term liabilities. The interest expense included in expense for retirement pensions is recognised as part of Net interest income.

The following assumptions are made in calculating direct benefit pension liabilities:

#### ACTUARIAL ASSUMPTIONS

|   | 2015                                     | 2014                                     |
|---|--|--|
| Discount rate                                       |  |  |
| Domestic  | 2.37%                                    | 1.89%                                    |
| Foreign (weighted)                                  | 2.37%                                    | 1.89%                                    |
| Salary growth (weighted)                            | 2.0%                                     | 2.0%                                     |
| Adjustment rate for pensions                        |  |  |
| Domestic  |  |  |
| Employment contract 1 / old pension provision rules | individual                               | individual                               |
| New pension provision rules (weighted)              | 2.0%                                     | 2.0%                                     |
| Employment contract 4 (weighted)                    | 2.0%                                     | 2.0%                                     |
| Mortality, disability, etc.                         | Based on the 2005 G tables of K. Heubeck | Based on the 2005 G tables of K. Heubeck |

Actuarial assumptions are subject to a sensitivity analysis as described in Note 43.

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions.

#### Other provisions

Other provisions include provisions in the lending business, for restructuring, litigation risks and costs, for personnel expenses (without pensions) and other provisions.

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation

are presented in the section Loan loss provisions and impairment of financial instruments (Note 7.I.C).

Provisions for restructuring were created to the extent HSH Nordbank had developed and communicated a sufficiently detailed plan for such measures and had started to implement such plan. As soon as the obligation is sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to Other liabilities or Provisions for pensions and similar obligations as a matter of principle.

Ongoing expenses incurred in respect of measures taken in connection with the informal agreement reached with the EU Commission on 19 October 2015 which was in principle confirmed by the formal decision of the EU Commission on 02 May 2016 and set out in more detail, are also disclosed in “Result from restructuring” in the statement of income. Expenses incurred in this connection in the 2015 financial year are explained in more detail in Note 18.

Provisions for litigation costs comprise expected payments for court costs as well as for non-court costs in connection with litigation such as, e.g. attorneys' fees and other costs. For litigation in progress, only costs for the current jurisdictional level may be included within the provision.

Provisions for litigation risks are to be created when HSH Nordbank AG or any of its consolidated subsidiaries is the defendant in an action and the probability that the Bank will lose the action is presumed to be greater than 50%. Provisions include only payments for probable liability for damages and fines as well as costs of litigation at the current level of appeal. The general measurement rules on provisions apply. The mandatory disclosures defined in IAS 37.86 are made for litigation risks that are not considered likely to arise, but which cannot be entirely excluded.

Under Provisions for personnel expenses, in general all outstanding benefits within the personnel expenses are presented with the exception of pension obligations. In the HSH Nordbank, these are in particular provisions for variable performance-related pay, anniversary payments, partial retirement and long-term credits for hours. Provisions for anniversary payments and partial retirement are accounted for based on actuarial expert reports. Provisions for personnel expenses likewise include benefits in connection with the termination of employment explicitly set out in IAS 19.

In accordance with IAS 37, provisions are mainly determined based on the best estimate of management. The most likely amount necessary to meet the obligations identifiable on the reporting date is recognised. Long-term provisions are reported at present value to the extent discounting effects are significant. For discounting purposes, interest rates that are valid on the reporting date and are term-appropriate are used based on risk-free interest curves. Addition of accrued interest to be performed during the reporting year is reported under Net interest income.

## 6. Income taxes

Current tax assets and liabilities are stated at the amount of the anticipated refund from, or payment to, the tax authorities, applying the tax provisions of the countries in question.

Deferred tax assets are created for all deductible timing differences between the value of an asset or liability as measured by IFRS standards and its assigned value in tax terms, provided it is probable that taxable income will be available against which such differences can be utilised. Deferred tax liabilities are created for all taxable temporary differences. Deferred taxes on tax loss carry-forwards are stated as the amount likely to be used in future. Deferred taxes are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendment. Deferred tax assets are recognised and measured as deferred income tax claims and deferred tax liabilities as Deferred income tax liabilities.

HSH Nordbank prepares tax results planning for the purpose of assessing deferred tax asset impairment.

Expenses and income from deferred taxes are in principle recognised on an accrual basis in the statement of income under Income taxes, separate from actual tax expenses and income. In doing so, the accounting treatment of the underlying situation is taken into account. Deferred taxes are recognised in the statement of income if the item in the statement of financial position itself is recognised in profit or loss. Deferred taxes are charged or credited directly to equity in OCI, if the underlying item itself is charged or credited directly to equity (IAS 12.61A).

At each reporting date HSH Nordbank 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.

## 7. Other assets and other liabilities

All remaining assets and liabilities not allocable to any other item are stated under Other assets or Other liabilities. These include accrued expenses and income amongst other things.

The general recognition and measurement criteria for assets are observed. Initial recognition is at cost. For financial instruments included in this item the provisions of IAS 39 apply.

## IV. Leasing transactions

In accordance with IAS 17 a distinction is made between finance and operating leases. The allocation depends on whether substantially all risks and rewards are transferred to the lessee or not.

A finance lease is considered to be present where the economic risks and rewards as defined by IAS 17 lie with the lessee; consequently, the leased asset is reported in the latter's statement of financial position. All other leasing arrangements are classified as operating leases. The classification is made at the beginning of each lease.

### 1. Finance leases

In the case of finance leases, HSH Nordbank acts solely as lessor and recognises a receivable in the amount of the net investment value either under Loans and advances to banks or Loans and advances to customers, depending on the lessee.

Leasing rates due are divided into a repayment part which is not recognised in profit or loss and an interest part which is. The part taken to profit or loss is recognised in Net interest income.

Impairments of finance lease receivables attributable to changes in credit risk are recognised in loan loss provisions. Impairments not attributable to changes in credit risk, such as the impairment of the non-guaranteed residual value of a leasing receivable, are recognised in Other operating expense.

## 2. Operating leases

As lessor HSH Nordbank states leasing objects as assets measured at amortised cost under Property, plant and equipment or as investment property. Leasing instalments received are stated under Other operating income, and the corresponding depreciation stated in Administration expenses. HSH Nordbank reports rental expenses from contracts where HSH Nordbank acts as lessee as rental expenses under Administrative expenses.

## V. Currency translation

The Group financial statements of HSH Nordbank are drawn up in euros. The euro is the functional currency of the overwhelming majority of the individual financial statements included in the Group financial statements. However some Group companies have another functional currency.

The following principles are applied when translating foreign currency items within single entity financial statements and for translating the financial statements of Group companies which do not draw up their accounts in euro.

### 1. Presentation of foreign currency transactions in the Group financial statements

Initial measurement of assets and liabilities from all foreign currency transactions takes place at the spot rate for the transaction.

In subsequent measurement, monetary items are translated based on the spot mid-rate as of the reporting date. Non-monetary items that are stated in the statement of financial position at fair value are translated using the spot mid-rate applicable at the time of measurement and any other non-monetary items at the historical rate.

Expenses and income in foreign currency arising from the measurement of items in the statement of financial position are translated using the rates applied for translating the items in question. The transaction rates are used for all other expenses and income.

For monetary and non-monetary items measured at fair value, currency translation differences are always recognised in the statement of income of the period when the result arose. An exception are currency translation gains and losses from the measurement of non-monetary AFS financial instruments recognised at fair value, which are recognised in OCI.

### 2. Translation of financial statements prepared in foreign currency for inclusion in the Group financial statements

Assets and liabilities from financial statements denominated in foreign currencies are translated at the period-end rate. Average rates for the reporting period are used to translate expenses and income. With the exception of the revaluation reserve reported to be included in the financial statements, which is translated at the closing rate, equity is translated at historic rates (date of the transaction).

Any differences arising from this method of translation are reported under OCI and under Equity in the Currency reserve.

## NOTES ON THE GROUP STATEMENT OF INCOME

### 8. NET INTEREST INCOME

| NET INTEREST INCOME<br>(€ m)  | 2015         | 2014         |
|---|--------------|--------------|
| Interest income from  |              |              |
| Lending and money market transactions                                       | 1,569        | 1,685        |
| Fixed-interest securities   | 329          | 399          |
| Trading transactions  | 9            | 14           |
| Derivative financial instruments  | 2,211        | 2,800        |
| Unwinding   | 207          | 215          |
| Disposal of receivables   | 26           | -            |
| Current income from   |              |              |
| Equities and other non-fixed-interest securities                            | 9            | 9            |
| Affiliated companies  | -            | 1            |
| Equity holdings in non-affiliated companies                                 | 29           | 6            |
| Other holdings  | 8            | 9            |
| <b>Interest income</b>  | <b>4,397</b> | <b>5,138</b> |
| of which attributable to financial instruments not classified as HFT or DFV | 1,925        | 2,076        |
| Negative interest resulting from  |              |              |
| lending and money market transactions                                       | -9           | -1           |
| derivative financial instruments  | -46          | -18          |
| <b>Negative interest</b>  | <b>-55</b>   | <b>-19</b>   |
| Interest expenses for   |              |              |
| Liabilities to banks  | 219          | 286          |
| Liabilities to customers  | 625          | 764          |
| Securitised liabilities   | 434          | 511          |
| Subordinated capital  | 82           | 89           |
| Other liabilities   | 10           | 71           |
| Disposal of receivables   | 12           | 6            |
| Derivative financial instruments  | 2,061        | 2,605        |
| <b>Interest expenses</b>  | <b>3,443</b> | <b>4,332</b> |
| of which attributable to financial instruments not classified as HFT or DFV | 841          | 1,172        |
| Positive interest for   |              |              |
| derivative financial instruments  | -29          | -6           |
| <b>Positive interest</b>  | <b>-29</b>   | <b>-6</b>    |
| Net income from re-estimating interest and repayment cash flows             | 214          | 6            |
| Net income from discounting and compounding                                 | -110         | -213         |
| <b>Net income from hybrid financial instruments</b>                         | <b>104</b>   | <b>-207</b>  |
| of which attributable to financial instruments not classified as HFT or DFV | 104          | -207         |
| <b>Total</b>  | <b>1,032</b> | <b>586</b>   |

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

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

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

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised cost, the return on which is profit-related and which participate in the net loss for the year and accumulated losses of the Bank.

The total of current participation in losses (not allowing for anticipated reversals of impairment losses) relating to the 2015 financial year was € 39 million (previous year: € 121 million).

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

The cumulative net income from hybrid financial instruments amounts to € 461 million as at 31 December 2015 (previous year: € 357 million). € 1,644 million are attributable to the result from re-estimating interest and principal repayment flows (previous year: € 1,430 million) and € -1,183 million are attributable to the income/loss from discounting and compounding (previous year: € -1,073 million).

The difference between the valuation for tax purposes and measurement under IAS 39.A8 results in deferred tax assets of € 5 million (previous year: € 33 million).



## 9. NET COMMISSION INCOME

### NET COMMISSION INCOME

| (€ m)   | 2015       | 2014       |
|---|------------|------------|
| Commission income from  |            |            |
| Lending business  | 71         | 97         |
| Securities business   | 20         | 27         |
| Guarantee business  | 22         | 19         |
| Payments and account transactions as well as documentary business | 23         | 22         |
| Other commission income   | 13         | 14         |
| <b>Commission income</b>  | <b>149</b> | <b>179</b> |
| Commission expense from   |            |            |
| Lending business  | 3          | 8          |
| Securities business   | 17         | 24         |
| Guarantee business  | 6          | 7          |
| Payments and account transactions as well as documentary business | 4          | 4          |
| Other commission expenses   | 5          | 6          |
| <b>Commission expenses</b>  | <b>35</b>  | <b>49</b>  |
| <b>Total</b>  | <b>114</b> | <b>130</b> |

Financial instruments not classified as HfT or DFV accounted for € 113 million (previous year: € 129 million) of Net commission income.

## 10. RESULT FROM HEDGING

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

### RESULT FROM HEDGING

| (€ m)  | 2015      | 2014       |
|--|-----------|------------|
| Fair value changes from hedging transactions | -47       | 18         |
| Micro fair value hedge                       | -21       | -44        |
| Portfolio fair value hedge                   | -26       | 62         |
| Fair value changes from underlyings          | 59        | -58        |
| Micro fair value hedge                       | 23        | 43         |
| Portfolio fair value hedge                   | 36        | -101       |
| <b>Total</b>                                 | <b>12</b> | <b>-40</b> |

## 11. NET TRADING INCOME

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

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

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

In the period under review, changes in value related to changes in the credit spread rather than to market interest rate changes for liabilities in the category DFV amounted to € 30 million (previous year: € -54 million). In cumulative terms, a total of € 2 million (previous year: € -30 million) is attributable to changes in the credit spread.

As a result of the enhancement (change in estimate) to the method used to determine the fair value for derivatives collateral costs were included for the first time in the reporting period in the fair value for unsecured OTC derivatives via a funding valuation adjustment. The profit and loss effect of € -20 million relating to this is reflected in Net trading income.

### NET TRADING INCOME

| (€ m)                               | 2015       | 2014       |
|-------------------------------------|------------|------------|
| Bonds and interest rate derivatives |            |            |
| HfT                                 | 128        | -158       |
| DFV                                 | 29         | 269        |
| <b>Subtotal</b>                     | <b>157</b> | <b>111</b> |
| Equities and equity derivatives     |            |            |
| HfT                                 | 56         | 20         |
| DFV                                 | -52        | -24        |
| <b>Subtotal</b>                     | <b>4</b>   | <b>-4</b>  |
| Other products                      |            |            |
| HfT                                 | -79        | -46        |
| DFV                                 | 2          | -          |
| <b>Subtotal</b>                     | <b>-77</b> | <b>-46</b> |
| <b>Total</b>                        | <b>84</b>  | <b>61</b>  |

Net trading income includes net income from foreign currency of € -79 million (previous year: € -55 million).

During the reporting period € -1 million (previous year: € 28 million) of the changes in fair value of the financial assets categorised as DFV related to changes in the credit spread rather changes in market interest rates. In cumulative terms, a total of € -16 million (previous year: € -2 million) is attributable to changes in the credit spread.

## 12. NET INCOME FROM FINANCIAL INVESTMENTS

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

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 42 million (previous year: € 27 million) were disposed of. This resulted in realised income of € 6 million (previous year: € 11 million). Remaining instruments of this kind were written down by € 7 million (previous year: € 1 million).

### NET INCOME FROM FINANCIAL INVESTMENTS

| (€ m)   | 2015      | 2014       |
|---|-----------|------------|
| Classified as AfS   |           |            |
| + Realised gains/losses (-)                                   | 62        | 135        |
| - Write-downs   | 48        | 3          |
| + Write-ups   | -         | 2          |
| <b>Subtotal</b>   | <b>14</b> | <b>134</b> |
| Classified as LaR   |           |            |
| + Realised gains/losses (-)                                   | -12       | 37         |
| - Write-downs   | 16        | 92         |
| + Write-ups   | 43        | 70         |
| <b>Subtotal</b>   | <b>15</b> | <b>15</b>  |
| + Reversal of portfolio valuation allowances (LaR portfolios) | 25        | 20         |
| <b>Subtotal</b>   | <b>25</b> | <b>20</b>  |
| <b>Total</b>  | <b>54</b> | <b>169</b> |

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

As at the 31 December 2015 balance sheet date, HSH Nordbank owns shares in one associate and one joint venture (previous year: three associates and one joint venture) that are included in the Group financial statements under the equity method (see Note 5).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 31 December 2015 is summed up below.

### NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

| (€ m)                              | 2015     | 2014     |
|------------------------------------|----------|----------|
| Pro rata net income for the period | -        | 2        |
| <b>Total</b>                       | <b>-</b> | <b>2</b> |

The deconsolidation of the companies Belgravia Shipping Ltd. and Prime 2006-1 Funding Limited Partnership did not have any income effect.

HSH Nordbank's share in the current losses of companies no longer recognised amounted to € 0 million (previous year: € -18 million). The accumulated pro rata share in the losses of these companies not to be recognised amounted to € 0 million (previous year: € -32 million). Current losses of companies that no longer had to be recognised in the previous year period related solely to associates. The previous year amounts for accumulated unrecognised pro rata losses in companies comprised € 30 million for associates and € 2 million for joint ventures. The decrease compared to the previous year is attributable to the deconsolidation of Belgravia Shipping Ltd. and Prime 2006-1 Funding Limited Partnership as well as reclassification of the shares held in Relacom Management AB to held for sale (see Note 5) in the reporting year.

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

## 14. LOAN LOSS PROVISIONS

| <b>LOAN LOSS PROVISIONS</b>   |               |              |
|---|---------------|--------------|
| (€ m)   | <b>2015</b>   | 2014         |
| – Expense from additions to valuation allowances  | 3,966         | 1,559        |
| + Income from the reversal of valuation allowances  | 893           | 1,028        |
| <b>Result from changes in valuation allowances</b>  | <b>-3,073</b> | <b>-531</b>  |
| Expenses from allocations to provisions in the lending business   | 36            | 18           |
| + Income from reversals of provisions in the lending business   | 26            | 66           |
| <b>Result from changes to provisions in the lending business</b>  | <b>-10</b>    | <b>48</b>    |
| Direct write-downs  | 86            | 201          |
| + Payments received on loans and advances previously written down   | 149           | 198          |
| <b>Result from other changes to loan loss provisions</b>  | <b>63</b>     | <b>-3</b>    |
| <b>Result from changes in loan loss provisions before currency translation gains or losses and compensation</b> | <b>-3,020</b> | <b>-486</b>  |
| <b>Currency translation gains or losses on loan loss provisions denominated in foreign currency</b>             | <b>-411</b>   | <b>-339</b>  |
| <b>Compensation under the second loss guarantee</b>   | <b>3,077</b>  | <b>1,401</b> |
| <b>Total loan loss provisions</b>   | <b>-354</b>   | <b>576</b>   |

With regard to the compensation item related to HSH Finanzfonds AöR please refer to Note 2.

Direct write-downs of € 86 million (previous year: € 201 million) relate entirely to Loans and advances to customers.

Loan loss provisions in on-balance-sheet lending business relate exclusively to loans and advances classified as LaR. The following table shows the net changes:

| <b>NET CHANGES IN LOAN LOSS PROVISIONS</b>              |               |             |
|---|---------------|-------------|
| (€ m)   | <b>2015</b>   | 2014        |
| Individual valuation allowances                         | -2,822        | -566        |
| Portfolio valuation allowances                          | -251          | 35          |
| <b>Net change in valuation allowances</b>               | <b>-3,073</b> | <b>-531</b> |
| Provisions for specific risks                           | -10           | 42          |
| Provisions for portfolio risks                          | -             | 6           |
| <b>Net change in provisions in the lending business</b> | <b>-10</b>    | <b>48</b>   |



## 15. ADMINISTRATIVE EXPENSES

### ADMINISTRATIVE EXPENSES

| (€ m)   | 2015       | 2014       |
|---|------------|------------|
| Personnel expenses  | 277        | 296        |
| Operating expenses  | 302        | 303        |
| Depreciation on property, plant and equipment and amortisation on intangible assets | 55         | 125        |
| <b>Total</b>  | <b>634</b> | <b>724</b> |

### PERSONNEL EXPENSES

| (€ m)   | 2015       | 2014       |
|---|------------|------------|
| Wages and salaries  | 227        | 238        |
| Social security contributions   | 33         | 34         |
| Of which employer contributions to government-sponsored pension plans | 15         | 16         |
| Expenses for pensions and support                                     | 17         | 24         |
| <b>Total</b>  | <b>277</b> | <b>296</b> |

Please refer to Note 43 for detailed information on expenses for pensions and support as well as expenses for defined contribution plans.

### OPERATING EXPENSES

| (€ m)  | 2015       | 2014       |
|--|------------|------------|
| IT costs   | 108        | 98         |
| Costs for external services and project work                   | 63         | 62         |
| Legal service costs  | 42         | 37         |
| Expenses for land and buildings                                | 22         | 31         |
| Obligatory contributions and expenses related to corporate law | 9          | 6          |
| Costs of advertising, PR and promotional work                  | 7          | 8          |
| Expenses on plant and equipment                                | 1          | 1          |
| Other expenses   | 50         | 60         |
| <b>Total</b>   | <b>302</b> | <b>303</b> |

Depreciation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

### DEPRECIATION

| (€ m)                             | 2015      | 2014       |
|-----------------------------------|-----------|------------|
| Scheduled depreciation on         |           |            |
| Plant and equipment               | 5         | 8          |
| Property                          | 4         | 6          |
| Acquired software                 | 7         | 8          |
| Software developed in-house       | 6         | 14         |
| Leasing assets                    | 15        | 21         |
| Technical equipment and machinery | 5         | 1          |
| Unscheduled depreciation on       |           |            |
| Property                          | 5         | 50         |
| Leasing assets                    | 8         | 6          |
| Technical equipment and machinery | -         | 11         |
| <b>Total</b>                      | <b>55</b> | <b>125</b> |

Of the scheduled depreciation on property € 2 million (previous year: € 4 million) related to investment property. From unscheduled depreciation on property € 5 million (previous year: € 50 million) related to investment property resulting from a sustained deterioration of the relevant property market environment.

The unscheduled depreciation on leasing assets results from the unscheduled depreciation on the freight aircraft of RDM Limited in the amount of € 8 million (previous year: € 6 million) due to a permanent impairment.

The total unscheduled depreciations are attributable to the Restructuring Unit segment.

## 16. OTHER OPERATING INCOME

### OTHER OPERATING INCOME

| (€ m)   | 2015       | 2014       |
|---|------------|------------|
| Income  |            |            |
| from reversal of other provisions and release of liabilities                | 35         | 29         |
| from leasing transactions   | 33         | 33         |
| from the reversal of provisions for processing fees in the lending business | 29         | –          |
| from investment property (rental income)                                    | 13         | 23         |
| from legal disputes   | 8          | 15         |
| from interest on receivables from the tax office                            | –          | 25         |
| Other income  | 86         | 94         |
| <b>Total income</b>   | <b>204</b> | <b>219</b> |
| Expenses  |            |            |
| from the disposal of receivables  | 106        | –          |
| from tax risks  | 23         | –          |
| from additions to other provisions  | 19         | 20         |
| from the amortisation of goodwill   | 13         | –          |
| for investment property   | 8          | 14         |
| For interest expenses pursuant to Section 233 AO                            | –          | 34         |
| from the addition to provisions for processing fees in the lending business | –          | 33         |
| Other expenses  | 39         | 40         |
| <b>Total expenses</b>   | <b>208</b> | <b>141</b> |
| Income from disposal of property, plant and equipment                       | 9          | 15         |
| Income/loss arising on the deconsolidation of companies                     | 33         | 30         |
| <b>Total</b>  | <b>38</b>  | <b>123</b> |

The item Other operating expenses includes expenses from the disposal of receivables. They relate to receivables in the holding category LaR without any acute default risks. They represent charges from the accelerated winding down of legacy loans from different

asset classes (in particular real estate, shipping and energy loans). With regard to amortisation on goodwill as well as the income or loss arising on the deconsolidation of companies please refer to our explanations in Note 5.

## 17. EXPENSES FOR BANK LEVY AND DEPOSIT GUARANTEE FUND

### EXPENSES FOR BANK LEVY AND DEPOSIT GUARANTEE FUND

| (€ m)   | 2015      | 2014     |
|---|-----------|----------|
| Expenses for European bank levy and deposit guarantee | 50        | 1        |
| <b>Total</b>  | <b>50</b> | <b>1</b> |

The annual contribution for the bank levy harmonised at the EU level by the Bank Recovery and Resolution Directive (BRRD) has been fixed by FMSA as the Resolution Authority responsible for Germany for the first time in November 2015.

In the previous year this expense for the German bank levy was included in Other operating expenses. The previous year figures have been adjusted accordingly.

The expense for the deposit guarantee of the German Savings Bank Finance Group (Sparkassen Finanzgruppe) is also disclosed under this item. The contribution was levied for the first time in the year under review based on the Deposit Guarantee Act (Einlagensicherungsgesetz).

## 18. RESULT FROM RESTRUCTURING

### RESULT FROM RESTRUCTURING

| (€ m)   | 2015       | 2014       |
|---|------------|------------|
| Personnel expenses  | 1          | 99         |
| Operating expenses  | 36         | 37         |
| Income from reversal of provisions and the release of liabilities | 6          | 52         |
| <b>Total</b>  | <b>-31</b> | <b>-84</b> |

The programme for the reduction of operating and personnel expenses initiated in the fourth quarter of 2014 was continued during the financial year. Project costs were incurred in particular in the IT area, which are reflected in restructuring operating expenses.

Legal and strategy advice costs have been incurred in the current financial year in connection with the informal agreement reached with the EU Commission on 19 October 2015 which was confirmed by the formal decision of the EU Commission on 02 May 2016 and set out in more detail, which are attributable to the restructuring of HSH Nordbank.

## 19. EXPENSES FOR GOVERNMENT GUARANTEES

### EXPENSES FOR GOVERNMENT GUARANTEES

| (€ m)               | 2015       | 2014       |
|---------------------|------------|------------|
| HSH Finanzfonds AöR | 473        | 521        |
| <b>Total</b>        | <b>473</b> | <b>521</b> |

In June 2013 the guarantee granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg was replenished to € 10 billion. € 69 million of the one-off payment for the replenishment of the second loss guarantee was recognised on a pro rata temporis basis in the reporting year (previous year: € 116 million). The share of the premium relating to partial guarantee Two (CDS) is disclosed under the line item Hedging effect of the credit derivative in the amount of € 2 million.

## 20. INCOME TAXES

### INCOME TAXES

| (€ m)                                    | 2015       | 2014       |
|--|------------|------------|
| Corporate tax and solidarity surcharge   |            |            |
| Domestic                                 | -          | -          |
| Foreign                                  | 1          | -          |
| <b>Current income taxes</b>              | <b>1</b>   | <b>-</b>   |
| Income tax from previous years           | 12         | -35        |
| <b>Subtotal current income tax</b>       | <b>13</b>  | <b>-35</b> |
| Income from deferred tax                 |            |            |
| from temporary differences               | 254        | 128        |
| from losses carried forward              | 91         | 25         |
| from consolidation                       | -6         | -          |
| <b>Subtotal deferred income tax</b>      | <b>339</b> | <b>153</b> |
| <b>Income tax expense (+)/income (-)</b> | <b>352</b> | <b>118</b> |

The tax expense during the 2015 year is marked by deferred tax expense as a result of the change in temporary differences, in particular due to structural measures.

A write-down of € 22 million of deferred tax assets recognised on temporary differences was required due to the lack of recoverability.

The possibility of using existing tax loss carryforwards is reduced in the future by the formation of the holding company and the expected privatisation. Deferred tax assets recognised on tax loss carryforwards were therefore fully written down.

Deferred taxes on tax loss carryforwards are measured on the basis of a recoverability analysis, which is based on the corporate plan. There are currently only recoverable loss carryforwards for the taxable permanent establishment in New York, provided that deferred tax liabilities have been recognised on temporary differences.

**RECONCILIATION INCOME TAXES**

| (€ m/%)   | 2015       | 2014       |
|---|------------|------------|
| Group net result  | 98         | 160        |
| Income taxes  | 352        | 118        |
| Income before taxes incl. income from transfer of losses  | 450        | 278        |
| Domestic income tax rate to be applied in %   | 31.68      | 31.69      |
| <b>Imputed income tax expenses in the financial year</b>  | <b>143</b> | <b>88</b>  |
| Tax effects due to  |            |            |
| Appreciation/depreciation of deferred taxes on losses carried forward and temporary differences | 168        | 50         |
| Differing effective tax rates in Germany and abroad   | -16        | -154       |
| Non-deductible expenses   | 23         | 197        |
| Corrections to trade taxes  | -7         | 7          |
| Changes in tax rate   | 1          | -          |
| Taxes for previous years  | 32         | -10        |
| Tax-free income   | -14        | -60        |
| Appreciation/depreciation of deferred taxes on temporary differences and miscellaneous          | 22         | -          |
| <b>Total tax expense (+)/income (-)</b>   | <b>352</b> | <b>118</b> |

Tax expense has also been incurred as a result of the recognition of provisions for tax risks based on a changed risk estimate due to court rulings made during the financial year and the insights gained from the ongoing audit.

In calculating taxes for 2015, a rate of 31.68% (previous year: 31.69%) was used for domestic taxes.

Further major impacts result from non-deductible expenses, tax-exempt income and different tax rates in foreign jurisdictions.

**21. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS**

Net gains and losses from financial instruments include both realised gains and measurement gains within Net trading income and Net income from financial investments, the hedging effect of the credit derivative under the second loss guarantee as well as loan loss provisions with regard to credit business shown on the statement of financial position, broken down into IAS 39 categories. Neither Net interest nor Net commission income is included in this item.

Derecognition of the fair value changes cumulated in equity associated with value adjustments and sales of financial instruments categorised as AfS is shown in Note 48.

**NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS**

| (€ m)        | 2015       | 2014       |
|--------------|------------|------------|
| DFV          | -21        | 245        |
| AfS          | 14         | 134        |
| LaR          | -304       | 564        |
| HfT          | 763        | -183       |
| <b>Total</b> | <b>452</b> | <b>760</b> |



## 22. EARNINGS PER SHARE

For the calculation of Earnings per share, the Group net result attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, HSH Nordbank AG has not issued any diluted forms of capital as at 31 December 2015, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

| <b>EARNINGS PER SHARE</b>  |             |      |
|--|-------------|------|
|  | <b>2015</b> | 2014 |
| Earnings per share   |             |      |
| Attributable Group net result (€ m)<br>- undiluted/diluted           | 99          | 159  |
| <b>Number of shares (million)</b>                                    |             |      |
| Average number of ordinary shares<br>outstanding – undiluted/diluted | 302         | 302  |
| <b>Earnings per share (€)</b>  |             |      |
| Undiluted  | 0.33        | 0.53 |
| Diluted  | 0.33        | 0.53 |

## NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

### 23. CASH RESERVE

#### CASH RESERVE

| (€ m)   | 2015         | 2014         |
|---|--------------|--------------|
| Cash on hand  | 6            | 12           |
| Balances at central banks   | 2,693        | 5,542        |
| of which at the Deutsche Bundesbank   | 2,668        | 2,071        |
| Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions | 695          | 413          |
| of which eligible for refinancing at the Deutsche Bundesbank  | 410          | 406          |
| <b>Total</b>  | <b>3,394</b> | <b>5,967</b> |

### 24. LOANS AND ADVANCES TO BANKS

#### LOANS AND ADVANCES TO BANKS

| (€ m)                                    | 2015         |              |              | 2014         |              |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
|  | Domestic     | Foreign      | Total        | Domestic     | Foreign      | Total        |
| Payable on demand                        | 760          | 2,729        | 3,489        | 908          | 3,568        | 4,476        |
| Other loans and advances                 | 1,966        | 140          | 2,106        | 2,259        | 180          | 2,439        |
| <b>Total before loan loss provisions</b> | <b>2,726</b> | <b>2,869</b> | <b>5,595</b> | <b>3,167</b> | <b>3,748</b> | <b>6,915</b> |
| Loan loss provisions                     | –            | 15           | 15           | –            | 15           | 15           |
| <b>Total after loan loss provisions</b>  | <b>2,726</b> | <b>2,854</b> | <b>5,580</b> | <b>3,167</b> | <b>3,733</b> | <b>6,900</b> |

€ 809 million (previous year: € 790 million) of Loans and advances to banks have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 3,612 million (previous year: € 4,448 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

## 25. LOANS AND ADVANCES TO CUSTOMERS

### LOANS AND ADVANCES TO CUSTOMERS

| (€ m)                                    | 2015          |               |               | 2014          |               |               |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
|  | Domestic      | Foreign       | Total         | Domestic      | Foreign       | Total         |
| Retail customers                         | 1,273         | 141           | 1,414         | 1,452         | 155           | 1,607         |
| Corporate clients                        | 23,694        | 26,040        | 49,734        | 28,699        | 31,021        | 59,720        |
| Public authorities                       | 4,800         | 627           | 5,427         | 5,398         | 611           | 6,009         |
| <b>Total before loan loss provisions</b> | <b>29,767</b> | <b>26,808</b> | <b>56,575</b> | <b>35,549</b> | <b>31,787</b> | <b>67,336</b> |
| Loan loss provisions                     | 2,889         | 2,921         | 5,810         | 2,926         | 3,194         | 6,120         |
| <b>Total after loan loss provisions</b>  | <b>26,878</b> | <b>23,887</b> | <b>50,765</b> | <b>32,623</b> | <b>28,593</b> | <b>61,216</b> |

Of Loans and advances to customers, holdings of € 35,598 million (previous year: € 41,295 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 1,313 million (previous year: € 1,498 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 106 million (previous year: € 111 million). The gross investment value of the leasing transactions is € 113 million (previous year: € 120 million). Further details on leasing transactions can be found in Note 61.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

## 26. LOAN LOSS PROVISIONS

### LOAN LOSS PROVISIONS

| (€ m)   | 2015         | 2014         |
|---|--------------|--------------|
| Valuation allowances for loans and advances to banks  | 15           | 15           |
| Valuation allowances for loans and advances to customer and non-current assets held for sale and disposal groups                | 8,212        | 6,120        |
| <b>Valuation allowances in the lending business</b>   | <b>8,227</b> | <b>6,135</b> |
| Compensation under the second loss guarantee  | -7,162       | -4,074       |
| <b>Loan loss provisions for items in the statement of financial position</b>  | <b>1,065</b> | <b>2,061</b> |
| Provisions in the lending business  | 107          | 98           |
| <b>Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business</b> | <b>1,172</b> | <b>2,159</b> |

The individual and portfolio valuation allowances are determined at first without taking the hedging effect of the second loss guarantee into account. The hedging effect is then mapped in the statement of financial position through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 2). Impairment losses of € 2,402 million, of which € 2,400 million relate to the portfolio to be transferred to the resolution institution, are attributable to the Non-current assets held for sale line item in the statement of financial position.

The portfolio, which will be transferred to the market at a later date, accounts for a further € 730 million. Provisions include € 2 million for transactions in the transfer portfolio and € 1 million for transactions in the market portfolio.

The expected fair values or transfer values are taken into account for determining loan loss provisions of both portfolios.

The development of loan loss provisions for banks during the period under review was as follows:

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

| (€ m)                    | Individual valuation allowances |            | Portfolio valuation allowances |          | Total     |            |
|--------------------------|---------------------------------|------------|--------------------------------|----------|-----------|------------|
|                          | 2015                            | 2014       | 2015                           | 2014     | 2015      | 2014       |
| <b>As at 1 January</b>   | <b>14</b>                       | <b>125</b> | <b>1</b>                       | <b>1</b> | <b>15</b> | <b>126</b> |
| Additions                | -                               | -          | 1                              | -        | 1         | -          |
| Reversals                | -                               | 4          | 1                              | -        | 1         | 4          |
| Utilisation              | -                               | 90         | -                              | -        | -         | 90         |
| Reclassifications        | -                               | -18        | -                              | -        | -         | -18        |
| Unwinding                | -                               | -          | -                              | -        | -         | -          |
| Exchange rate changes    | -                               | 1          | -                              | -        | -         | 1          |
| <b>As at 31 December</b> | <b>14</b>                       | <b>14</b>  | <b>1</b>                       | <b>1</b> | <b>15</b> | <b>15</b>  |

Loan loss provisions for customers during the period under review developed as follows:

#### DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMER AND NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS BEFORE COMPENSATION

| (€ m)                                 | Individual valuation allowances |              | Portfolio valuation allowances |            | Total        |              |
|---------------------------------------|---------------------------------|--------------|--------------------------------|------------|--------------|--------------|
|                                       | 2015                            | 2014         | 2015                           | 2014       | 2015         | 2014         |
| <b>As at 1 January</b>                | <b>5,777</b>                    | <b>5,811</b> | <b>343</b>                     | <b>360</b> | <b>6,120</b> | <b>6,171</b> |
| Additions                             | 3,714                           | 1,559        | 251                            | -          | 3,965        | 1,559        |
| Reversals                             | 892                             | 989          | -                              | 35         | 892          | 1,024        |
| Utilisation                           | 1,269                           | 861          | -                              | -          | 1,269        | 861          |
| Reclassifications                     | -                               | 18           | -                              | -          | -            | 18           |
| Unwinding                             | -207                            | -215         | -                              | -          | -207         | -215         |
| Changes in the scope of consolidation | 60                              | 52           | -                              | -          | 60           | 52           |
| Exchange rate changes                 | 418                             | 402          | 17                             | 18         | 435          | 420          |
| <b>As at 31 December</b>              | <b>7,601</b>                    | <b>5,777</b> | <b>611</b>                     | <b>343</b> | <b>8,212</b> | <b>6,120</b> |

The valuation allowances relate exclusively to items categorised as loans and receivables (LaR). The total volume of loans impaired amounts to € 15,766 million (previous year: € 13,303 million), of

which € 4,908 million relate to receivables disclosed under the line item Non-current assets held for sale and disposal groups.



## 27. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

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

Of hedging derivatives, holdings of € 762 million (previous year: € 1,289 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Negative fair value of the hedging derivatives. The overall changes in this item are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

### POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

| (€ m)  | 2015       | 2014         |
|--|------------|--------------|
| Positive fair value of derivatives used in micro fair value hedges     | 52         | 102          |
| Positive fair value of derivatives used in portfolio fair value hedges | 731        | 1,303        |
| <b>Total</b>   | <b>783</b> | <b>1,405</b> |

## 28. TRADING ASSETS

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

Trading assets of € 6,962 million (previous year: € 8,283 million) have a residual maturity of more than one year.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

### TRADING ASSETS

| (€ m)   | 2015         | 2014         |
|---|--------------|--------------|
| Bonds and debentures                                  |              |              |
| from public-sector issuers                            | 1,264        | 1,127        |
| negotiable and listed                                 | 1,264        | 1,127        |
| from other issuers                                    | 488          | 344          |
| negotiable and listed                                 | 454          | 313          |
| negotiable and not listed                             | 34           | 31           |
| <b>Bonds and debentures</b>                           | <b>1,752</b> | <b>1,471</b> |
| <b>Debentures and other fixed-interest securities</b> | <b>1,752</b> | <b>1,471</b> |
| Shares and other non-fixed-interest securities        |              |              |
| negotiable and listed                                 | -            | 2            |
| <b>Shares and other non-fixed-interest securities</b> | <b>-</b>     | <b>2</b>     |
| Positive fair value of financial derivatives          |              |              |
| Interest rate-related transactions                    | 4,731        | 6,427        |
| currency-related business                             | 238          | 138          |
| other business  | 612          | 1,113        |
| <b>Positive fair value of financial derivatives</b>   | <b>5,581</b> | <b>7,678</b> |
| Other, including promissory notes held for trading    | 23           | 9            |
| <b>Total</b>  | <b>7,356</b> | <b>9,160</b> |

## 29. FINANCIAL INVESTMENTS

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

### FINANCIAL INVESTMENTS

| (€ m)   | 2015          | 2014          |
|---|---------------|---------------|
| Debt securities and other fixed-interest securities | 16,216        | 18,218        |
| negotiable and listed                               | 14,513        | 16,545        |
| negotiable and not listed                           | 1,703         | 1,673         |
| Shares and other non-fixed-interest securities      | 296           | 305           |
| negotiable and listed                               | 9             | 6             |
| negotiable and not listed                           | 145           | 143           |
| Equity holdings in non-affiliated companies         | 124           | 164           |
| negotiable and listed                               | 40            | 1             |
| negotiable and not listed                           | 7             | 93            |
| Interests in affiliated companies                   | -             | 1             |
| negotiable and listed                               | -             | -             |
| negotiable and not listed                           | -             | 1             |
| <b>Total</b>  | <b>16,636</b> | <b>18,688</b> |

Financial investments of € 15,114 million (previous year: € 16,891 million) have a residual maturity of more than one year.

Write-downs on debentures and other fixed-interest securities amount to € 360 million (previous year: € 384 million), on shares and other non-fixed-interest securities they amount to € 14 million as at the reporting date (previous year: € 12 million).

Portfolio valuation allowances amount to € 10 million (previous year: € 34 million).

Changes in individual and portfolio valuation allowances are recognised in Net income from financial investments.

This portfolio also contains shares and other non-fixed-interest securities measured at cost of € 137 million (previous year: € 140 million). Equity capital instruments accounted for at cost that relate to interests in affiliated companies and equity holdings in non-affiliated companies amount to € 75 million (previous year: € 164 million). There are currently no concrete disposal plans for these equity instruments.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 60.

Developments with regard to equity holdings and interests in affiliated companies are presented below:

#### DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES

| (€ m)   | Equity holdings in non-affiliated companies | Interests in affiliated companies | Total      |
|---|---|-----------------------------------|------------|
| <b>2015</b>   |   |                                   |            |
| <b>Acquisition costs as at 1 January 2015</b>       | <b>259</b>                                  | <b>3</b>                          | <b>262</b> |
| Additions   | 10  | –                                 | 10         |
| Disposals   | 24  | –                                 | 24         |
| Reclassifications                                   | –   | –                                 | –          |
| Exchange rate changes                               | –   | –                                 | –          |
| Changes in the scope of consolidation               | –   | –1                                | –1         |
| <b>As at 31 December 2015</b>                       | <b>245</b>                                  | <b>2</b>                          | <b>247</b> |
| <b>Amortisation as at 1 January 2015</b>            | <b>95</b>                                   | <b>2</b>                          | <b>97</b>  |
| Additions   | 44  | –                                 | 44         |
| Disposals   | 9   | –                                 | 9          |
| Reclassifications                                   | –   | –                                 | –          |
| Change in measurement recognised directly in equity | –9  | –                                 | –9         |
| Exchange rate changes                               | –   | –                                 | –          |
| <b>As at 31 December 2015</b>                       | <b>121</b>                                  | <b>2</b>                          | <b>123</b> |
| <b>Carrying amount as at 31 December 2015</b>       | <b>124</b>                                  | <b>–</b>                          | <b>124</b> |
| <b>Carrying amount as at 1 January 2015</b>         | <b>164</b>                                  | <b>1</b>                          | <b>165</b> |

#### DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES

| (€ m)   | Equity holdings in non-affiliated companies | Interests in affiliated companies | Total      |
|---|---|-----------------------------------|------------|
| <b>2014</b>                                   |   |                                   |            |
| <b>Acquisition costs as at 1 January 2014</b> | <b>307</b>                                  | <b>20</b>                         | <b>327</b> |
| Additions                                     | 16  | –                                 | 16         |
| Disposals                                     | 52  | 16                                | 68         |
| Reclassifications                             | –12   | –1                                | –13        |
| Exchange rate changes                         | –   | –                                 | –          |
| Changes in the scope of consolidation         | –   | –                                 | –          |
| <b>As at 31 December 2014</b>                 | <b>259</b>                                  | <b>3</b>                          | <b>262</b> |
| <b>Amortisation as at 1 January 2014</b>      | <b>127</b>                                  | <b>16</b>                         | <b>143</b> |
| Additions                                     | 2   | –                                 | 2          |
| Disposals                                     | 35  | 14                                | 49         |
| Reclassifications                             | –   | –                                 | –          |
| Exchange rate changes                         | 1   | –                                 | 1          |
| <b>As at 31 December 2014</b>                 | <b>95</b>                                   | <b>2</b>                          | <b>97</b>  |
| <b>Carrying amount as at 31 December 2014</b> | <b>164</b>                                  | <b>1</b>                          | <b>165</b> |
| <b>Carrying amount as at 1 January 2014</b>   | <b>180</b>                                  | <b>4</b>                          | <b>184</b> |



### 30. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

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

As at the reporting date, 31 December 2015, the HSH Nordbank Group owns shares in one associate and one joint venture that are included in the Group financial statements under the equity method (previous year: three associates and one joint venture). The carrying amount of these equity holdings was € 2 million as at 31 December 2015 (previous year: € 1 million).

An overview of and detailed information on the associates and joint ventures included in the Group financial statements are set out in Note 6. Net income from financial investments accounted for under the equity method is disclosed in Note 13.

Please see Note 29 for a summary of financial information related to financial investments not accounted for under the equity method.

### 31. INTANGIBLE ASSETS

The Intangible assets item comprises software developed in-house or acquired.

#### INTANGIBLE ASSETS

| (€ m)                   | 2015      | 2014      |
|-------------------------|-----------|-----------|
| Software                | 16        | 26        |
| Developed in-house      | 8         | 14        |
| Acquired                | 8         | 12        |
| Software in development | -         | 1         |
| Developed in-house      | -         | -         |
| Acquired                | -         | 1         |
| <b>Total</b>            | <b>16</b> | <b>27</b> |

Changes in the carrying amounts of intangible assets are shown below:

#### DEVELOPMENT IN INTANGIBLE ASSETS

| (€ m)   | Goodwill   | Software                    |                   | Software in development     |                   | Total      |
|---|------------|-----------------------------|-------------------|-----------------------------|-------------------|------------|
|   |            | Software developed in-house | Acquired software | Software developed in-house | Acquired software |            |
| <b>2015</b>                                   |            |                             |                   |                             |                   |            |
| <b>Acquisition costs as at 1 January 2015</b> | <b>217</b> | <b>98</b>                   | <b>170</b>        | -                           | <b>1</b>          | <b>486</b> |
| Additions                                     | 13         | -                           | 2                 | -                           | -                 | 15         |
| Disposals                                     | -          | -                           | 3                 | -                           | -                 | 3          |
| Reclassifications                             | -          | -                           | 1                 | -                           | -1                | -          |
| Changes in the scope of consolidation         | -40        | -                           | -                 | -                           | -                 | -40        |
| <b>As at 31 December 2015</b>                 | <b>190</b> | <b>98</b>                   | <b>170</b>        | -                           | -                 | <b>458</b> |
| <b>Amortisation as at 1 January 2015</b>      | <b>217</b> | <b>84</b>                   | <b>158</b>        | -                           | -                 | <b>459</b> |
| Additions                                     | 13         | 6                           | 7                 | -                           | -                 | 26         |
| Disposals                                     | -          | -                           | 3                 | -                           | -                 | 3          |
| Reclassifications                             | -          | -                           | -                 | -                           | -                 | -          |
| Changes in the scope of consolidation         | -40        | -                           | -                 | -                           | -                 | -40        |
| <b>As at 31 December 2015</b>                 | <b>190</b> | <b>90</b>                   | <b>162</b>        | -                           | -                 | <b>442</b> |
| <b>Carrying amount as at 31 December 2015</b> | <b>-</b>   | <b>8</b>                    | <b>8</b>          | -                           | -                 | <b>16</b>  |
| <b>Carrying amount as at 1 January 2015</b>   | <b>-</b>   | <b>14</b>                   | <b>12</b>         | -                           | <b>1</b>          | <b>27</b>  |

Goodwill of € 13 million, which was fully written off in the reporting year, resulted from the business combination with GmbH Altstadt concluded as at 1 April 2015. Further details on impairment losses can be found in Note 5. As in the previous year, the

remaining additions to acquisition costs relate to acquisitions, depreciations are made on a straight-line basis.

Changes in the scope of consolidation relate solely to disposals from the scope of consolidation.

#### DEVELOPMENT IN INTANGIBLE ASSETS

| (€ m)   | Software   |                             |                   | Software in development     |                   | Total      |
|---|------------|-----------------------------|-------------------|-----------------------------|-------------------|------------|
|   | Goodwill   | Software developed in-house | Acquired software | Software developed in-house | Acquired software |            |
| <b>2014</b>                                   |            |                             |                   |                             |                   |            |
| <b>Acquisition costs as at 1 January 2014</b> | <b>217</b> | <b>96</b>                   | <b>171</b>        | <b>2</b>                    | <b>-</b>          | <b>486</b> |
| Additions                                     | -          | -                           | 4                 | -                           | 1                 | 5          |
| Disposals                                     | -          | -                           | 2                 | -                           | -                 | 2          |
| Reclassifications                             | -          | 2                           | -3                | -2                          | -                 | -3         |
| Changes in the scope of consolidation         | -          | -                           | -                 | -                           | -                 | -          |
| <b>As at 31 December 2014</b>                 | <b>217</b> | <b>98</b>                   | <b>170</b>        | <b>-</b>                    | <b>1</b>          | <b>486</b> |
| <b>Amortisation as at 1 January 2014</b>      | <b>217</b> | <b>70</b>                   | <b>154</b>        | <b>-</b>                    | <b>-</b>          | <b>441</b> |
| Additions                                     | -          | 14                          | 8                 | -                           | -                 | 22         |
| Disposals                                     | -          | -                           | 2                 | -                           | -                 | 2          |
| Reclassifications                             | -          | -                           | -2                | -                           | -                 | -2         |
| Changes in the scope of consolidation         | -          | -                           | -                 | -                           | -                 | -          |
| <b>As at 31 December 2014</b>                 | <b>217</b> | <b>84</b>                   | <b>158</b>        | <b>-</b>                    | <b>-</b>          | <b>459</b> |
| <b>Carrying amount as at 31 December 2014</b> | <b>-</b>   | <b>14</b>                   | <b>12</b>         | <b>-</b>                    | <b>1</b>          | <b>27</b>  |
| <b>Carrying amount as at 1 January 2014</b>   | <b>-</b>   | <b>26</b>                   | <b>17</b>         | <b>2</b>                    | <b>-</b>          | <b>45</b>  |

As in the previous year, no research costs were incurred in the year under review in connection with the implementation of software developed in-house.

## 32. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

#### PROPERTY, PLANT AND EQUIPMENT

| (€ m)                             | 2015       | 2014       |
|-----------------------------------|------------|------------|
| Land and buildings                | 213        | 77         |
| Plant and equipment               | 13         | 55         |
| Leasing assets                    | 163        | 227        |
| Assets under construction         | 7          | 3          |
| Technical equipment and machinery | 78         | 37         |
| <b>Total</b>                      | <b>474</b> | <b>399</b> |

#### INVESTMENT PROPERTY

| (€ m)               | 2015      | 2014       |
|---------------------|-----------|------------|
| Investment property | 64        | 185        |
| <b>Total</b>        | <b>64</b> | <b>185</b> |

The fair value of investment property amounts to € 64 million (previous year: € 195 million). The fair values of investment property are allocated without exception to level 3 of the fair value hierarchy. Market-based and income-based valuation techniques are used to determine fair value.

Further details on the existing leasing business can be found in Note 61.

Under the item Investment property all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank.

The development in Property, plant and equipment and Investment property in the financial year was as follows:

#### DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

| (€ m)   | Land and buildings | Plant and equipment | Assets under construction | Investment property | Leasing assets | Technical equipment and machinery |
|---|--------------------|---------------------|---------------------------|---------------------|----------------|-----------------------------------|
| <b>2015</b>                                   |                    |                     |                           |                     |                |                                   |
| <b>Acquisition costs as at 1 January 2015</b> | <b>84</b>          | <b>141</b>          | <b>3</b>                  | <b>263</b>          | <b>370</b>     | <b>71</b>                         |
| Additions                                     | -                  | 4                   | 6                         | 3                   | -              | -                                 |
| Disposals                                     | -                  | 16                  | -                         | 17                  | -              | -                                 |
| Reclassifications                             | -                  | -66                 | -2                        | -                   | -79            | 68                                |
| Exchange rate changes                         | -                  | -                   | -                         | 1                   | 34             | 9                                 |
| Changes in the scope of consolidation         | 138                | -                   | -                         | -144                | -              | -                                 |
| <b>As at 31 December 2015</b>                 | <b>222</b>         | <b>63</b>           | <b>7</b>                  | <b>106</b>          | <b>325</b>     | <b>148</b>                        |
| <b>Depreciation as at 1 January 2015</b>      | <b>7</b>           | <b>86</b>           | <b>-</b>                  | <b>78</b>           | <b>143</b>     | <b>34</b>                         |
| Additions                                     | 2                  | 5                   | -                         | 7                   | 23             | 5                                 |
| Disposals                                     | -                  | 14                  | -                         | 1                   | -              | -                                 |
| Reclassifications                             | -                  | -27                 | -                         | -                   | -18            | 27                                |
| Write-ups                                     | -                  | -                   | -                         | 1                   | -              | -                                 |
| Exchange rate changes                         | -                  | -                   | -                         | -                   | 14             | 4                                 |
| Changes in the scope of consolidation         | -                  | -                   | -                         | -41                 | -              | -                                 |
| <b>As at 31 December 2015</b>                 | <b>9</b>           | <b>50</b>           | <b>-</b>                  | <b>42</b>           | <b>162</b>     | <b>70</b>                         |
| <b>Carrying amount as at 31 December 2015</b> | <b>213</b>         | <b>13</b>           | <b>7</b>                  | <b>64</b>           | <b>163</b>     | <b>78</b>                         |
| <b>Carrying amount as at 1 January 2015</b>   | <b>77</b>          | <b>55</b>           | <b>3</b>                  | <b>185</b>          | <b>227</b>     | <b>37</b>                         |

A total carrying amount of € 41 million was transferred from Leasing assets to Technical equipment and machinery. Assets under construction were transferred to Plant and equipment in the amount of € 2 million. A total carrying amount of € 61 million was transferred from Leasing assets to Non-current assets held for sale and disposal groups. These assets were sold in the year under review.

Changes in the scope of consolidation for land and buildings only include additions due to business combinations. Further information can be found in Note 5.

The line item Investment property only includes disposals from the scope of consolidation.

Further details on depreciation are presented in Note 15.

**DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY**

| (€ m)   | Land and buildings | Plant and equipment | Assets under construction | Investment property | Leasing assets | Technical equipment and machinery |
|---|--------------------|---------------------|---------------------------|---------------------|----------------|-----------------------------------|
| <b>2014</b>                                   |                    |                     |                           |                     |                |                                   |
| <b>Acquisition costs as at 1 January 2014</b> | <b>85</b>          | <b>146</b>          | <b>-</b>                  | <b>295</b>          | <b>465</b>     | <b>98</b>                         |
| Additions                                     | -                  | 3                   | 3                         | 1                   | -              | -                                 |
| Disposals                                     | -                  | 6                   | -                         | 37                  | 60             | -                                 |
| Reclassifications                             | -1                 | -2                  | -                         | 1                   | -72            | 69                                |
| Exchange rate changes                         | -                  | -                   | -                         | 3                   | 52             | 1                                 |
| Changes in the scope of consolidation         | -                  | -                   | -                         | -                   | -15            | -97                               |
| <b>As at 31 December 2014</b>                 | <b>84</b>          | <b>141</b>          | <b>3</b>                  | <b>263</b>          | <b>370</b>     | <b>71</b>                         |
| <b>Depreciation as at 1 January 2014</b>      | <b>5</b>           | <b>85</b>           | <b>-</b>                  | <b>28</b>           | <b>145</b>     | <b>79</b>                         |
| Additions                                     | 2                  | 8                   | -                         | 54                  | 27             | 12                                |
| Disposals                                     | -                  | 5                   | -                         | 4                   | 16             | -                                 |
| Reclassifications                             | -                  | -2                  | -                         | -                   | -24            | 23                                |
| Write-ups                                     | -                  | -                   | -                         | -                   | -              | -                                 |
| Exchange rate changes                         | -                  | -                   | -                         | -                   | 18             | 1                                 |
| Changes in the scope of consolidation         | -                  | -                   | -                         | -                   | -7             | -81                               |
| <b>As at 31 December 2014</b>                 | <b>7</b>           | <b>86</b>           | <b>-</b>                  | <b>78</b>           | <b>143</b>     | <b>34</b>                         |
| <b>Carrying amount as at 31 December 2014</b> | <b>77</b>          | <b>55</b>           | <b>3</b>                  | <b>185</b>          | <b>227</b>     | <b>37</b>                         |
| <b>Carrying amount as at 1 January 2014</b>   | <b>80</b>          | <b>61</b>           | <b>-</b>                  | <b>267</b>          | <b>320</b>     | <b>19</b>                         |

The changes in the scope of consolidation for Leasing assets as well as technical equipment and machinery relate exclusively to disposals from the scope of consolidation.



### 33. NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

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

| (€ m)                                    | 2015         | 2014      |
|--|--------------|-----------|
| Loans and advances to customers          | 5,081        | 34        |
| Investment property                      | 1            | –         |
| <b>Total before loan loss provisions</b> | <b>5,082</b> | <b>34</b> |
| Loan loss provisions                     | 2,402        | –         |
| <b>Total after loan loss provisions</b>  | <b>2,680</b> | <b>34</b> |

Loans and advances of € 5,011 million to customers in the LaR category in the Restructuring Unit and Shipping, Project and Real Estate Financing segments account for most of this line item. These are loans that are to be sold to the resolution institution (hsh portfoliomanagement AöR) formed by the federal states of Hamburg and Schleswig-Holstein as part of the implementation of the informal agreement reached with the EU Commission, which was in principle confirmed by the formal decision of the EU Commission on 02 May 2016 and set out in more detail. The sale will be executed as at the end of the first half of the year. Loan loss provisions have been recognised for these loans (see Note 26).

A further € 67 million relates to loans and advances in the LaR category from the shipping and aviation industry, which are to be sold as part of liquidity management. A portion of these loans and advances (€ 9 million) was sold in January 2016. It is planned to sell the remaining € 58 million within the next twelve months.

There were also loans and advances to customers (arising from leasing transactions) in the LaR category in the Restructuring Unit segment in the amount of € 3 million that formed a disposal group and were sold in January 2016 under the loan restructuring strategy. This disposal group contained liabilities to customers in the LIA category that had a carrying amount of € 1 million.

As part of the restructuring strategy the sale of two properties from the Restructuring Unit segment was contractually agreed on 29 December 2015. The economic transfer to the new owners was made during the period in 2016 in which the Group financial statements were prepared. The classification as held for sale did not give rise to any material value adjustments.

The fair value of Investment property is allocated without exception to level 3 of the fair value hierarchy. Market-based and income-based valuation techniques are used to determine fair value.

The shares in Relacom Management AB previously accounted for under the equity method were reclassified as held for sale in the fourth quarter of 2015 (see Note 5). The carrying amount is € 0 million.

The loans and advances to customers disclosed in the previous year were sold in the reporting year.

### 34. CURRENT TAX ASSETS

#### CURRENT TAX ASSETS

| (€ m)        | 2015      | 2014      |
|--------------|-----------|-----------|
| Domestic     | 71        | 46        |
| Foreign      | 8         | 39        |
| <b>Total</b> | <b>79</b> | <b>85</b> |

### 35. DEFERRED TAX ASSETS

Deferred tax assets arose due to temporary differences in the tax base of the following items in the statement of financial position and tax losses carried forward:

#### DEFERRED TAX ASSETS

| (€ m)  | 2015         | 2014         |
|--|--------------|--------------|
| <b>Assets</b>  |              |              |
| Loans and advances to banks                                      | 16           | 30           |
| Loan loss provisions   | 707          | 439          |
| Trading assets   | 81           | -            |
| Financial investments  | 7            | 8            |
| Intangible assets  | 3            | -            |
| Other assets   | 54           | 42           |
| <b>Liabilities</b>   |              |              |
| Liabilities to customers   | 48           | 83           |
| Securitised liabilities  | 80           | 215          |
| Negative fair value of hedging derivatives                       | 227          | 366          |
| Liabilities-side adjustment item from portfolio fair value hedge | 273          | 381          |
| Trading liabilities  | 89           | 3            |
| Provisions   | 304          | 363          |
| Other liabilities  | 235          | 248          |
| Tax losses carried forward                                       | 99           | 190          |
| <b>Subtotal for deferred tax assets</b>                          | <b>2,223</b> | <b>2,368</b> |
| of which long-term   | 176          | 205          |
| Netting of deferred tax liabilities                              | -1,475       | -1,178       |
| <b>Total</b>   | <b>748</b>   | <b>1,190</b> |

In addition, there were unused tax loss carry-forwards of € 7,308 million as at the reporting date (previous year: € 5,245 million) for which no deferred tax assets were recognised. Deferred tax assets on tax loss carryforwards were recognised in the amount of € 99 million (previous year: € 190 million). As at 31 December 2015 these relate exclusively to the New York branch, which is a permanent establishment for tax purposes.

Of the deferred tax assets, € 628 million (previous year: € 1,079 million) were incurred in Germany and € 120 million (previous year: € 111 million) were incurred abroad.

The decrease of € 422 million in deferred tax assets is mainly attributable to the reversal of liabilities for future guarantee premiums and changes in measurement differences for securitised liabilities as well as the negative market values of hedging derivatives.

In addition, it became necessary to write-down deferred tax assets due to the planned implementation of the structural measures provided for under the informal agreement reached with the EU Commission. The informal agreement with the EU Commission was in principle confirmed and set out in more detail by the formal decision of the EU Commission on 02 May 2016.

€ 30 million of the decrease in deferred tax assets relates to deferred taxes for pension obligations recognised directly in equity.

The recoverability of deferred tax assets is based on the planned improvement in earnings as a result of the planned restructuring, which will provide relief to HSH Nordbank from guarantee premiums. Deferred tax assets were not recognised on temporary differences of € 71 million due to the lack of recoverability.

The difference between the valuation for tax purposes of hybrid financial instruments (Note 7.I.E) and the measurement of such instruments under IAS 39.A8 results in deferred tax assets of € 5 million (previous year: € 33 million).

**36. OTHER ASSETS****OTHER ASSETS**

| (€ m)  | <b>2015</b> | 2014       |
|--|-------------|------------|
| Receivables from insurance contracts   | 25          | 20         |
| Unamortised balance of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee | 22          | 91         |
| Other prepaid expenses   | 9           | 12         |
| Receivables from other taxes   | 5           | 2          |
| Receivables from fund transactions   | 4           | 2          |
| Tenant loans   | -           | 26         |
| Receivables from participations and affiliated companies   | -           | 7          |
| Other assets   | 98          | 78         |
| <b>Total</b>   | <b>163</b>  | <b>238</b> |

Other assets in the amount of € 2 million (previous year: € 42 million) have a residual maturity of more than one year.

€ 86 million of the assets reported here relate to financial instruments (previous year: € 84 million).

### 37. LIABILITIES TO BANKS

#### LIABILITIES TO BANKS

| (€ m)                  | 2015          |              |               | 2014         |              |               |
|------------------------|---------------|--------------|---------------|--------------|--------------|---------------|
|                        | Domestic      | Foreign      | Total         | Domestic     | Foreign      | Total         |
| Payable on demand      | 623           | 193          | 816           | 839          | 407          | 1,246         |
| Other term liabilities | 10,269        | 3,313        | 13,582        | 7,736        | 5,565        | 13,301        |
| <b>Total</b>           | <b>10,892</b> | <b>3,506</b> | <b>14,398</b> | <b>8,575</b> | <b>5,972</b> | <b>14,547</b> |

Liabilities to banks of € 5,776 million (previous year: € 4,644 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities categorised as DFV and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted as at 31 December 2015 to € – 12 million (previous year: € – 15 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.

### 38. LIABILITIES TO CUSTOMERS

#### LIABILITIES TO CUSTOMERS BY CUSTOMER GROUP

| (€ m)              | 2015          | 2014          |
|--------------------|---------------|---------------|
| Corporate clients  | 30,836        | 33,908        |
| Public authorities | 11,825        | 8,099         |
| Retail customers   | 1,906         | 1,158         |
| <b>Total</b>       | <b>44,567</b> | <b>43,165</b> |

#### LIABILITIES TO CUSTOMERS

| (€ m)  | 2015          |              |               | 2014          |              |               |
|--|---------------|--------------|---------------|---------------|--------------|---------------|
|  | Domestic      | Foreign      | Total         | Domestic      | Foreign      | Total         |
| Savings deposits with agreed notice periods of |               |              |               |               |              |               |
| 3 months                                       | 21            | 1            | 22            | 26            | –            | 26            |
| Other liabilities                              |               |              |               |               |              |               |
| Payable on demand                              | 14,960        | 2,064        | 17,024        | 11,863        | 1,455        | 13,318        |
| Term liabilities                               | 24,720        | 2,801        | 27,521        | 27,447        | 2,374        | 29,821        |
| <b>Total</b>                                   | <b>39,701</b> | <b>4,866</b> | <b>44,567</b> | <b>39,336</b> | <b>3,829</b> | <b>43,165</b> |

Liabilities to customers of € 10,427 million (previous year: € 12,260 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities categorised as DFV and their par value, which corresponds to the contractually

agreed repayment amount at the due date, amounted as at 31 December 2015 to € – 160 million (previous year: € – 238 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 62.



### 39. SECURITISED LIABILITIES

#### SECURITISED LIABILITIES

| (€ m)                          | 2015          | 2014          |
|--------------------------------|---------------|---------------|
| Debentures issued              | 18,596        | 27,591        |
| Money market securities issued | 20            | 43            |
| <b>Total</b>                   | <b>18,616</b> | <b>27,634</b> |

Securitized liabilities of € 15,172 million (previous year: € 15,981 million) have a residual maturity of more than one year.

Debentures issued include € 606 million of hybrid financial instruments (previous year: € 628 million). The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 7.I.E).

In the item Securitized liabilities repurchased own debentures in the amount of € 4,018 million (previous year: € 3,611 million) were deducted.

The difference between the carrying amount of Securitized liabilities categorised as DFV and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € -175 million at 31 December 2015 (previous year: € -589 million).

### 40. NEGATIVE FAIR VALUE OF HEDGING DERIVATIVES

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

#### NEGATIVE FAIR VALUE OF HEDGING DERIVATIVES

| (€ m)  | 2015       | 2014         |
|--|------------|--------------|
| Negative fair value of derivatives used in micro fair value hedges     | 105        | 139          |
| Negative fair value of derivatives used in portfolio fair value hedges | 622        | 1,017        |
| <b>Total</b>   | <b>727</b> | <b>1,156</b> |

Under the item Negative fair value of hedging derivatives portfolios in an amount of € 710 million (previous year: € 1,150 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Positive fair value of the hedging derivatives (see Note 27). The overall changes in this item are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

## 41. TRADING LIABILITIES

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

Trading liabilities of € 6,280 million (previous year: € 8,479 million) have a residual maturity of more than one year.

Information on collateral transferred is presented in Note 62.

### TRADING LIABILITIES

| (€ m)   | 2015         | 2014         |
|---|--------------|--------------|
| Negative fair value from derivative financial instruments |              |              |
| Interest rate-related business                            | 5,998        | 8,278        |
| Currency-related business                                 | 164          | 274          |
| Other business  | 596          | 694          |
| <b>Total</b>  | <b>6,758</b> | <b>9,246</b> |

## 42. PROVISIONS

### PROVISIONS

| (€ m)  | 2015         | 2014         |
|--|--------------|--------------|
| Provisions for pension obligations and similar obligations | 1,051        | 1,122        |
| Other provisions   |              |              |
| Provisions for personnel expenses                          | 43           | 41           |
| Provisions in the lending business                         | 107          | 98           |
| Provisions for restructuring                               | 94           | 171          |
| Provisions for litigation risks and costs                  | 37           | 50           |
| Other provisions   | 185          | 217          |
| <b>Total</b>   | <b>1,517</b> | <b>1,699</b> |

Provisions of € 1,221 million (previous year: € 1,389 million) have a residual maturity of more than one year.

Provisions with a maturity of less than one year mainly relate to Provisions for restructuring, Provisions in the lending business as well as other provisions. Further information regarding Provisions in the lending business can be found in Note 26.

Provisions for restructuring in the amount of € 54 million (previous year: € 123 million) related to personnel expenses and € 41 million (previous year: € 49 million) to operating expenses.

Other provisions of € 71 million (previous year: € 51 million) mainly include interest on tax liabilities, provisions for potential legal risks and onerous contracts as well as maintenance obligations for aircraft accounted for in subsidiaries.

There are uncertainties particularly with respect to provisions in the lending business. For details, please refer to the explanations set out in the Forecast for loan loss provisions section of the Forecast, Opportunities and Risks Report in the Management Report. There are also uncertainties particularly with respect to provisions for litigation risk, uncertainties as regards the outcome of future business decisions or results of settlement negotiations. As a result, actual utilisation by HSH Nordbank may differ from the expected utilisation as estimated at the time the provisions were recognised. Please refer to the Management of legal risks section in the Risk Report for further details with regard to material legal disputes.

Changes in pension provisions are presented in Note 43.

Other provisions changed as follows:

#### CHANGES IN OTHER PROVISIONS

| (€ m)                             | For personnel expenses | In the lending business | For restructuring | For litigation risks and costs | Miscellaneous | Total      |
|-----------------------------------|------------------------|-------------------------|-------------------|--------------------------------|---------------|------------|
| <b>2015</b>                       |                        |                         |                   |                                |               |            |
| <b>As at 1 January 2015</b>       | <b>41</b>              | <b>98</b>               | <b>171</b>        | <b>50</b>                      | <b>218</b>    | <b>578</b> |
| Additions                         | 28                     | 36                      | 3                 | 15                             | 105           | 187        |
| Reversals                         | 1                      | 27                      | 4                 | 17                             | 44            | 93         |
| Reclassifications                 | -18                    | -                       | -62               | -                              | -31           | -111       |
| Changes in exchange rates         | 1                      | 1                       | 2                 | -                              | 7             | 11         |
| Utilisation in the financial year | 8                      | 1                       | 16                | 11                             | 70            | 106        |
| <b>As at 31 December 2015</b>     | <b>43</b>              | <b>107</b>              | <b>94</b>         | <b>37</b>                      | <b>185</b>    | <b>466</b> |

Reclassifications were mainly made from Provisions to Provisions for pension obligations in the amount of € 35 million and to Liabilities in the amount of € 48 million.

#### CHANGES IN OTHER PROVISIONS

| (€ m)                                 | For personnel expenses | In the lending business | For restructuring | For litigation risks and costs | Miscellaneous | Total      |
|---------------------------------------|------------------------|-------------------------|-------------------|--------------------------------|---------------|------------|
| <b>2014</b>                           |                        |                         |                   |                                |               |            |
| <b>As at 1 January 2014</b>           | <b>54</b>              | <b>145</b>              | <b>130</b>        | <b>49</b>                      | <b>162</b>    | <b>540</b> |
| Additions                             | 25                     | 18                      | 118               | 11                             | 99            | 271        |
| Reversals                             | 9                      | 66                      | 52                | 3                              | 9             | 139        |
| Reclassifications                     | -18                    | -                       | -8                | -                              | -             | -26        |
| Changes in exchange rates             | 1                      | 1                       | 2                 | -                              | 5             | 9          |
| Changes in the scope of consolidation | -                      | -                       | -                 | -                              | -4            | -4         |
| Utilisation in the financial year     | 12                     | -                       | 19                | 7                              | 36            | 74         |
| <b>As at 31 December 2014</b>         | <b>41</b>              | <b>98</b>               | <b>171</b>        | <b>50</b>                      | <b>217</b>    | <b>577</b> |

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

#### PROVISIONS IN THE LENDING BUSINESS

| (€ m)                              | 2015       | 2014      |
|------------------------------------|------------|-----------|
| Specific loan loss provisions for  |            |           |
| Contingent liabilities             | 30         | 30        |
| Irrevocable loan commitments       | 25         | 8         |
| Other credit risks                 | 2          | 9         |
| <b>Subtotal</b>                    | <b>57</b>  | <b>47</b> |
| Portfolio loan loss provisions for |            |           |
| Contingent liabilities             | 42         | 43        |
| Irrevocable loan commitments       | 8          | 8         |
| <b>Subtotal</b>                    | <b>50</b>  | <b>51</b> |
| <b>Total</b>                       | <b>107</b> | <b>98</b> |

### 43. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

In recognising and measuring direct benefit pension plans, the net present value of the obligations is reduced by the fair value of the plan assets.

#### PROVISIONS FOR PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

| (€ m)  | 2015         | 2014         |
|--|--------------|--------------|
| Net present value of obligations, wholly or partly financed through funds                | 3            | 14           |
| Net present value of obligations not financed through funds                              | 1,056        | 1,116        |
| <b>Net present value of pension obligations and similar obligations</b>                  | <b>1,059</b> | <b>1,130</b> |
| Fair value of plan assets  | 8            | 8            |
| <b>Pension plan deficit (provisions for pension obligations and similar obligations)</b> | <b>1,051</b> | <b>1,122</b> |

The net present value of defined benefit pension obligations has changed as follows:

#### CHANGES IN NET PRESENT VALUE

| (€ m)                                      | 2015         | 2014         |
|--|--------------|--------------|
| Net present value as at 1 January          | 1,130        | 863          |
| Actuarial losses/gains (-)                 | -            | -            |
| due to changed financial assumptions       | -86          | 261          |
| due to experience-based adjustments        | -8           | 3            |
| Interest expense                           | 21           | 30           |
| Past service cost                          | -1           | 8            |
| Current service cost                       | 15           | 10           |
| Benefits paid                              | -47          | -46          |
| Reclassifications                          | 35           | 1            |
| <b>Net present value as at 31 December</b> | <b>1,059</b> | <b>1,130</b> |

Early retirement arrangements were negotiated as part of the restructuring and associated reduction in staff and the corresponding provisions were transferred from restructuring to pension provisions.

Pension obligations are measured using a discount rate calculated in accordance with the Mercer yield curve approach (MYC) that was applied to a uniform database in 2015. If the pension obligations had been determined as at the reporting date using a discount rate calculated according to the method applied in the previous year, they would have been lower by € 13 million.

The fair value of plan assets has changed as follows:

#### CHANGE IN FAIR VALUE OF PLAN ASSETS

| (€ m)  | 2015     | 2014     |
|--|----------|----------|
| <b>Fair value of plan assets as at 1 January</b>   | <b>8</b> | <b>8</b> |
| <b>Fair value of plan assets as at 31 December</b> | <b>8</b> | <b>8</b> |

The change in actuarial gains and losses was mainly attributable to an increase of the discount rate.

The total actuarial gains for the financial year before deferred taxes amounted to € 94 million (previous year: € -264 million). Allowing for deferred taxes, this results in a profit of € 64 million (previous year: loss of € -179 million), which is recognised in Other comprehensive income and disclosed in retained earnings on an accumulated basis. As at 31 December 2015 the balance of actuarial gains/losses in retained earnings before tax amounted to € -154 million (previous year: € -247 million) before tax and € -105 million (previous year: € -169 million) after tax.

#### BREAKDOWN OF PLAN ASSETS

| (€ m)  | 2015     | 2014     |
|--|----------|----------|
| Qualified insurance policies                   | 7        | 7        |
| Debentures and other fixed-interest securities | 1        | 1        |
| <b>Total</b>                                   | <b>8</b> | <b>8</b> |

The debentures and other fixed-interest securities included in the plan assets are traded on an active market.

Expenses of € 35 million were incurred for defined benefit pension plans in the 2015 reporting year (previous year: € 48 million).



Pension obligations represent future amounts to be paid and are uncertain both as to the amount and the date they fall due. Future fluctuations in the present value of the pension obligations can result particularly from a change in the actuarial assumptions such as the discount rate and life expectancy.

An increase or decrease in the actuarial assumptions (see Note 6) would have had the following impact on the present value of pension obligations as at 31 December 2015:

#### SENSITIVITY OF PENSION OBLIGATIONS

| (€ m)                                    | Increase | Decrease |
|--|----------|----------|
| <b>2015</b>                              |          |          |
| Discount rate (+/-0.5 %)                 | -79      | 90       |
| Inflation trend <sup>1</sup> (+/-0.25 %) | 39       | -37      |
| Life expectancy (+ 1 year)               | 43       | -        |

#### SENSITIVITY OF PENSION OBLIGATIONS

| (€ m)                                    | Increase | Decrease |
|--|----------|----------|
| <b>2014</b>                              |          |          |
| Discount rate (+/-0.5 %)                 | -92      | 105      |
| Inflation trend <sup>1</sup> (+/-0.25 %) | 43       | -41      |
| Life expectancy (+ 1 year)               | 49       | -        |

<sup>1</sup> A variation in the inflation trend affects the salary trend. An assumption regarding future salary levels has a direct influence on future pension levels because of the fully dynamic pension commitments. The salary and pension trends were therefore not separately varied.

The average duration of the pension obligations determined as at 31 December 2015 was used as the basis for the sensitivity calculations. The impact of the major assumptions on the present value of the pension obligations is presented. As the sensitivity analyses are based on the average duration of the expected pension obligations and expected payment dates are therefore not taken into account, the figures represent only approximate values. Furthermore, where a change in an actuarial assumption is analysed, the other assumptions are kept constant.

The HSH Nordbank Group expects to make payments of € 45 million to beneficiaries under defined benefit pension plan commitments for the 2016 financial year (previous year: € 46 million).

The weighted average duration of the defined benefit obligation is 18.8 years as at 31 December 2015 (previous year: 18.6 years).

Expenses for defined contribution plans were € 17 million in the 2015 reporting period (previous year: € 19 million). Payments to statutory pension schemes in the amount of € 15 million (previous year: € 16 million) are included in this figure.

## 44. CURRENT TAX LIABILITIES

#### INCOME TAX LIABILITIES

| (€ m)                                     | 2015       | 2014       |
|---|------------|------------|
| Current tax liabilities                   |            |            |
| Income tax liabilities to tax authorities | 110        | 3          |
| Provisions for income taxes               | 41         | 126        |
| <b>Total</b>                              | <b>151</b> | <b>129</b> |

Liabilities to tax authorities include liabilities on income taxes due to domestic and foreign tax authorities.

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received as at the balance sheet date.

**45. DEFERRED TAX LIABILITIES**

For temporary differences in the tax bases of the following items in the statement of financial position deferred tax liabilities were created.

**DEFERRED TAX LIABILITIES**

| (€ m)   | 2015         | 2014         |
|---|--------------|--------------|
| <b>Assets</b>   |              |              |
| Cash reserve  | 17           | 20           |
| Loans and advances to banks                                 | 3            | -            |
| Loans and advances to customers                             | 320          | 122          |
| Credit derivative second loss guarantee                     | 187          | -            |
| Financial investments                                       | 207          | 124          |
| Trading assets  | -            | 44           |
| Positive fair value of hedging derivatives                  | 248          | 445          |
| Asset-side adjustment item from portfolio fair value hedges | 129          | 161          |
| Property, plant and equipment                               | 4            | 3            |
| Other assets  | -            | 1            |
| <b>Liabilities</b>  |              |              |
| Liabilities to banks  | 42           | 31           |
| Provisions  | -            | 1            |
| Other liabilities   | 318          | 307          |
| <b>Subtotal</b>   | <b>1,475</b> | <b>1,259</b> |
| Netting off deferred tax assets                             | -1,475       | -1,178       |
| <b>Total</b>  | <b>-</b>     | <b>81</b>    |

The increase in deferred tax liabilities before netting by € 216 million is primarily attributable to the initial recognition of deferred tax liabilities on the first-time creation of the Credit derivative second loss guarantee line item, the increase in loans and advances to customers as well as the reduction in the measurement differences on the positive market value of hedging derivatives. € 8 million of the total change is attributable to reductions recognised directly in equity relating to financial investments.

Deferred tax liabilities of € 2 million associated with investments in subsidiaries (so-called outside basis differences) were not recognised in accordance with IAS 12.39, as realisation is not probable.

There were no timing differences as at the reporting date for which deferred tax liabilities had not been recognised.

## 46. OTHER LIABILITIES

### OTHER LIABILITIES

| (€ m)  | 2015         | 2014         |
|--|--------------|--------------|
| Collateral provided for liabilities assumed        | 720          | 764          |
| Outstanding payments for the second loss guarantee | 102          | 102          |
| Liabilities for invoices outstanding               | 54           | 45           |
| Other tax liabilities                              | 46           | 16           |
| Deferred income                                    | 22           | 16           |
| Liabilities for restructuring                      | 20           | 6            |
| Personnel liabilities                              | 9            | 11           |
| Other  | 56           | 84           |
| <b>Total</b>                                       | <b>1,029</b> | <b>1,044</b> |

Other liabilities in the amount of € 733 million (previous year: € 775 million) have a residual maturity of more than one year.

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

€ 950 million of the liabilities reported here relate to financial instruments (previous year: € 1,011 million).

## 47. SUBORDINATED CAPITAL

HSH Nordbank discloses subordinated liabilities, silent participations and profit participation capital under this item.

### SUBORDINATED CAPITAL

| (€ m)                           | 2015         | 2014         |
|---------------------------------|--------------|--------------|
| Subordinated liabilities        | 2,109        | 4,128        |
| Maturing in less than two years | 1,033        | 2,053        |
| Silent participations           | 1,330        | 1,352        |
| Profit participation capital    | 13           | 27           |
| Maturing in less than two years | 13           | 15           |
| <b>Total</b>                    | <b>3,452</b> | <b>5,507</b> |

Subordinated capital of € 3,428 million (previous year: € 3,445 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities categorised as DFV and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € -9 million as at 31 December 2015 (previous year: € -13 million).

Hybrid financial instruments included under Subordinated capital include silent participations and profit participation capital. The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 7.I.E). In addition to Hybrid financial instruments disclosed here, Hybrid financial instruments are also disclosed in the line item Securitised liabilities (cf. Note 39).

## 48. EQUITY

| EQUITY  |              |              |
|---|--------------|--------------|
| (€ m)   | 2015         | 2014         |
| Share capital   | 3,018        | 3,018        |
| Capital reserve   | 175          | 487          |
| Retained earnings   | 1,464        | 929          |
| Cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI                   | -154         | -247         |
| Deferred taxes on cumulative gains and losses arising on the revaluation of pension and similar obligations recognised in OCI | 48           | 78           |
| Revaluation reserve   | 103          | 108          |
| Currency conversion reserve   | 42           | -16          |
| Group net result  | 99           | 159          |
| <b>Total before non-controlling interests</b>   | <b>4,901</b> | <b>4,685</b> |
| Non-controlling interests   | -16          | -13          |
| <b>Total</b>  | <b>4,885</b> | <b>4,672</b> |

### Share capital

The share capital of HSH Nordbank AG is divided into 301,822,453 registered shares each representing a notional of € 10.00 of share capital. All the issued shares have been fully paid up.

The direct and indirect shares held by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg amount to 85.38%. At the reporting date HSH Finanzfonds AöR, 50.00% of which is held by the Free and Hanseatic City of Hamburg and 50.00% by the Federal State of Schleswig-Holstein, is the largest shareholder with a direct share of voting rights of 65.00%. Further direct and indirect voting shares held by the Free and Hanseatic City of Hamburg amounted to 10.80% as at the reporting date and the further direct and indirect shares of the Federal State of Schleswig-Holstein were 9.58%. The direct share of the Savings Bank Association for Schleswig-Holstein as at 31 December 2015 was 5.31%. As at 31 December 2015, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31% of the voting rights in total. 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 within the meaning of Section 16 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 nor any company dependent on it or majority-owned companies hold treasury stock. There are no cross-shareholdings as defined by Section 19 AktG.

### CHANGES IN ORDINARY SHARES

| (Number of shares)                   | 2015               | 2014               |
|--------------------------------------|--------------------|--------------------|
| Number at the beginning of the year  | 301,822,453        | 301,822,453        |
| <b>Number at the end of the year</b> | <b>301,822,453</b> | <b>301,822,453</b> |

### Retained earnings and dividends

The item Retained earnings mainly shows amounts allocated from previous year profits and the profits of the current year. There are no statutory reserves or legal reserves within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

Retained earnings include amounts of € 4,819 million (previous year: € 4,507 million) transferred from the capital reserve to disclose a break-even result on the balance sheet offset loss carryforwards of HSH Nordbank AG. € 312 million was transferred from the capital reserve in the 2015 financial year to offset the loss of HSH Nordbank AG carried forward from the previous year.

As was the case for the previous financial year 2014, no dividend payments were made for previous years during the current financial year 2015.



### Capital reserve

An amount of € 312 million was released from capital reserves to offset the losses of HSH Nordbank AG brought forward from 2014 (previous year for the loss brought forward from 2013: € 107 million).

### Revaluation reserve

The effects of the measurement of AFS financial instruments disclosed at fair value directly in equity are recorded in the revaluation reserve.

The changes in value associated with deferred taxes shown in the revaluation reserve are also presented in the revaluation reserve pursuant to IAS 12.61A.

### Currency conversion reserve

Assets and liabilities in financial statements of subsidiaries in foreign currencies are translated at the reporting date exchange rate in preparing the Group financial statements, while average rates for the reporting period are used to translate expenses and income. Equity is translated at historical rates, with the exception of revaluation reserves in Group financial statements reported in foreign currencies, which are translated at the reporting date exchange rate.

Any differences arising from this method of translation compared to complete translation at the reporting date exchange rate are reported in this Equity item.

### Capital management

The capital management of HSH Nordbank aims to comply with regulatory minimum capital ratios. In addition to these minimum requirements, capital management is used as the basis for complying with the capital ratios planned and ensures that the Bank's capital base meets the risk-bearing capacity requirements. The common equity Tier 1 capital ratio is the key parameter for capital management.

The regulatory capitalisation is in accordance with the provisions of the European Capital Requirements Regulation (CRR) in conjunction with the Supervisory Review and Evaluation Process (SREP). HSH Nordbank determines the capital requirements for counterparty risk in accordance with the approach permitted by the Federal Financial Supervisory Authority based on internal ratings (Advanced IRBA). The capital base is reported to the regulatory authorities quarterly. The minimum ratios required under supervisory law were complied with on each reporting date in the course of the year under review.

### REGULATORY FIGURES<sup>1)</sup>

| (in %)  | 2015 | 2014 |
|---|------|------|
| Tier 1 capital ratio (incl. market risk position) | 15.7 | 13.5 |
| Overall capital ratio/regulatory capital ratio    | 20.1 | 17.3 |

<sup>1)</sup> Values before adoption of the Group financial statements of HSH Nordbank.

The regulatory capital commitment was monitored closely both at Bank and division level in the course of the financial year.

## SEGMENT REPORTING

## 49. SEGMENT REPORT

| (€ m/%)  | Shipping, Project &<br>Real Estate<br>Financing |            | Corporates &<br>Markets |            | Corporate Center |             | Consolidation<br>Core Bank |             | Total Core Bank |             |
|--|---|------------|-------------------------|------------|------------------|-------------|----------------------------|-------------|-----------------|-------------|
|  | 2015  | 2014       | 2015                    | 2014       | 2015             | 2014        | 2015                       | 2014        | 2015            | 2014        |
| Net interest income  | 484   | 442        | 181                     | 206        | 152              | -221        | 77                         | 4           | 894             | 431         |
| Net commission income  | 45  | 47         | 60                      | 61         | -7               | -9          | -                          | -4          | 98              | 95          |
| Result from hedging  | -   | -          | -                       | -          | -                | -           | 12                         | -40         | 12              | -40         |
| Net trading income   | -16   | -12        | 193                     | 153        | 37               | 9           | -220                       | -158        | -6              | -8          |
| Net income from financial<br>investments <sup>1)</sup>           | -37   | -1         | -                       | 11         | 31               | 110         | 3                          | -8          | -3              | 112         |
| <b>Total income</b>  | <b>476</b>                                      | <b>476</b> | <b>434</b>              | <b>431</b> | <b>213</b>       | <b>-111</b> | <b>-128</b>                | <b>-206</b> | <b>995</b>      | <b>590</b>  |
| Loan loss provisions   | -1,511  | -403       | 51                      | -56        | -403             | 63          | 1,646                      | 331         | -217            | -65         |
| Hedging effect of the credit derivative<br>second loss guarantee | -   | -          | -                       | -          | -                | -           | 282                        | 1           | 282             | 1           |
| Administrative expenses  | -139  | -161       | -283                    | -310       | -15              | 24          | -6                         | 12          | -443            | -435        |
| Other operating income   | -29   | 4          | 11                      | 30         | 39               | -12         | 9                          | 7           | 30              | 29          |
| Expenses for bank levy and deposit<br>guarantee fund             | -   | -          | -                       | -          | -                | -           | -37                        | -1          | -37             | -1          |
| <b>Net income before restructuring</b>                           | <b>1,203</b>                                    | <b>-84</b> | <b>213</b>              | <b>95</b>  | <b>-166</b>      | <b>-36</b>  | <b>1,766</b>               | <b>144</b>  | <b>610</b>      | <b>119</b>  |
| Result from restructuring  | -   | -          | -                       | -          | -                | -           | -24                        | -62         | -24             | -62         |
| Expenses for government guarantees                               | -   | -          | -                       | -          | -                | -           | -189                       | -177        | -189            | -177        |
| <b>Net income before taxes</b>                                   | <b>1,203</b>                                    | <b>-84</b> | <b>213</b>              | <b>95</b>  | <b>-166</b>      | <b>-36</b>  | <b>1,553</b>               | <b>-95</b>  | <b>397</b>      | <b>-120</b> |
| Cost/income ratio (CIR)  | 31 %  | 34 %       | 64 %                    | 67 %       |                  |             |                            |             | 43 %            | 70 %        |
| Return on equity before tax                                      | -94 %   | -8 %       | 28 %                    | 15 %       |                  |             |                            |             | 18 %            | -6 %        |
| Average equity   | 1,286   | 1,116      | 752                     | 651        | 27               | 54          | 200                        | 158         | 2,265           | 1,979       |

| (€ bn)                | 2015      | 2014      | 2015      | 2014      | 2015      | 2014      | 2015     | 2014     | 2015      | 2014      |
|-----------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|----------|-----------|-----------|
| <b>Segment assets</b> | <b>24</b> | <b>25</b> | <b>26</b> | <b>31</b> | <b>17</b> | <b>18</b> | <b>3</b> | <b>2</b> | <b>70</b> | <b>76</b> |

<sup>1)</sup> Including net income from financial investments accounted for under the equity method.

| (€ m/%)   | Restructuring Unit  |            | Consolidation Restructuring Unit |            | Total Restructuring Unit |            | Group        |            |
|---|---------------------|------------|----------------------------------|------------|--------------------------|------------|--------------|------------|
|   | 2015                | 2014       | 2015                             | 2014       | 2015                     | 2014       | 2015         | 2014       |
|   | Net interest income | 129        | 188                              | 9          | -33                      | 138        | 155          | 1,032      |
| Net commission income   | 16                  | 35         | -                                | -          | 16                       | 35         | 114          | 130        |
| Result from hedging   | -                   | -          | -                                | -          | -                        | -          | 12           | -40        |
| Net trading income  | 55                  | 42         | 35                               | 27         | 90                       | 69         | 84           | 61         |
| Net income from financial investments <sup>1)</sup>           | 57                  | 59         | -                                | -          | 57                       | 59         | 54           | 171        |
| <b>Total income</b>   | <b>257</b>          | <b>324</b> | <b>44</b>                        | <b>-6</b>  | <b>301</b>               | <b>318</b> | <b>1,296</b> | <b>908</b> |
| Loan loss provisions  | -1,119              | -25        | 982                              | 666        | -137                     | 641        | -354         | 576        |
| Hedging effect of the credit derivative second loss guarantee | -                   | -          | 376                              | -          | 376                      | -          | 658          | 1          |
| Administrative expenses                                       | -191                | -289       | -                                | -          | -191                     | -289       | -634         | -724       |
| Other operating income  | 8                   | 94         | -                                | -          | 8                        | 94         | 38           | 123        |
| Expenses for bank levy and deposit guarantee fund             | -                   | -          | -13                              | -          | -13                      | -          | -50          | -1         |
| <b>Net income before restructuring</b>                        | <b>-1,045</b>       | <b>104</b> | <b>1,389</b>                     | <b>660</b> | <b>344</b>               | <b>764</b> | <b>954</b>   | <b>883</b> |
| Result from restructuring                                     | -                   | -          | -7                               | -22        | -7                       | -22        | -31          | -84        |
| Expenses for government guarantees                            | -                   | -          | -284                             | -344       | -284                     | -344       | -473         | -521       |
| <b>Net income before taxes</b>                                | <b>-1,045</b>       | <b>104</b> | <b>1,098</b>                     | <b>294</b> | <b>53</b>                | <b>398</b> | <b>450</b>   | <b>278</b> |
| Cost/income ratio (CIR)                                       |                     |            |                                  |            |                          |            | 48 %         | 70 %       |
| Return on equity before tax                                   |                     |            |                                  |            |                          |            | 9 %          | 6 %        |
| Average equity  | 2,205               | 2,459      | 309                              | 188        | 2,514                    | 2,647      | 4,779        | 4,626      |

| (€ bn)                | 2015      | 2014      | 2015     | 2014     | 2015      | 2014      | 2015      | 2014       |
|-----------------------|-----------|-----------|----------|----------|-----------|-----------|-----------|------------|
| <b>Segment assets</b> | <b>22</b> | <b>31</b> | <b>5</b> | <b>3</b> | <b>27</b> | <b>34</b> | <b>97</b> | <b>110</b> |

<sup>1)</sup>Including net income from financial investments accounted for under the equity method.

Segment reporting is in accordance with the provisions of IFRS 8. The segments result from the Bank's internal organisational structure which is based on product and customer groups and which corresponds to the delimitation for internal Group management purposes. The formation of the segments is intended to achieve the greatest possible homogeneity of customer groups with regard to a focused loan financing product range as well as other products and services.

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

The segment Shipping, Project & Real Estate Financing focusses mainly on asset financing and included as at 31 December 2015 the business conducted with shipping clients, including that under the responsibility of the shipping recovery unit in the Core Bank, business with real estate clients as well as the Corporate Finance product division, which provides support to the customer divisions in the form of

special financing and advisory solutions and within the framework of syndications.

As at 31 December 2015 the Corporates & Markets segment covered the divisions Corporate Clients and Capital Markets. The new division Corporates combines the divisions Corporate Clients, Energy & Infrastructure as well as Wealth Management in order to focus the business and the streamline internal organisation. The strategic focus of the division primarily lies on the Logistics & Infrastructure, Energy & Utilities, Healthcare, Commerce & Food and Industry & Services business fields. Another key area remains the advising of wealthy private clients, institutions and non-profit organisations with regard to asset management. The client divisions are supported in their business activities by a tailored range of capital market-oriented product solutions provided by the Capital Markets division. At the same time Capital Markets will continue to serve the savings banks and institutional clients in the areas of issuance and deposits.

The Corporate Center segment includes the administration and service divisions, since the end of 2014 including the Transaction Banking product division, offering tailor-made services in the fields of payment transactions, account management and foreign trade, as well as positions of the Overall Bank and equity holdings not allocated to segments.

At the beginning of 2015 the Core Bank's segments had been redefined as part of the change in Management Board responsibilities. Under this the Energy & Infrastructure division was allocated to the Corporates & Markets segment (previously Shipping, Project & Real Estate Financing segment). The Corporate Finance division, which was previously part of the Corporates & Markets segment was allocated at the same time to the Shipping, Project & Real Estate Financing segment. The segment amounts disclosed in the previous year were adjusted accordingly.

The Restructuring Unit of HSH Nordbank manages the winding down of credit and capital market transactions that are not continued in the Core Bank. The Special Loans division manages recovery cases held in the loan portfolios. The Workout division is responsible for the liquidation and realisation of particularly onerous loan commitments and for the management of the capital markets portfolios. The focus is placed here on alternative portfolio solutions that can enable the risk potential to be reduced whilst minimising the effect on income further.

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

Geographical information as well as information on income from external clients for each product and service is not collected for management reporting due to a lack of management relevance and disproportionately high costs, whereby disclosures in accordance with IFRS 8.32 and 8.33 are not made.

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

Net interest income for the purpose of internal reporting to management is calculated in accordance with the Fund Transfer Pricing (FTP). The planned investment and financing profit is distributed

among the business segments on the basis of economic capital committed. The transformation contribution is allocated to the customer departments of the Core Bank on the basis of average receivables.

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

Costs arising in the Corporate Center are allocated to the business segments within the framework of cost allocation. Net income elements not allocated to divisions are reported in the consolidation columns of the Core Bank and the Restructuring Unit. The expense for the European bank levy and the deposit guarantee will also be disclosed in this column from 2015 onwards.

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

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

Since the 2014 year end the net income from foreign currency of the loan loss provisions is no longer allocated to the segments but disclosed in the consolidation of the Core Bank and the Restructuring Unit. The hedging effect of the net income from foreign currency in the portfolio not covered by the guarantee is an exception. This effect continues to be shown in the Corporate Center segment.

Loan loss provisions are shown in the segments in which they originated. Effects resulting from the hedging effect of the second loss guarantee including the hedging effect resulting from the credit derivative second loss guarantee are disclosed in the consolidation columns. In the reporting year HSH Nordbank adjusted the internal key for allocating the guarantee between the Core Bank and Restructuring Unit. The percentage of the first loss piece of the guarantee to be borne by the Core Bank and Restructuring Unit, respectively (Core Bank 23%, Restructuring Unit 77%) was determined this way. The first loss piece percentages were previously determined on the basis of the respective utilisation in the Core Bank and Restructuring Unit. This recent determination enables a more appropriate coverage of the troubled assets by the guarantee to be achieved than in previous periods. In the reporting year the adjustment resulted in a benefit of € 391 million for the Core Bank, which partially offsets the disadvantage suffered by the Core Bank in previous periods.



The allocation key for average reported equity capital is the economic capital tied up due to its management relevance.

The calculation of the CIR was adjusted as at the 2014 year end and is now the ratio of Administrative expenses to Total income plus Other operating income. Return on equity is the ratio of net income before

taxes to average equity capital. See Note 16 for comments on the depreciation of goodwill recognised in the segments. See Note 13 for comments on companies consolidated under the equity method recognised as part of Net income from financial investments. .

## NOTES ON FINANCIAL INSTRUMENTS

## 50. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

## CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

| (€ m)   | LaR           | AfS           | DFV          | HfT          | LIA           | No IAS 39 category | Total         |
|---|---------------|---------------|--------------|--------------|---------------|--------------------|---------------|
| <b>2015</b>   |               |               |              |              |               |                    |               |
| <b>Assets</b>   |               |               |              |              |               |                    |               |
| Cash reserve  | 2,700         | 694           | -            | -            | -             | -                  | 3,394         |
| Loans and advances to banks                           | 5,509         | 86            | -            | -            | -             | -                  | 5,595         |
| Loans and advances to customers                       | 55,057        | 104           | 1,308        | -            | -             | -                  | 56,469        |
| Receivables under finance leases                      | -             | -             | -            | -            | -             | 106                | 106           |
| Credit derivative second loss guarantee               | -             | -             | -            | 663          | -             | -                  | 663           |
| Positive fair value of hedging derivatives            | -             | -             | -            | -            | -             | 783                | 783           |
| Value adjustments from the portfolio fair value hedge | -             | -             | -            | -            | -             | 408                | 408           |
| Trading assets  | -             | -             | -            | 7,356        | -             | -                  | 7,356         |
| Financial investments                                 | 2,138         | 12,907        | 1,591        | -            | -             | -                  | 16,636        |
| Non-current assets held for sale and disposal groups  | 5,081         | -             | -            | -            | -             | -                  | 5,081         |
| Other assets  | 86            | -             | -            | -            | -             | -                  | 86            |
| <b>Total assets</b>                                   | <b>70,571</b> | <b>13,791</b> | <b>2,899</b> | <b>8,019</b> | <b>-</b>      | <b>1,297</b>       | <b>96,577</b> |
| <b>Liabilities</b>                                    |               |               |              |              |               |                    |               |
| Liabilities to banks                                  | -             | -             | 148          | -            | 14,250        | -                  | 14,398        |
| Liabilities to customers                              | -             | -             | 1,482        | -            | 43,085        | -                  | 44,567        |
| Securitised liabilities                               | -             | -             | 3,029        | -            | 15,587        | -                  | 18,616        |
| Negative fair value of hedging derivatives            | -             | -             | -            | -            | -             | 726                | 726           |
| Value adjustments from the portfolio fair value hedge | -             | -             | -            | -            | -             | 872                | 872           |
| Trading liabilities                                   | -             | -             | -            | 6,758        | -             | -                  | 6,758         |
| Liabilities relating to disposal groups               | -             | -             | -            | -            | 1             | -                  | 1             |
| Subordinated capital                                  | -             | -             | 87           | -            | 3,365         | -                  | 3,452         |
| Other liabilities                                     | -             | -             | -            | -            | 950           | -                  | 950           |
| <b>Total liabilities</b>                              | <b>-</b>      | <b>-</b>      | <b>4,746</b> | <b>6,758</b> | <b>77,238</b> | <b>1,598</b>       | <b>90,340</b> |

## CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

| (€ m)   |               |               |              |              |               |                    |                |
|---|---------------|---------------|--------------|--------------|---------------|--------------------|----------------|
| 2014  | LaR           | AfS           | DFV          | HfT          | LIA           | No IAS 39 category | Total          |
| <b>Assets</b>   |               |               |              |              |               |                    |                |
| Cash reserve  | 5,554         | 413           | -            | -            | -             | -                  | 5,967          |
| Loans and advances to banks                           | 6,779         | 87            | 49           | -            | -             | -                  | 6,915          |
| Loans and advances to customers                       | 65,760        | 97            | 1,369        | -            | -             | -                  | 67,226         |
| Receivables under finance leases                      | -             | -             | -            | -            | -             | 111                | 111            |
| Credit derivative second loss guarantee               | -             | -             | -            | 3            | -             | -                  | 3              |
| Positive fair value of hedging derivatives            | -             | -             | -            | -            | -             | 1,405              | 1,405          |
| Value adjustments from the portfolio fair value hedge | -             | -             | -            | -            | -             | 510                | 510            |
| Trading assets  | -             | -             | -            | 9,160        | -             | -                  | 9,160          |
| Financial investments                                 | 4,496         | 12,002        | 2,190        | -            | -             | -                  | 18,688         |
| Non-current assets held for sale and disposal groups  | 34            | -             | -            | -            | -             | -                  | 34             |
| Other assets  | 84            | -             | -            | -            | -             | -                  | 84             |
| <b>Total assets</b>                                   | <b>82,707</b> | <b>12,599</b> | <b>3,608</b> | <b>9,163</b> | <b>-</b>      | <b>2,026</b>       | <b>110,103</b> |
| <b>Liabilities</b>                                    |               |               |              |              |               |                    |                |
| Liabilities to banks                                  | -             | -             | 162          | -            | 14,385        | -                  | 14,547         |
| Liabilities to customers                              | -             | -             | 2,370        | -            | 40,795        | -                  | 43,165         |
| Securitised liabilities                               | -             | -             | 4,370        | -            | 23,264        | -                  | 27,634         |
| Negative fair value of hedging derivatives            | -             | -             | -            | -            | -             | 1,156              | 1,156          |
| Value adjustments from the portfolio fair value hedge | -             | -             | -            | -            | -             | 1,201              | 1,201          |
| Trading liabilities                                   | -             | -             | -            | 9,246        | -             | -                  | 9,246          |
| Liabilities relating to disposal groups               | -             | -             | -            | -            | -             | -                  | -              |
| Subordinated capital                                  | -             | -             | 99           | -            | 5,408         | -                  | 5,507          |
| Other liabilities                                     | -             | -             | -            | -            | 1,011         | -                  | 1,011          |
| <b>Total liabilities</b>                              | <b>-</b>      | <b>-</b>      | <b>7,001</b> | <b>9,246</b> | <b>84,863</b> | <b>2,357</b>       | <b>103,467</b> |

## 51. RECLASSIFICATION UNDER IAS 39 (REV. 2008)

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

The reclassification as LaR measures fair value at the time of reclassification at cost or amortised cost, respectively. At the time of reclassifi-

cation an effective interest rate was determined which is used for subsequent measurement of the amortised acquisition cost. For reclassification of financial instruments from AfS to LaR the revaluation reserve recognised up to the point of reclassification is reversed through Net interest income on a pro rata temporis basis in accordance with IAS 39.54 a).

The financial instruments reclassified from the HfT category into LaR in 2008 fell due in 2015. These reclassifications are shown in the following table:

| (€ m)   | Carrying amount as at the time of reclassification | 2015            |            | 2014            |            |
|---|--|-----------------|------------|-----------------|------------|
|   |  | Carrying amount | Fair value | Carrying amount | Fair value |
| Reclassified from HfT to LaR                      | 1,020  | -               | -          | 2               | 3          |
| <b>Total financial assets reclassified as LaR</b> | <b>1,020</b>                                       | <b>-</b>        | <b>-</b>   | <b>2</b>        | <b>3</b>   |

The effective interest rate applied in the case of financial instruments in the HfT category was between 0.03% and 14.72%. Anticipated repayments amounted to € 1,049 million.

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

| (€ m)   | Carrying amount as at the time of reclassification | 2015            |              | 2014            |              |
|---|--|-----------------|--------------|-----------------|--------------|
|   |  | Carrying amount | Fair value   | Carrying amount | Fair value   |
| Reclassified from AfS to LaR                      | 6,336  | 945             | 1,059        | 1,343           | 1,481        |
| <b>Total financial assets reclassified as LaR</b> | <b>6,336</b>                                       | <b>945</b>      | <b>1,059</b> | <b>1,343</b>    | <b>1,481</b> |

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

The decrease in the carrying amounts and fair values of all reclassified financial instruments is due to extensive changes in holdings. Financial instruments that have been disposed of or fallen due since reclassification had a carrying amount of € 7,042 million in the AfS category at the time of the reclassification. The sales were carried out following the realignment of HSH Nordbank and were neither planned nor anticipated at the time of the restructuring.

Shown below is the impact all holdings reclassified to date would have had on the income statement and revaluation reserve if they had not been reclassified. For financial instruments reclassified from HfT the valuation result in the income statement for the current reporting period would have been € -1 million (previous year: € 4 million) for the financial instruments reclassified in the 2008 financial year and no valuation result (previous year: € 1 million) for the financial instruments reclassified in the 2009 financial year.



For financial instruments reclassified from AfS the valuation result in the revaluation reserve for the current reporting period would have been € 5 million (previous year: € 126 million) for the financial instruments reclassified in the 2009 financial year.

The following table shows the actual impact of all holdings reclassified to date on the income statement of the current reporting period:

| (€ m)                                 | 2015      |           |           | 2014     |            |            |
|---------------------------------------|-----------|-----------|-----------|----------|------------|------------|
|                                       | From HfT  | From AfS  | Total     | From HfT | From AfS   | Total      |
| Net interest income                   | -         | 17        | 17        | 1        | 29         | 30         |
| Net trading income                    | -         | -         | -         | -        | -          | -          |
| Net income from financial investments | -1        | 26        | 25        | 5        | -89        | -84        |
| <b>Total</b>                          | <b>-1</b> | <b>43</b> | <b>42</b> | <b>6</b> | <b>-60</b> | <b>-54</b> |

## 52. RESIDUAL MATURITY BREAKDOWN OF FINANCIAL INSTRUMENTS

When determining the residual maturities of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

| (€ m)                                      | Payable on demand | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years  | Total          |
|--|-------------------|----------------|--------------------|-------------------|---------------|----------------|
| <b>2015</b>                                |                   |                |                    |                   |               |                |
| <b>Liabilities</b>                         |                   |                |                    |                   |               |                |
| Liabilities to banks                       | 982               | 6,948          | 874                | 4,078             | 2,067         | 14,949         |
| Liabilities to customers                   | 17,126            | 11,917         | 4,469              | 6,411             | 7,869         | 47,792         |
| Securitised liabilities                    | 2                 | 1,406          | 2,173              | 12,065            | 5,818         | 21,464         |
| Negative fair value of hedging derivatives | -                 | 75             | 107                | 470               | 137           | 789            |
| Trading liabilities                        | 6                 | 450            | 1,352              | 3,430             | 2,222         | 7,460          |
| thereof derivatives                        | 6                 | 450            | 1,352              | 3,430             | 2,222         | 7,460          |
| Liabilities relating to disposal groups    | -                 | -              | 1                  | -                 | -             | 1              |
| Other liabilities                          | 4                 | 101            | 148                | 698               | 35            | 986            |
| Subordinated capital                       | -                 | 3              | 42                 | 1,319             | 3,657         | 5,021          |
| Contingent liabilities                     | 2,833             | -              | -                  | -                 | -             | 2,833          |
| Irrevocable loan commitments               | 6,370             | -              | -                  | -                 | -             | 6,370          |
| <b>Total</b>                               | <b>27,323</b>     | <b>20,900</b>  | <b>9,166</b>       | <b>28,471</b>     | <b>21,805</b> | <b>107,665</b> |

| (€ m)<br>2014                              | Payable on demand | Up to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years  | Total          |
|--|-------------------|----------------|--------------------|-------------------|---------------|----------------|
| <b>Liabilities</b>                         |                   |                |                    |                   |               |                |
| Liabilities to banks                       | 1,307             | 3,162          | 5,522              | 5,036             | 1,660         | 16,687         |
| Liabilities to customers                   | 15,744            | 10,193         | 6,599              | 7,224             | 10,558        | 50,318         |
| Securitised liabilities                    | 4                 | 2,906          | 8,951              | 13,169            | 5,292         | 30,322         |
| Negative fair value of hedging derivatives | –                 | 85             | 124                | 654               | 313           | 1,176          |
| Trading liabilities                        | –                 | 1,319          | 1,725              | 5,114             | 3,693         | 11,851         |
| thereof derivatives                        | –                 | 1,319          | 1,725              | 5,114             | 3,693         | 11,851         |
| Other liabilities                          | 54                | 58             | 151                | 745               | 30            | 1,038          |
| Subordinated capital                       | 16                | 93             | 4,167              | 3,311             | 5,516         | 13,103         |
| Contingent liabilities                     | 2,716             | –              | –                  | –                 | –             | 2,716          |
| Irrevocable loan commitments               | 7,081             | –              | –                  | –                 | –             | 7,081          |
| <b>Total</b>                               | <b>26,922</b>     | <b>17,816</b>  | <b>27,239</b>      | <b>35,253</b>     | <b>27,062</b> | <b>134,292</b> |

Interest rate swaps, cross currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount.

Liquidity management is described in detail in the Risk report section of the Group management report.

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

#### I. Fair values of financial instruments

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

#### FAIR VALUES OF FINANCIAL INSTRUMENTS

##### ASSETS

| (€ m)   | 2015            |               |              | 2014            |                |              |
|---|-----------------|---------------|--------------|-----------------|----------------|--------------|
|   | Carrying amount | Fair value    | Difference   | Carrying amount | Fair value     | Difference   |
| Held for Trading (HfT)                                |                 |               |              |                 |                |              |
| Trading assets  | 7,356           | 7,356         | –            | 9,160           | 9,160          | –            |
| Credit derivative second loss guarantee               | 663             | 663           | –            | 3               | 3              | –            |
| Designated at Fair Value (DFV)                        |                 |               |              |                 |                |              |
| Loans and advances to banks                           | –               | –             | –            | 49              | 49             | –            |
| Loans and advances to customers                       | 1,308           | 1,308         | –            | 1,369           | 1,369          | –            |
| Financial investments                                 | 1,591           | 1,591         | –            | 2,190           | 2,190          | –            |
| Available for Sale (AFS)                              |                 |               |              |                 |                |              |
| Cash reserve  | 694             | 694           | –            | 413             | 413            | –            |
| Loans and advances to banks                           | 86              | 86            | –            | 87              | 87             | –            |
| Loans and advances to customers                       | 104             | 104           | –            | 97              | 97             | –            |
| Financial investments <sup>1)</sup>                   | 12,907          | 13,085        | 178          | 12,002          | 12,169         | 167          |
| of which equity instruments measured at cost          | 211             | –             |              | 304             | –              |              |
| Loans and Receivables (LaR)                           |                 |               |              |                 |                |              |
| Cash reserve  | 2,700           | 2,700         | –            | 5,554           | 5,554          | –            |
| Loans and advances to banks                           | 5,494           | 5,512         | 18           | 6,764           | 6,790          | 26           |
| Loans and advances to customers                       | 49,247          | 51,511        | 2,264        | 59,640          | 61,593         | 1,953        |
| Financial investments                                 | 2,138           | 2,196         | 58           | 4,496           | 4,593          | 97           |
| Non-current assets held for sale and disposal groups  | 2,679           | 2,679         | –            | 34              | 32             | –2           |
| Other assets  | 86              | 86            | –            | 84              | 84             | –            |
| No IAS 39 category                                    |                 |               |              |                 |                |              |
| Positive fair value of hedging derivatives            | 783             | 783           | –            | 1,405           | 1,405          | –            |
| Receivables under finance leases                      | 106             | 106           | –            | 111             | 111            | –            |
| Value adjustments from the portfolio fair value hedge | 408             | –             | –408         | 509             | –              | –509         |
| <b>Total assets</b>                                   | <b>88,350</b>   | <b>90,460</b> | <b>2,110</b> | <b>103,967</b>  | <b>105,699</b> | <b>1,732</b> |

<sup>1)</sup> € 211 million of the difference between the carrying amount and fair value is attributable to equity instruments measured at cost in accordance with IAS 39.46 (c). Another difference between the carrying amount and fair value of financial investments classified as AFS is attributable to the fact that the adjustment item recognised for these transactions from the portfolio fair value hedge is separately disclosed. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed in the Value adjustments from the portfolio fair value hedge item, of which € 389 million is accounted for by financial investments classified as available for sale (AFS) (previous year: € 471 million) and € 19 million (previous year: € 38 million) by loans and advances to banks and customers classified as LaR.

## FAIR VALUES OF FINANCIAL INSTRUMENTS

### LIABILITIES

| (€ m)   | 2015            |               |            | 2014            |                |            |
|---|-----------------|---------------|------------|-----------------|----------------|------------|
|   | Carrying amount | Fair value    | Difference | Carrying amount | Fair value     | Difference |
| Held for Trading (HFT)                                |                 |               |            |                 |                |            |
| Trading liabilities                                   | 6,758           | 6,758         | –          | 9,246           | 9,246          | –          |
| Designated at Fair Value (DFV)                        |                 |               |            |                 |                |            |
| Liabilities to banks                                  | 148             | 148           | –          | 162             | 162            | –          |
| Liabilities to customers                              | 1,482           | 1,482         | –          | 2,370           | 2,370          | –          |
| Securitised liabilities                               | 3,029           | 3,029         | –          | 4,370           | 4,370          | –          |
| Subordinated capital                                  | 87              | 87            | –          | 98              | 98             | –          |
| Other liabilities (LIA)                               |                 |               |            |                 |                |            |
| Liabilities to banks                                  | 14,250          | 14,276        | 26         | 14,385          | 14,597         | 212        |
| Liabilities to customers                              | 43,085          | 44,390        | 1,305      | 40,795          | 42,468         | 1,673      |
| Securitised liabilities                               | 15,587          | 15,604        | 17         | 23,264          | 23,516         | 252        |
| Liabilities relating to disposal groups               | 1               | 1             | –          | –               | –              | –          |
| Other liabilities                                     | 950             | 950           | –          | 1,011           | 1,011          | –          |
| Subordinated capital                                  | 3,365           | 2,867         | –498       | 5,408           | 5,003          | –405       |
| No IAS 39 category                                    |                 |               |            |                 |                |            |
| Negative fair value of hedging derivatives            | 726             | 726           | –          | 1,156           | 1,156          | –          |
| Value adjustments from the portfolio fair value hedge | 872             | –             | –872       | 1,201           | –              | –1.201     |
| <b>Total liabilities</b>                              | <b>90,340</b>   | <b>90,318</b> | <b>–22</b> | <b>103,466</b>  | <b>103,997</b> | <b>531</b> |

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



## II. Fair value hierarchy for financial instruments measured at fair value

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

### HIERARCHY LEVELS, ASSETS

| (€ m)   | Assets recognised at fair value |               |              | Total         |
|---|---------------------------------|---------------|--------------|---------------|
|   | Level 1                         | Level 2       | Level 3      |               |
| <b>2015</b>   |                                 |               |              |               |
| <b>Balance sheet item/ category/ instrument type</b>                  |                                 |               |              |               |
| Cash reserve  |                                 |               |              |               |
| Afs   | –                               | 694           | –            | 694           |
| of which debt instruments   | –                               | 694           | –            | 694           |
| Loans and advances to banks   |                                 |               |              |               |
| Afs   | –                               | 42            | 44           | 86            |
| of which debt instruments   | –                               | 42            | 44           | 86            |
| Loans and advances to customers                                       |                                 |               |              |               |
| Afs   | –                               | –             | 104          | 104           |
| of which debt instruments   | –                               | –             | 104          | 104           |
| DFV   | –                               | 54            | 1,254        | 1,308         |
| of which debt instruments   | –                               | 54            | 1,254        | 1,308         |
| Credit derivative second loss guarantee                               | –                               | –             | 663          | 663           |
| of which credit derivatives   | –                               | –             | 663          | 663           |
| Positive fair value of hedging derivatives                            | –                               | 783           | –            | 783           |
| of which interest rate derivatives                                    | –                               | 783           | –            | 783           |
| Trading assets (HFT)  | 511                             | 6,349         | 496          | 7,356         |
| of which debt instruments   | 511                             | 1,165         | –            | 1,676         |
| of which contractually linked instruments                             | –                               | 85            | –            | 85            |
| of which equity and near-equity instruments                           | –                               | 1             | –            | 1             |
| of which interest rate derivatives                                    | –                               | 4,362         | 150          | 4,512         |
| of which cross-currency interest rate derivatives                     | –                               | 221           | –            | 221           |
| of which currency derivatives   | –                               | 208           | 29           | 237           |
| of which credit derivatives   | –                               | 30            | –            | 30            |
| of which other derivatives  | –                               | 46            | 17           | 63            |
| of which structured derivatives                                       | –                               | 218           | 300          | 518           |
| of which other trading portfolios                                     | –                               | 13            | –            | 13            |
| Financial investments (excluding equity instruments measured at cost) |                                 |               |              |               |
| Afs <sup>1)</sup>   | 8,345                           | 4,193         | 159          | 12,697        |
| of which debt instruments   | 8,301                           | 4,114         | 16           | 12,431        |
| of which contractually linked instruments                             | –                               | 59            | –            | 59            |
| of which equity and near-equity instruments                           | 44                              | 20            | 143          | 207           |
| DFV   | –                               | 1,045         | 546          | 1,591         |
| of which debt instruments   | –                               | 1,044         | 544          | 1,588         |
| of which contractually linked instruments                             | –                               | 1             | –            | 1             |
| of which equity and near-equity instruments                           | –                               | –             | 2            | 2             |
| <b>Total</b>  | <b>8,856</b>                    | <b>13,160</b> | <b>3,266</b> | <b>25,282</b> |

<sup>1)</sup> The difference between the total Afs financial investments in the asset hierarchy table and the fair value disclosures in Section I is attributable to effects in the item Value adjustments from the portfolio fair value hedge in the amount of € 389 million. These effects are not disclosed in the hierarchy table.

**HIERARCHY LEVELS, ASSETS**

| (€ m)   | Assets recognised at fair value |               |              |               |
|---|---------------------------------|---------------|--------------|---------------|
|   | Level 1                         | Level 2       | Level 3      | Total         |
| <b>2014</b>   |                                 |               |              |               |
| <b>Balance sheet item/ category/ instrument type</b>              |                                 |               |              |               |
| Cash reserve  |                                 |               |              |               |
| Afs   | 7                               | 406           | -            | 413           |
| of which debt instruments   | 7                               | 406           | -            | 413           |
| Loans and advances to banks                                       |                                 |               |              |               |
| Afs   | -                               | 42            | 45           | 87            |
| of which debt instruments   | -                               | 42            | 45           | 87            |
| DFV   | -                               | -             | 49           | 49            |
| of which debt instruments   | -                               | -             | 49           | 49            |
| Loans and advances to customers                                   |                                 |               |              |               |
| Afs   | -                               | -             | 97           | 97            |
| of which debt instruments   | -                               | -             | 97           | 97            |
| DFV   | -                               | 62            | 1,307        | 1,369         |
| of which debt instruments   | -                               | 62            | 1,307        | 1,369         |
| Credit derivative second loss guarantee                           | -                               | -             | 3            | 3             |
| of which credit derivatives                                       | -                               | -             | 3            | 3             |
| Positive fair value of hedging derivatives                        | -                               | 1,405         | -            | 1,405         |
| of which interest rate derivatives                                | -                               | 1,405         | -            | 1,405         |
| Trading assets (Hft)  | 437                             | 7,990         | 733          | 9,160         |
| of which debt instruments   | 435                             | 952           | -            | 1,387         |
| of which contractually linked instruments                         | -                               | 85            | -            | 85            |
| of which equity and near-equity instruments                       | 2                               | 1             | -            | 3             |
| of which interest rate derivatives                                | -                               | 5,951         | 272          | 6,223         |
| of which cross-currency interest rate derivatives                 | -                               | 204           | -            | 204           |
| of which currency derivatives                                     | -                               | 117           | 20           | 137           |
| of which credit derivatives                                       | -                               | 27            | -            | 27            |
| of which other derivatives  | -                               | 98            | 45           | 143           |
| of which structured derivatives                                   | -                               | 546           | 396          | 942           |
| of which other trading portfolios                                 | -                               | 9             | -            | 9             |
| Financial investments (excl. equity instruments measured at cost) |                                 |               |              |               |
| Afs <sup>1)</sup>   | 7,345                           | 4,201         | 152          | 11,698        |
| of which debt instruments   | 7,335                           | 4,053         | 14           | 11,402        |
| of which contractually linked instruments                         | -                               | 147           | -            | 147           |
| of which equity and near-equity instruments                       | 10                              | 1             | 138          | 149           |
| DFV   | -                               | 1,280         | 910          | 2,190         |
| of which debt instruments   | -                               | 1,273         | 558          | 1,831         |
| of which contractually linked instruments                         | -                               | 7             | 336          | 343           |
| of which equity and near-equity instruments                       | -                               | -             | 16           | 16            |
| <b>Total</b>  | <b>7,789</b>                    | <b>15,386</b> | <b>3,296</b> | <b>26,471</b> |

<sup>1)</sup> The difference between the total Afs financial investments in the asset hierarchy table and the fair value disclosures in Section I is attributable to effects in the item Value adjustments from the portfolio fair value hedge in the amount of € 471 million. These effects are not disclosed in the hierarchy table.

**HIERARCHY LEVELS, LIABILITIES**

| (€ m)   | Liabilities recognised at fair value |              |              | <b>Total</b>  |
|---|--------------------------------------|--------------|--------------|---------------|
|   | Level 1                              | Level 2      | Level 3      |               |
| <b>2015</b>                                       |                                      |              |              |               |
| Liabilities to banks                              |                                      |              |              |               |
| DFV   | –                                    | 28           | 120          | 148           |
| of which debt instruments                         | –                                    | 28           | 120          | 148           |
| Liabilities to customers                          |                                      |              |              |               |
| DFV   | –                                    | 316          | 1,166        | 1,482         |
| of which debt instruments                         | –                                    | 316          | 1,166        | 1,482         |
| Securitised liabilities                           |                                      |              |              |               |
| DFV   | –                                    | 2,385        | 644          | 3,029         |
| of which debt instruments                         | –                                    | 2,329        | 644          | 2,973         |
| of which contractually linked instruments         | –                                    | 56           | –            | 56            |
| Negative fair value of hedging derivatives        | –                                    | 726          | –            | 726           |
| of which interest rate derivatives                | –                                    | 726          | –            | 726           |
| Trading liabilities (HfT)                         | –                                    | 5,873        | 885          | 6,758         |
| of which interest rate derivatives                | –                                    | 5,047        | 541          | 5,588         |
| of which cross-currency interest rate derivatives | –                                    | 405          | –            | 405           |
| of which currency derivatives                     | –                                    | 124          | 40           | 164           |
| of which credit derivatives                       | –                                    | 1            | –            | 1             |
| of which other derivatives                        | –                                    | 43           | 16           | 59            |
| of which structured derivatives                   | –                                    | 253          | 288          | 541           |
| Subordinated capital                              |                                      |              |              |               |
| DFV   | –                                    | 87           | –            | 87            |
| of which debt instruments                         | –                                    | 87           | –            | 87            |
| <b>Total</b>                                      | <b>–</b>                             | <b>9,415</b> | <b>2,815</b> | <b>12,230</b> |

**HIERARCHY LEVELS, LIABILITIES**

| (€ m)   | Liabilities recognised at fair value |               |              | <b>Total</b>  |
|---|--------------------------------------|---------------|--------------|---------------|
|   | Level 1                              | Level 2       | Level 3      |               |
| <b>2014</b>                                       |                                      |               |              |               |
| Liabilities to banks                              |                                      |               |              |               |
| DFV   | -                                    | 28            | 134          | 162           |
| of which debt instruments                         | -                                    | 28            | 134          | 162           |
| Liabilities to customers                          |                                      |               |              |               |
| DFV   | -                                    | 498           | 1,872        | 2,370         |
| of which debt instruments                         | -                                    | 498           | 1,872        | 2,370         |
| Securitised liabilities                           |                                      |               |              |               |
| DFV   | -                                    | 3,169         | 1,201        | 4,370         |
| of which debt instruments                         | -                                    | 3,149         | 1,201        | 4,350         |
| of which contractually linked instruments         | -                                    | 20            | -            | 20            |
| Negative fair value of hedging derivatives        | -                                    | 1,156         | -            | 1,156         |
| of which interest rate derivatives                | -                                    | 1,156         | -            | 1,156         |
| Trading liabilities (HfT)                         | -                                    | 8,150         | 1,096        | 9,246         |
| of which interest rate derivatives                | -                                    | 6,886         | 656          | 7,542         |
| of which cross-currency interest rate derivatives | -                                    | 730           | -            | 730           |
| of which currency derivatives                     | -                                    | 247           | 27           | 274           |
| of which other derivatives                        | -                                    | 58            | 41           | 99            |
| of which structured derivatives                   | -                                    | 229           | 372          | 601           |
| Subordinated capital                              |                                      |               |              |               |
| DFV   | -                                    | 82            | 16           | 98            |
| of which debt instruments                         | -                                    | 82            | 16           | 98            |
| <b>Total</b>                                      | <b>-</b>                             | <b>13,083</b> | <b>4,319</b> | <b>17,402</b> |

Of the financial instruments allocated to level 3, € 2,264 million of assets (previous year: € 2,664 million) and € 2,414 million of liabilities (previous year: € 3,748 million) are in economic hedging relationships (at micro level), so that existing uncertainties and risk positions due to unobservable inputs offset each other at the level hedging relationships (at micro level) involved.

In the period under review financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are shown below together with the carrying amounts at the time of transfer for each class of financial instruments.

**TRANSFER, ASSETS**

| (€ m)<br>2015  | Transfer to<br>level 1 | Transfer<br>from level 1 | Transfer to<br>level 2 | Transfer<br>from level 2 | Transfer to<br>level 3 | Transfer<br>from level 3 |
|--|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trading assets (HfT)   | 218                    | -431                     | 486                    | -218                     | -                      | -55                      |
| of which debt instruments  | 218                    | -431                     | 431                    | -218                     | -                      | -                        |
| of which interest rate derivatives                                   | -                      | -                        | 19                     | -                        | -                      | -19                      |
| of which structured derivatives                                      | -                      | -                        | 36                     | -                        | -                      | -36                      |
| Financial investments (excl. equity instruments<br>measured at cost) | -                      | -                        | -                      | -                        | -                      | -                        |
| AfS  | 6,628                  | -5,631                   | 5,631                  | -6,639                   | 11                     | -                        |
| of which debt instruments  | 6,569                  | -5,570                   | 5,570                  | -6,580                   | 11                     | -                        |
| of which contractually linked instruments                            | 58                     | -59                      | 59                     | -58                      | -                      | -                        |
| of which equity and near-equity instruments                          | 1                      | -2                       | 2                      | -1                       | -                      | -                        |
| DFV  | 953                    | -851                     | 851                    | -953                     | -                      | -                        |
| of which debt instruments  | 953                    | -851                     | 851                    | -953                     | -                      | -                        |
| <b>Total</b>   | <b>7,799</b>           | <b>-6,913</b>            | <b>6,968</b>           | <b>-7,810</b>            | <b>11</b>              | <b>-55</b>               |

**TRANSFER, ASSETS**

| (€ m)<br>2014  | Transfer to<br>level 1 | Transfer<br>from level 1 | Transfer to<br>level 2 | Transfer<br>from level 2 | Transfer to<br>level 3 | Transfer<br>from level 3 |
|--|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trading assets (HfT)   | 333                    | -420                     | 809                    | -333                     | -                      | -389                     |
| of which debt instruments  | 333                    | -419                     | 419                    | -333                     | -                      | -                        |
| of which equity and near-equity instruments                          | -                      | -1                       | 1                      | -                        | -                      | -                        |
| of which other derivatives   | -                      | -                        | 26                     | -                        | -                      | -26                      |
| of which structured derivatives                                      | -                      | -                        | 363                    | -                        | -                      | -363                     |
| Financial investments (excl. equity instruments<br>measured at cost) | -                      | -                        | -                      | -                        | -                      | -                        |
| AfS  | 1,290                  | -1,395                   | 1,402                  | -1,289                   | 1                      | -9                       |
| of which debt instruments  | 1,288                  | -1,395                   | 1,402                  | -1,289                   | 1                      | -7                       |
| of which equity and near-equity instruments                          | 2                      | -                        | -                      | -                        | -                      | -2                       |
| DFV  | -                      | -                        | 1                      | -1                       | 1                      | -1                       |
| of which debt instruments  | -                      | -                        | 1                      | -1                       | 1                      | -1                       |
| <b>Total</b>   | <b>1,623</b>           | <b>-1,815</b>            | <b>2,212</b>           | <b>-1,623</b>            | <b>2</b>               | <b>-399</b>              |

**TRANSFER, LIABILITIES**

| (€ m)<br>2015                      | Transfer to<br>level 1 | Transfer<br>from level 1 | Transfer to<br>level 2 | Transfer<br>from level 2 | Transfer to<br>level 3 | Transfer<br>from level 3 |
|------------------------------------|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Trading liabilities (HfT)          | -                      | -                        | 48                     | -                        | -                      | -48                      |
| of which interest rate derivatives | -                      | -                        | 9                      | -                        | -                      | -9                       |
| of which structured derivatives    | -                      | -                        | 39                     | -                        | -                      | -39                      |
| <b>Total</b>                       | <b>-</b>               | <b>-</b>                 | <b>48</b>              | <b>-</b>                 | <b>-</b>               | <b>-48</b>               |



**TRANSFER, LIABILITIES**

| (€ m)<br>2014              | Transfer to<br>level 1 | Transfer<br>from level 1 | Transfer<br>to level 2 | Transfer<br>from level 2 | Transfer<br>to level 3 | Transfer<br>from level 3 |
|----------------------------|------------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|
| Liabilities to customers   |                        |                          |                        |                          |                        |                          |
| DFV                        | -                      | -                        | 73                     | -                        | -                      | -73                      |
| of which debt instruments  | -                      | -                        | 73                     | -                        | -                      | -73                      |
| Securitised liabilities    |                        |                          |                        |                          |                        |                          |
| DFV                        | -                      | -                        | 921                    | -                        | -                      | -921                     |
| of which debt instruments  | -                      | -                        | 921                    | -                        | -                      | -921                     |
| Trading liabilities (HFT)  | -                      | -                        | 25                     | -                        | -                      | -25                      |
| of which other derivatives | -                      | -                        | 25                     | -                        | -                      | -25                      |
| <b>Total</b>               | <b>-</b>               | <b>-</b>                 | <b>1,019</b>           | <b>-</b>                 | <b>-</b>               | <b>-1,019</b>            |

IFRS 13 and IDW RS HFA 47 specify the principles to be applied in determining the fair value. They also include the guidelines for assigning input factors to the fair value hierarchy levels. HSH Nordbank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities, for which the OTC market is the relevant market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from level 1 to level 2 or vice versa in the reporting period – depending on the prices used for measurement. Furthermore, significant transfers from level 3 to level 2 were also made in the reporting period for derivatives within the framework of

regularly performed model validations, since it was possible to use observable inputs in the model now.

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

Income relating to liability items is shown with a negative sign and expenses are shown without a sign in the reconciliations below.

**RECONCILIATION, ASSETS**

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

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

**RECONCILIATION, ASSETS**

| (€ m)   | Change in balance affecting income |  |   |
|---|------------------------------------|--|---|
|   | 1 January 2014                     | Realised net income (income statement) | Net income not recognised in profit or loss |
| <b>2014</b>   |                                    |  |   |
| <b>Balance sheet item/category/ instrument type</b>               |                                    |  |   |
| Loans and advances to banks                                       |                                    |  |   |
| Afs   | 45                                 | -                                      | -   |
| of which debt instruments   | 45                                 | -                                      | -   |
| DFV   | 76                                 | -3                                     | -   |
| of which debt instruments   | 76                                 | -3                                     | -   |
| Loans and advances to customers                                   |                                    |  |   |
| Afs   | 146                                | 15                                     | -16   |
| of which debt instruments   | 146                                | 15                                     | -16   |
| DFV   | 1,094                              | 187                                    | -   |
| of which debt instruments   | 1,094                              | 187                                    | -   |
| Credit derivative second loss guarantee (HFT)                     | 1                                  | 2                                      | -   |
| of which credit derivatives                                       | 1                                  | 2                                      | -   |
| Trading assets (HFT)  | 1,102                              | -6                                     | -   |
| of which equity and near-equity instruments                       | -                                  | -                                      | -   |
| of which interest rate derivatives                                | 270                                | -12                                    | -   |
| of which currency derivatives                                     | 19                                 | -4                                     | -   |
| of which credit derivatives                                       | 1                                  | -1                                     | -   |
| of which other derivatives  | 80                                 | -7                                     | -   |
| of which structured derivatives                                   | 732                                | 18                                     | -   |
| Financial investments (excl. equity instruments measured at cost) |                                    |  |   |
| Afs   | 139                                | 1                                      | 16  |
| of which debt instruments   | 7                                  | 2                                      | 2   |
| of which equity and near-equity instruments                       | 132                                | -1                                     | 14  |
| DFV   | 868                                | 69                                     | -   |
| of which debt instruments   | 495                                | 63                                     | -   |
| of which contractually linked instruments                         | 353                                | -                                      | -   |
| of which equity and near-equity instruments                       | 20                                 | 6                                      | -   |
| <b>Total</b>  | <b>3,471</b>                       | <b>265</b>                             | <b>-</b>                                    |

|          | Quantitative change in balance |             |             | Transfers    |            | Reclassification | Exchange rate changes | 31 December 2014 | Net income from assets held as at 31 December 2014 |
|----------|--------------------------------|-------------|-------------|--------------|------------|------------------|-----------------------|------------------|--|
|          | Purchases                      | Sales       | Settlements | From level 3 | To level 3 |                  |                       |                  |  |
|          |                                |             |             |              |            |                  |                       |                  | -  |
|          | -                              | -           | -           | -            | -          | -                | -                     | 45               | -  |
|          | -                              | -           | -           | -            | -          | -                | -                     | 45               | -  |
|          | -                              | -9          | -           | -            | -          | -15              | -                     | 49               | -  |
|          | -                              | -9          | -           | -            | -          | -15              | -                     | 49               | -  |
|          | -                              | -33         | -28         | -            | -          | -                | 13                    | 97               | 1  |
|          | -                              | -33         | -28         | -            | -          | -                | 13                    | 97               | 1  |
|          | 14                             | -9          | -           | -            | -          | 16               | 5                     | 1,307            | 187  |
|          | 14                             | -9          | -           | -            | -          | 16               | 5                     | 1,307            | 187  |
|          | -                              | -           | -           | -            | -          | -                | -                     | 3                | -  |
|          | -                              | -           | -           | -            | -          | -                | -                     | 3                | -  |
|          | 16                             | -12         | 1           | -389         | -          | 6                | 15                    | 733              | -34  |
|          | 6                              | -6          | -           | -            | -          | -                | -                     | -                | -  |
|          | 9                              | -           | -           | -            | -          | -                | 5                     | 272              | 4  |
|          | -                              | -1          | -           | -            | -          | 6                | -                     | 20               | -1   |
|          | -                              | -           | -           | -            | -          | -                | -                     | -                | -  |
|          | 1                              | -           | -           | -26          | -          | -                | -3                    | 45               | 7  |
|          | -                              | -5          | 1           | -363         | -          | -                | 13                    | 396              | -44  |
|          | 13                             | -30         | -           | -9           | 1          | 2                | 19                    | 152              | -1   |
|          | 8                              | -           | -           | -7           | 1          | -                | 1                     | 14               | -  |
|          | 5                              | -30         | -           | -2           | -          | 2                | 18                    | 138              | -1   |
|          | -                              | -35         | -           | -1           | 1          | -                | 8                     | 910              | 68   |
|          | -                              | -           | -           | -1           | 1          | -                | -                     | 558              | 63   |
|          | -                              | -24         | -           | -            | -          | -                | 7                     | 336              | -1   |
|          | -                              | -11         | -           | -            | -          | -                | 1                     | 16               | 6  |
| <b>-</b> | <b>43</b>                      | <b>-128</b> | <b>-27</b>  | <b>-399</b>  | <b>2</b>   | <b>9</b>         | <b>60</b>             | <b>3,296</b>     | <b>221</b>   |



**RECONCILIATION, LIABILITIES**

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

|  | Quantitative change<br>in balance |            |                 |               | Transfers    |            | Reclassi-<br>fication | Exchange<br>rate<br>changes | 31 De-<br>cember<br>2015 | Net income<br>from assets<br>held as at<br>31 Decem-<br>ber 2015 |
|--|-----------------------------------|------------|-----------------|---------------|--------------|------------|-----------------------|-----------------------------|--------------------------|--|
|  | Purchases                         | Sales      | New<br>business | Settlements   | From level 3 | To level 3 |                       |                             |                          |  |
|  |                                   |            |                 |               |              |            |                       |                             |                          |  |
|  | 4                                 | -15        | -               | -             | -            | -          | -                     | -                           | 120                      | 2  |
|  | 4                                 | -15        | -               | -             | -            | -          | -                     | -                           | 120                      | 2  |
|  | 41                                | -8         | -               | -665          | -            | -          | -9                    | 4                           | 1,166                    | 32   |
|  | 41                                | -8         | -               | -665          | -            | -          | -9                    | 4                           | 1,166                    | 32   |
|  | -16                               | 12         | 34              | -613          | -            | -          | -                     | 55                          | 644                      | 18   |
|  | -16                               | 12         | 34              | -613          | -            | -          | -                     | 55                          | 644                      | 18   |
|  | 1                                 | -1         | -               | 1             | -47          | -          | -                     | 3                           | 885                      | 154  |
|  | 1                                 | -          | -               | -             | -9           | -          | -                     | -                           | 541                      | 98   |
|  | -                                 | -          | -               | -             | -            | -          | -                     | -                           | 40                       | -13  |
|  | -                                 | -          | -               | -             | -            | -          | -                     | -                           | 16                       | 25   |
|  | -                                 | -1         | -               | 1             | -38          | -          | -                     | 3                           | 288                      | 44   |
|  | -                                 | -          | -               | -15           | -            | -          | -                     | -                           | -                        | -  |
|  | -                                 | -          | -               | -15           | -            | -          | -                     | -                           | -                        | -  |
|  | <b>30</b>                         | <b>-12</b> | <b>34</b>       | <b>-1,292</b> | <b>-47</b>   | <b>-</b>   | <b>-9</b>             | <b>62</b>                   | <b>2,815</b>             | <b>206</b>   |

**RECONCILIATION, LIABILITIES**

| (€ m)  |                       | Change in balance affecting income     |   |
|--|-----------------------|--|---|
|  |                       | Realised net income (income statement) | Net income not recognised in profit or loss |
| <b>2014</b>  | <b>1 January 2014</b> |  |   |
| <b>Balance sheet item/ category/ instrument type</b> |                       |  |   |
| Liabilities to banks                                 |                       |  |   |
| DFV  | 117                   | 6                                      | -   |
| of which debt instruments                            | 117                   | 6                                      | -   |
| Liabilities to customers                             |                       |  |   |
| DFV  | 2,114                 | 34                                     | -   |
| of which debt instruments                            | 2,114                 | 34                                     | -   |
| Securitised liabilities                              |                       |  |   |
| DFV  | 2,154                 | 26                                     | -   |
| of which debt instruments                            | 2,154                 | 26                                     | -   |
| Trading liabilities (HfT)                            | 823                   | 306                                    | -   |
| of which interest rate derivatives                   | 432                   | 228                                    | -   |
| of which currency derivatives                        | 28                    | -                                      | -   |
| of which other derivatives                           | 78                    | -9                                     | -   |
| of which structured derivatives                      | 285                   | 87                                     | -   |
| DFV  | 16                    | -                                      | -   |
| of which debt instruments                            | 16                    | -                                      | -   |
| <b>Total</b>   | <b>5,224</b>          | <b>372</b>                             | <b>-</b>                                    |

|  | Quantitative change<br>in balance |            |                 |             | Transfers     |               |                       |           | Exchange<br>rate<br>changes | 31 De-<br>cember<br>2014 | Net income<br>from assets<br>held as at<br>31 Decem-<br>ber 2014 |
|--|-----------------------------------|------------|-----------------|-------------|---------------|---------------|-----------------------|-----------|-----------------------------|--------------------------|--|
|  | Purchases                         | Sales      | New<br>business | Settlements | From level 3  | To<br>level 3 | Reclassi-<br>fication |           |                             |                          |  |
|  |                                   |            |                 |             |               |               |                       |           |                             |                          |  |
|  | 17                                | -          | -               | -6          | -             | -             | -                     | -         | 134                         | -                        |  |
|  | 17                                | -          | -               | -6          | -             | -             | -                     | -         | 134                         | -                        |  |
|  | 68                                | -13        | -               | -266        | -73           | -             | -                     | 8         | 1,872                       | -74                      |  |
|  | 68                                | -13        | -               | -266        | -73           | -             | -                     | 8         | 1,872                       | -74                      |  |
|  | -2                                | -5         | 33              | -84         | -921          | -             | -                     | -         | 1,201                       | -3                       |  |
|  | -2                                | -5         | 33              | -84         | -921          | -             | -                     | -         | 1,201                       | -3                       |  |
|  | -                                 | -9         | -               | -1          | -25           | -             | -                     | 2         | 1,096                       | -307                     |  |
|  | -                                 | -5         | -               | -1          | -             | -             | -                     | 2         | 656                         | -228                     |  |
|  | -                                 | -1         | -               | -           | -             | -             | -                     | -         | 27                          | -1                       |  |
|  | -                                 | -          | -               | -           | -25           | -             | -                     | -3        | 41                          | 9                        |  |
|  | -                                 | -3         | -               | -           | -             | -             | -                     | 3         | 372                         | -87                      |  |
|  | -                                 | -          | -               | -           | -             | -             | -                     | -         | 16                          | -                        |  |
|  | -                                 | -          | -               | -           | -             | -             | -                     | -         | 16                          | -                        |  |
|  | <b>83</b>                         | <b>-27</b> | <b>33</b>       | <b>-357</b> | <b>-1,019</b> | <b>-</b>      | <b>-</b>              | <b>10</b> | <b>4,319</b>                | <b>-384</b>              |  |

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

#### NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)

|   | Realised/unrealised net income (income statement) |                    |                                       |   | Total      |
|---|---|--------------------|---------------------------------------|---|------------|
|   | Net interest income                               | Net trading income | Net income from financial investments | Hedging effect of credit derivative second loss guarantee |            |
| <b>2015</b>   |   |                    |                                       |   |            |
| <b>Balance sheet item/ category/ instrument type</b>              |   |                    |                                       |   |            |
| Loans and advances to banks                                       |   |                    |                                       |   |            |
| Afs   | -   | -                  | -                                     | -   | -          |
| of which debt instruments   | -   | -                  | -                                     | -   | -          |
| DFV   | -   | 1                  | -                                     | -   | 1          |
| of which debt instruments   | -   | 1                  | -                                     | -   | 1          |
| Loans and advances to customers                                   |   |                    |                                       |   |            |
| Afs   | -1  | -                  | -                                     | -   | -1         |
| of which debt instruments   | -1  | -                  | -                                     | -   | -1         |
| DFV   | -   | -53                | -                                     | -   | -53        |
| of which debt instruments   | -   | -53                | -                                     | -   | -53        |
| Credit derivative second loss guarantee (HfT)                     |   |                    |                                       | 660   | 660        |
| of which credit derivatives                                       |   |                    |                                       | 660   | 660        |
| Trading assets (HfT)  | 7   | -202               | -                                     | -   | -195       |
| of which interest rate derivatives                                | 10  | -118               | -                                     | -   | -108       |
| of which currency derivatives                                     | -   | 9                  | -                                     | -   | 9          |
| of which other derivatives  | -   | -28                | -                                     | -   | -28        |
| of which structured derivatives                                   | -3  | -65                | -                                     | -   | -68        |
| Financial investments (excl. equity instruments measured at cost) |   |                    |                                       |   |            |
| Afs   | -   | -                  | -1                                    | -   | -1         |
| of which debt instruments   | -   | -                  | -                                     | -   | -          |
| of which equity and near-equity instruments                       | -   | -                  | -1                                    | -   | -1         |
| DFV   | -   | -10                | -                                     | -   | -10        |
| of which debt instruments   | -   | -19                | -                                     | -   | -19        |
| of which contractually linked instruments                         | -   | 6                  | -                                     | -   | 6          |
| of which equity and near-equity instruments                       | -   | 3                  | -                                     | -   | 3          |
| <b>Total</b>  | <b>6</b>  | <b>-264</b>        | <b>-1</b>                             | <b>660</b>  | <b>401</b> |



|  | Other net income for the period |                     | Net income from assets still held as at 31 December 2015 |                                       |   | Total      | Other net income for the period |
|--|---------------------------------|---------------------|--|---------------------------------------|---|------------|---------------------------------|
|  | Revaluation reserve             | Net interest income | Net trading income                                       | Net income from financial investments | Hedging effect of credit derivative second loss guarantee |            |                                 |
|  |                                 |                     |  |                                       |   |            |                                 |
|  | -2                              | -                   | -  | -                                     | -   | -          | -2                              |
|  | -2                              | -                   | -  | -                                     | -   | -          | -2                              |
|  | -                               | -                   | -  | -                                     | -   | -          | -                               |
|  | -                               | -                   | -  | -                                     | -   | -          | -                               |
|  | 2                               | -                   | -  | -                                     | -   | -          | 2                               |
|  | 2                               | -                   | -  | -                                     | -   | -          | 2                               |
|  | -                               | -                   | -53  | -                                     | -   | -53        | -                               |
|  | -                               | -                   | -53  | -                                     | -   | -53        | -                               |
|  | -                               | -                   | -  | -                                     | 660   | 660        | -                               |
|  | -                               | -                   | -  | -                                     | 660   | 660        | -                               |
|  | -                               | 2                   | 100  | -                                     | -   | 102        | -                               |
|  | -                               | 3                   | 59   | -                                     | -   | 62         | -                               |
|  | -                               | -                   | -9   | -                                     | -   | -9         | -                               |
|  | -                               | -                   | 26   | -                                     | -   | 26         | -                               |
|  | -                               | -1                  | 24   | -                                     | -   | 23         | -                               |
|  |                                 |                     |  |                                       |   |            |                                 |
|  | -7                              | -                   | -  | -                                     | -   | -          | -7                              |
|  | 1                               | -                   | -  | -                                     | -   | -          | 1                               |
|  | -8                              | -                   | -  | -                                     | -   | -          | -8                              |
|  | -                               | -                   | -20  | -                                     | -   | -20        | -                               |
|  | -                               | -                   | -19  | -                                     | -   | -19        | -                               |
|  | -                               | -                   | -  | -                                     | -   | -          | -                               |
|  | -                               | -                   | -1   | -                                     | -   | -1         | -                               |
|  | <b>-7</b>                       | <b>2</b>            | <b>27</b>  | <b>-</b>                              | <b>660</b>  | <b>689</b> | <b>-7</b>                       |

## NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)

|   | Realised/unrealised net income (income statement) |                    |                                       |   | Total      |
|---|---|--------------------|---------------------------------------|---|------------|
|   | Net interest income                               | Net trading income | Net income from financial investments | Hedging effect of credit derivative second loss guarantee |            |
| <b>2014</b>   |   |                    |                                       |   |            |
| <b>Balance sheet item/ category/ instrument type</b>              |   |                    |                                       |   |            |
| Loans and advances to banks                                       |   |                    |                                       |   |            |
| Afs   | -   | -                  | -                                     | -   | -          |
| of which debt instruments   | -   | -                  | -                                     | -   | -          |
| DFV   | -   | -3                 | -                                     | -   | -3         |
| of which debt instruments   | -   | -3                 | -                                     | -   | -3         |
| Loans and advances to customers                                   |   |                    |                                       |   |            |
| Afs   | -2  | -                  | 17                                    | -   | 15         |
| of which debt instruments   | -2  | -                  | 17                                    | -   | 15         |
| DFV   | 1   | 186                | -                                     | -   | 187        |
| of which debt instruments   | 1   | 186                | -                                     | -   | 187        |
| Credit derivative second loss guarantee (HfT)                     |   |                    |                                       |   |            |
| of which credit derivatives                                       | -   | -                  | -                                     | 1   | 1          |
| Trading assets (HfT)  | 50  | -55                | -                                     | -   | -5         |
| of which interest rate derivatives                                | 22  | -34                | -                                     | -   | -12        |
| of which currency derivatives                                     | -   | -4                 | -                                     | -   | -4         |
| of which credit derivatives                                       | -   | -                  | -                                     | -   | -          |
| of which other derivatives  | -   | -7                 | -                                     | -   | -7         |
| of which structured derivatives                                   | 28  | -10                | -                                     | -   | 18         |
| Financial investments (excl. equity instruments measured at cost) |   |                    |                                       |   |            |
| Afs   | -   | -                  | 1                                     | -   | 1          |
| of which debt instruments   | -   | -                  | 2                                     | -   | 2          |
| of which equity and near-equity instruments                       | -   | -                  | -1                                    | -   | -1         |
| DFV   | -   | 69                 | -                                     | -   | 69         |
| of which debt instruments   | -   | 63                 | -                                     | -   | 63         |
| of which contractually linked instruments                         | -   | -                  | -                                     | -   | -          |
| of which equity and near-equity instruments                       | -   | 6                  | -                                     | -   | 6          |
| <b>Total</b>  | <b>49</b>   | <b>197</b>         | <b>18</b>                             | <b>1</b>  | <b>265</b> |



## NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

| 2015   | Realised/unrealised net income<br>(income statement) |                          |  |            | Other net<br>income<br>for the<br>period | Net income from liabilities still held as at 31 December 2015 |                           |                          |  |          |  |
|--|--|--------------------------|--|------------|--|---|---------------------------|--------------------------|--|----------|--|
|  | Net<br>interest<br>income                            | Net<br>trading<br>income | Net income<br>from<br>financial<br>investments | Total      |  | Revalu-<br>ation<br>reserve                                   | Net<br>interest<br>income | Net<br>trading<br>income | Net income<br>from<br>financial<br>investments | Total    | Other net<br>income<br>for the<br>period |
|  |  |                          |  |            |  |   |                           |                          |  |          |  |
| <b>Balance sheet item/<br/>category/ instrument<br/>type</b> |  |                          |  |            |  |   |                           |                          |  |          |  |
| Liabilities to banks   |  |                          |  |            |  |   |                           |                          |  |          |  |
| DFV  | -  | 3                        | -  | 3          | -  | -   | 2                         | -                        | 2  | -        | -  |
| of which debt<br>instruments                                 | -  | 3                        | -  | 3          | -  | -   | 2                         | -                        | 2  | -        | -  |
| Liabilities to customers                                     |  |                          |  |            |  |   |                           |                          |  |          |  |
| DFV  | 10   | 59                       | -  | 69         | -  | 2   | 30                        | -                        | 32   | -        | -  |
| of which debt<br>instruments                                 | 10   | 59                       | -  | 69         | -  | 2   | 30                        | -                        | 32   | -        | -  |
| Securitised liabilities                                      |  |                          |  |            |  |   |                           |                          |  |          |  |
| DFV  | -35  | 64                       | -  | 29         | -  | -1  | 19                        | -                        | 18   | -        | -  |
| of which debt<br>instruments                                 | -35  | 64                       | -  | 29         | -  | -1  | 19                        | -                        | 18   | -        | -  |
| Trading liabilities (Hft)                                    |  |                          |  |            |  |   |                           |                          |  |          |  |
| of which interest rate<br>derivatives                        | 3  | 164                      | -  | 167        | -  | -   | 154                       | -                        | 154  | -        | -  |
| of which interest rate<br>derivatives                        | 3  | 104                      | -  | 107        | -  | -   | 98                        | -                        | 98   | -        | -  |
| of which currency<br>derivatives                             | -  | -13                      | -  | -13        | -  | -   | -13                       | -                        | -13  | -        | -  |
| of which credit<br>derivatives                               | -  | -                        | -  | -          | -  | -   | -                         | -                        | -  | -        | -  |
| of which other<br>derivatives                                | -  | 25                       | -  | 25         | -  | -   | 25                        | -                        | 25   | -        | -  |
| of which structured<br>derivatives                           | -  | 48                       | -  | 48         | -  | -   | 44                        | -                        | 44   | -        | -  |
| Subordinated capital   |  |                          |  |            |  |   |                           |                          |  |          |  |
| DFV  | -  | -                        | -  | -          | -  | -   | -                         | -                        | -  | -        | -  |
| of which debt<br>instruments                                 | -  | -                        | -  | -          | -  | -   | -                         | -                        | -  | -        | -  |
| <b>Total</b>   | <b>-22</b>   | <b>290</b>               | <b>-</b>                                       | <b>268</b> | <b>-</b>                                 | <b>1</b>  | <b>205</b>                | <b>-</b>                 | <b>206</b>                                     | <b>-</b> | <b>-</b>                                 |

## NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

| (€ m)  | Realised/unrealised net income<br>(income statement) |                          |  |             | Other net<br>income for<br>the period | Net income from liabilities still held as at 31 December 2014 |                          |  |             |  |
|--|--|--------------------------|--|-------------|---------------------------------------|---|--------------------------|--|-------------|--|
|  | Net<br>interest<br>income                            | Net<br>trading<br>income | Net income<br>from<br>financial<br>investments | Total       | Revalu-<br>ation<br>reserve           | Net<br>interest<br>income                                     | Net<br>trading<br>income | Net income<br>from<br>financial<br>investments | Total       | Other net<br>income<br>for the<br>period |
| <b>2014</b>  |  |                          |  |             |                                       |   |                          |  |             |  |
| <b>Balance sheet item/<br/>category/<br/>instrument type</b> |  |                          |  |             |                                       |   |                          |  |             |  |
| Liabilities to banks   |  |                          |  |             |                                       |   |                          |  |             |  |
| DFV  | -  | -6                       | -  | -6          | -                                     | -   | -                        | -  | -           | -  |
| of which debt<br>instruments                                 | -  | -6                       | -  | -6          | -                                     | -   | -                        | -  | -           | -  |
| Liabilities to customers                                     |  |                          |  |             |                                       |   |                          |  |             |  |
| DFV  | 3  | -37                      | -  | -34         | -                                     | -1  | -73                      | -  | -74         | -  |
| of which debt<br>instruments                                 | 3  | -37                      | -  | -34         | -                                     | -1  | -73                      | -  | -74         | -  |
| Securitised liabilities                                      |  |                          |  |             |                                       |   |                          |  |             |  |
| DFV  | 6  | -32                      | -  | -26         | -                                     | -   | -3                       | -  | -3          | -  |
| of which debt<br>instruments                                 | 6  | -32                      | -  | -26         | -                                     | -   | -3                       | -  | -3          | -  |
| Trading liabilities (HfT)                                    | 4  | -310                     | -  | -306        | -                                     | 3   | -310                     | -  | -307        | -  |
| of which interest rate<br>derivatives                        | 3  | -231                     | -  | -228        | -                                     | 2   | -230                     | -  | -228        | -  |
| of which currency<br>derivatives                             | -  | -                        | -  | -           | -                                     | -   | -1                       | -  | -1          | -  |
| of which other<br>derivatives                                | -  | 9                        | -  | 9           | -                                     | -   | 9                        | -  | 9           | -  |
| of which structured<br>derivatives                           | 1  | -88                      | -  | -87         | -                                     | 1   | -88                      | -  | -87         | -  |
| <b>Total</b>   | <b>13</b>  | <b>-385</b>              | <b>-</b>                                       | <b>-372</b> | <b>-</b>                              | <b>2</b>  | <b>-386</b>              | <b>-</b>                                       | <b>-384</b> | <b>-</b>                                 |



### III. Fair value hierarchy for financial instruments not measured at fair value

The following tables show the distribution of fair values by asset and liability class to the individual levels of the fair value hierarchy as defined under IFRS 13 for financial instruments not measured at fair value on the balance sheet.

#### HIERARCHY LEVELS, ASSETS

| (€ m)  | Assets not recognised at fair value |               |               | Total         |
|--|-------------------------------------|---------------|---------------|---------------|
|  | Level 1                             | Level 2       | Level 3       |               |
| <b>2015</b>  |                                     |               |               |               |
| <b>Balance sheet item/ category/ instrument type</b>       |                                     |               |               |               |
| Cash reserve (LaR)   | –                                   | 2,700         | –             | 2,700         |
| Loans and advances to banks (LaR)                          |                                     |               |               |               |
| of which debt instruments                                  | –                                   | 5,445         | 67            | 5,512         |
| Payable on demand  | –                                   | 3,462         | –             | 3,462         |
| Other receivables  | –                                   | 1,983         | 67            | 2,050         |
| Loans and advances to customers (LaR)                      |                                     |               |               |               |
| of which debt instruments                                  | –                                   | 6,564         | 44,947        | 51,511        |
| Retail customers   | –                                   | 44            | 1,332         | 1,376         |
| Corporate clients  | –                                   | 2,384         | 42,911        | 45,295        |
| Public authorities   | –                                   | 4,136         | 704           | 4,840         |
| Financial investments (LaR)                                | 44                                  | 1,605         | 547           | 2,196         |
| of which debt instruments                                  | 44                                  | 1,194         | 24            | 1,262         |
| of which contractually linked instruments                  | –                                   | 411           | 523           | 934           |
| Non-current assets held for sale and disposal groups (LaR) | –                                   | 18            | 2,661         | 2,679         |
| of which debt instruments                                  | –                                   | 18            | 2,661         | 2,679         |
| Other assets (LaR)   | –                                   | 86            | –             | 86            |
| of which debt instruments                                  | –                                   | 86            | –             | 86            |
| <b>Total</b>   | <b>44</b>                           | <b>16,418</b> | <b>48,222</b> | <b>64,684</b> |

**HIERARCHY LEVELS, ASSETS**

| (€ m)  | Assets not recognised at fair value |               |               | <b>Total</b>  |
|--|-------------------------------------|---------------|---------------|---------------|
|  | Level 1                             | Level 2       | Level 3       |               |
| <b>2014</b>  |                                     |               |               |               |
| <b>Balance sheet item/ category/ instrument type</b>       |                                     |               |               |               |
| Cash reserve (LaR)   | -                                   | 5,554         | -             | 5,554         |
| Loans and advances to banks (LaR)                          |                                     |               |               |               |
| of which debt instruments                                  | -                                   | 6,669         | 121           | 6,790         |
| Payable on demand  | -                                   | 4,462         | -             | 4,462         |
| Other receivables  | -                                   | 2,207         | 121           | 2,328         |
| Loans and advances to customers (LaR)                      |                                     |               |               |               |
| of which debt instruments                                  | -                                   | 7,971         | 53,622        | 61,593        |
| Retail customers   | -                                   | 60            | 1,548         | 1,608         |
| Corporate clients  | -                                   | 3,131         | 51,357        | 54,488        |
| Public authorities   | -                                   | 4,780         | 717           | 5,497         |
| Financial investments (LaR)                                | 19                                  | 3,776         | 798           | 4,593         |
| of which debt instruments                                  | 19                                  | 1,928         | 15            | 1,962         |
| of which contractually linked instruments                  | -                                   | 1,848         | 783           | 2,631         |
| Non-current assets held for sale and disposal groups (LaR) | -                                   | -             | 32            | 32            |
| of which debt instruments                                  | -                                   | -             | 32            | 32            |
| Other assets (LaR)   | -                                   | 84            | -             | 84            |
| of which debt instruments                                  | -                                   | 84            | -             | 84            |
| <b>Total</b>   | <b>19</b>                           | <b>24,054</b> | <b>54,573</b> | <b>78,646</b> |

**HIERARCHY LEVELS, LIABILITIES**

| (€ m)                                     | Liabilities not recognised at fair value |               |              | <b>Total</b>  |
|---|--|---------------|--------------|---------------|
|   | Level 1                                  | Level 2       | Level 3      |               |
| <b>2015</b>                               |  |               |              |               |
| Liabilities to banks (LIA)                | -  | 12,411        | 1,865        | 14,276        |
| of which debt instruments                 | -  | 12,411        | 1,667        | 14,078        |
| of which contractually linked instruments | -  | -             | 198          | 198           |
| Liabilities to customers (LIA)            | -  | 43,422        | 968          | 44,390        |
| of which debt instruments                 | -  | 43,422        | 968          | 44,390        |
| Securitised liabilities (LIA)             | -  | 15,604        | -            | 15,604        |
| of which debt instruments                 | -  | 14,406        | -            | 14,406        |
| of which contractually linked instruments | -  | 1,198         | -            | 1,198         |
| Liabilities from disposal groups (LIA)    | -  | -             | 1            | 1             |
| of which debt instruments                 | -  | -             | 1            | 1             |
| Subordinated capital (LIA)                | -  | 2,160         | 707          | 2,867         |
| of which debt instruments                 | -  | 2,160         | 707          | 2,867         |
| Other liabilities (LIA)                   | -  | 950           | -            | 950           |
| of which debt instruments                 | -  | 950           | -            | 950           |
| <b>Total</b>                              | <b>-</b>                                 | <b>74,547</b> | <b>3,541</b> | <b>78,088</b> |

**HIERARCHY LEVELS, LIABILITIES**

| (€ m)                                     | Liabilities not recognised at fair value |               |              |               |
|---|--|---------------|--------------|---------------|
|   | Level 1                                  | Level 2       | Level 3      | Total         |
| <b>2014</b>                               |  |               |              |               |
| Liabilities to banks (LIA)                | -  | 12,410        | 2,187        | 14,597        |
| of which debt instruments                 | -  | 12,410        | 1,831        | 14,241        |
| of which contractually linked instruments | -  | -             | 356          | 356           |
| Liabilities to customers (LIA)            | -  | 41,578        | 890          | 42,468        |
| of which debt instruments                 | -  | 41,578        | 890          | 42,468        |
| Securitised liabilities (LIA)             | -  | 23,516        | -            | 23,516        |
| of which debt instruments                 | -  | 23,032        | -            | 23,032        |
| of which contractually linked instruments | -  | 484           | -            | 484           |
| Subordinated capital (LIA)                | -  | 4,185         | 818          | 5,003         |
| of which debt instruments                 | -  | 4,185         | 818          | 5,003         |
| Other liabilities (LIA)                   | -  | 1,011         | -            | 1,011         |
| of which debt instruments                 | -  | 1,011         | -            | 1,011         |
| <b>Total</b>                              | <b>-</b>                                 | <b>82,700</b> | <b>3,895</b> | <b>86,595</b> |

#### IV. Information on significant unobservable inputs

##### Quantitative information on significant unobservable inputs

The following overview contains quantitative information on significant unobservable inputs

##### FAIR VALUE

| (€ m)  |     |                           |        |             |                        |   |             |                           |
|--|-----|---------------------------|--------|-------------|------------------------|---|-------------|---------------------------|
| 2015   |     |                           | Assets | Liabilities | Measurement procedures | Significant unobservable inputs (level 3) | Margin      | (Weighted) average margin |
| <b>Loans and advances to banks</b>             | AfS | Debt instruments          | 44     | –           | DCF method             | Spread (bps)                              | 84          | 84                        |
| <b>Loans and advances to customers</b>         | AfS | Debt instruments          | 104    | –           | DCF method             | Spread (bps)                              | 27          | 27                        |
|  |     |                           |        |             | Price                  | Price                                     | 78          | 78                        |
|  | DFV | Debt instruments          | 1,254  | –           | Option pricing model   | Mean reversion                            | 0% to 10%   | 2%                        |
|  |     |                           |        |             |                        | Interest rate volatilities                | 15% to 73%  | 26%                       |
|  |     |                           |        |             |                        | Interest rate FX correlation              | –85% to 33% | –12%                      |
|  |     |                           |        |             | Price                  | Price                                     | 80 – 100    | 94                        |
| <b>Credit derivative second loss guarantee</b> | HfT | Credit derivatives        | 663    | –           | DCF method             | Expected cash flow                        | –           | –                         |
| <b>Trading assets/trading liabilities</b>      | HfT | Interest rate derivatives | 150    | 541         | Option pricing model   | Mean reversion                            | 0% to 10%   | 2%                        |
|  |     |                           |        |             |                        | Interest rate volatility                  | 15% to 73%  | 26%                       |
|  |     |                           |        |             |                        | Interest rate correlation                 | –49% to 99% | 25%                       |
|  |     |                           |        |             |                        | Interest rate FX correlation              | –85% to 33% | –12%                      |
|  |     | Currency derivatives      | 29     | 40          | Option pricing model   | FX correlation                            | 24% to 56%  | 42%                       |
|  |     | Other derivatives         | 17     | 16          | Option pricing model   | Securities FX correlation                 | –47% to 16% | –42%                      |
|  |     | Structured derivatives    | 300    | 288         | Option pricing model   | Mean reversion                            | 0% to 10%   | 2%                        |
|  |     |                           |        |             |                        | Interest rate volatilities                | 15% to 73%  | 26%                       |
|  |     |                           |        |             |                        | Interest rate correlation                 | –49% to 99% | 25%                       |
|  |     |                           |        |             |                        | Interest rate FX correlation              | –85% to 33% | –12%                      |
|  |     |                           |        |             |                        | FX correlation                            | 24% to 56%  | 42%                       |
|  |     |                           |        |             |                        | Securities FX correlation                 | –47% to 16% | –42%                      |

## FAIR VALUE

| (€ m)                           |     |                                    |        |             |                        |   |                              |                           |        |
|---------------------------------|-----|------------------------------------|--------|-------------|------------------------|---|------------------------------|---------------------------|--------|
| 2015                            |     |                                    | Assets | Liabilities | Measurement procedures | Significant unobservable inputs (level 3) | Margin                       | (Weighted) average margin |        |
| <b>Financial investments</b>    | AfS | Debt instruments                   | 16     | –           | Price                  | Price                                     | 86 – 106                     | 101                       |        |
|                                 |     | Equity and near-equity instruments | 143    | –           | Price                  | Price                                     | 1 – 14,811                   | 148                       |        |
|                                 | DFV | Debt instruments                   | 544    | –           | Option pricing model   | Mean reversion                            | 0 % to 10 %                  | 2 %                       |        |
|                                 |     |                                    |        |             |                        | Interest rate volatilities                | 15 % to 73 %                 | 26 %                      |        |
|                                 |     |                                    |        |             | Price                  | Price                                     | 1                            | 1                         |        |
|                                 |     | Equity and near-equity instruments | 2      | –           | Price                  | Price                                     | 1 – 100                      | 94                        |        |
| <b>Liabilities to banks</b>     | DFV | Debt instruments                   | –      | 120         | Option pricing model   | Interest rate volatilities                | 15 % to 73 %                 | 26 %                      |        |
|                                 |     |                                    |        |             |                        | Interest rate FX correlation              | – 85 % to 33 %               | – 12 %                    |        |
| <b>Liabilities to customers</b> | DFV | Debt instruments                   | –      | 1,166       | Option pricing model   | Mean reversion                            | 0 % to 10 %                  | 2 %                       |        |
|                                 |     |                                    |        |             |                        | Interest rate volatilities                | 15 % to 73 %                 | 26 %                      |        |
|                                 |     |                                    |        |             |                        |   | Interest rate correlation    | – 49 % to 99 %            | 25 %   |
|                                 |     |                                    |        |             |                        |   | Interest rate FX correlation | – 85 % to 33 %            | – 12 % |
|                                 |     |                                    |        |             |                        | Price                                     | Price                        | 80 – 96                   | 91     |
| <b>Securitised liabilities</b>  | DFV | Debt instruments                   | –      | 644         | Option pricing model   | Mean reversion                            | 0 % to 10 %                  | 2 %                       |        |
|                                 |     |                                    |        |             |                        | Interest rate volatilities                | 15 % to 73 %                 | 26 %                      |        |
|                                 |     |                                    |        |             |                        |   | FX correlation               | 24 % to 56 %              | 42 %   |
|                                 |     |                                    |        |             |                        |   | Securities FX correlation    | – 47 % to 16 %            | – 42 % |
|                                 |     |                                    |        |             |                        | Price                                     | Price                        | 100                       | 100    |



## FAIR VALUE

| (€ m)  |     |                           | Assets | Liabilities | Measurement procedures | Significant unobservable inputs (level 3) | Margin     | (Weighted) average margin |
|--|-----|---------------------------|--------|-------------|------------------------|---|------------|---------------------------|
| <b>2014</b>                                    |     |                           |        |             |                        |   |            |                           |
| <b>Loans and advances to banks</b>             | AfS | Debt instruments          | 45     | –           | DCF method             | Spread (bps)                              | 130 – 160  | 145                       |
|  | DFV | Debt instruments          | 49     | –           | Option pricing model   | Basket correlation                        | –39% – 70% | 32%                       |
| <b>Loans and advances to customers</b>         | AfS | Debt instruments          | 97     | –           | DCF method             | Spread (bps)                              | 57 – 700   | 343                       |
|  | DFV | Debt instruments          | 1,306  | –           | Option pricing model   | Mean reversion                            | 0% to 10%  | 2%                        |
|  |     |                           |        |             |                        | Interest rate volatilities                | 17% to 87% | 41%                       |
|  |     |                           |        |             |                        | Interest rate FX correlation              | –37% – 28% | –5%                       |
|  |     |                           |        |             |                        | Price                                     | 93 – 97    | 95                        |
| <b>Credit derivative second loss guarantee</b> | HfT | Credit derivative         | 3      | –           | Option pricing model   |   |            |                           |
| <b>Trading assets/trading liabilities</b>      | HfT | Interest rate derivatives | 272    | 656         | Option pricing model   | Mean reversion                            | 0% to 10%  | 2%                        |
|  |     |                           |        |             |                        | Interest rate volatility                  | 17% to 87% | 41%                       |
|  |     |                           |        |             |                        | Interest rate correlation                 | –12% – 99% | 38%                       |
|  |     |                           |        |             |                        | Interest rate FX correlation              | –37% – 28% | –5%                       |
|  |     | Currency derivatives      | 20     | 27          | Option pricing model   | FX correlation                            | 27% to 78% | 47%                       |
|  |     | Other derivatives         | 45     | 41          | Option pricing model   | Securities FX correlation                 | –71% – 35% | –20%                      |
|  |     | Structured derivatives    | 396    | 372         | Option pricing model   | Mean reversion                            | 0% to 10%  | 2%                        |
|  |     |                           |        |             |                        | Interest rate volatilities                | 17% to 87% | 41%                       |
|  |     |                           |        |             |                        | Interest rate correlation                 | –12% – 99% | 38%                       |
|  |     |                           |        |             |                        | Interest rate FX correlation              | –37% – 28% | –5%                       |
|  |     |                           |        |             |                        | FX correlation                            | 27% to 78% | 47%                       |
|  |     |                           |        |             |                        | Securities FX correlation                 | –71% – 35% | –20%                      |

## FAIR VALUE

| (€ m)                           |     |                                    | Assets       | Liabilities  | Measurement procedures | Significant unobservable inputs (level 3) | Margin      | (Weighted) average margin |
|---------------------------------|-----|------------------------------------|--------------|--------------|------------------------|---|-------------|---------------------------|
| <b>2014</b>                     |     |                                    |              |              |                        |   |             |                           |
| <b>Financial investments</b>    | AfS | Debt instruments                   | 14           | –            | Price                  | Price                                     | 67 – 101    | 91                        |
|                                 |     | Equity and near-equity instruments | 138          | –            | DCF method             | Spread (bps)                              | 199 – 428   | 321                       |
|                                 | DFV | Debt instruments                   | 558          | –            | Option pricing model   | Mean reversion                            | 0% to 10%   | 2%                        |
|                                 |     |                                    |              |              |                        | Interest rate volatilities                | 17% to 87%  | 41%                       |
|                                 |     | Contractually linked instruments   | 336          | –            | Price                  | Price                                     | 81 – 100    | 98                        |
|                                 |     | Equity and near-equity instruments | 16           | –            | Price                  | Price                                     | 1 – 101     | 72                        |
| <b>Liabilities to banks</b>     | DFV | Debt instruments                   | –            | 134          | Option pricing model   | Interest rate volatilities                | 17% to 87%  | 41%                       |
|                                 |     |                                    |              |              |                        | Interest rate FX correlation              | –37% – 28%  | –5%                       |
| <b>Liabilities to customers</b> | DFV | Debt instruments                   | –            | 1,872        | Option pricing model   | Mean reversion                            | 0% to 10%   | 2%                        |
|                                 |     |                                    |              |              |                        | Interest rate volatilities                | 17% to 87%  | 41%                       |
|                                 |     |                                    |              |              |                        | Interest rate correlation                 | –12% – 99%  | 38%                       |
|                                 |     |                                    |              |              |                        | Interest rate FX correlation              | –37% – 28%  | –5%                       |
|                                 |     |                                    |              |              |                        | Securities FX correlation                 | –71% to 35% | –20%                      |
| <b>Securitised liabilities</b>  | DFV | Debt instruments                   |              | 1,201        | Option pricing model   | Mean reversion                            | 0% to 10%   | 2%                        |
|                                 |     |                                    |              |              |                        | Interest rate volatilities                | 17% to 87%  | 41%                       |
|                                 |     |                                    |              |              |                        | FX correlation                            | 27% to 78%  | 47%                       |
|                                 |     |                                    |              |              |                        | Securities FX correlation                 | –71% – 35%  | –20%                      |
|                                 |     |                                    |              |              |                        | Price                                     | 77 – 81     | 79                        |
| <b>Subordinated capital</b>     | DFV | Debt instruments                   |              | 16           | Option pricing model   | Interest rate volatilities                | 17% to 87%  | 41%                       |
|                                 |     |                                    | <b>3,295</b> | <b>4,319</b> |                        |   |             |                           |

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

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

**Sensitivities of fair values in relation to unobservable inputs**

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

**Correlation**

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

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

**Volatility**

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

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

**Price**

Prices can represent an important unobservable input for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, whereby the Bank does not produce any quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. More detailed quantitative information on these input factors is not required therefore. The fair value increases, if the price increases, and it falls, if the price declines.

**Reciprocal effects between unobservable inputs**

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

**Effects of unobservable inputs**

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

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

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

### FAIR VALUE CHANGES LEVEL 3

| (€ m)  |     |                                    | 2015         |                 | 2014         |                 |
|--|-----|------------------------------------|--------------|-----------------|--------------|-----------------|
|  |     |                                    | advantageous | disadvantageous | advantageous | disadvantageous |
| <b>Loans and advances to customers</b>         | AfS | Debt instruments                   | -            | -               | <b>1</b>     | <b>1</b>        |
| <b>Credit derivative second loss guarantee</b> | HfT | Credit derivatives                 | <b>25</b>    | <b>23</b>       | -            | -               |
| <b>Trading assets/trading liabilities</b>      | HfT | Interest rate derivatives          | <b>2</b>     | <b>2</b>        | <b>2</b>     | <b>2</b>        |
|  |     | Other derivatives                  | 1            | 1               | 2            | 2               |
|  |     | Structured derivatives             | 1            | 1               | 1            | 1               |
| <b>Financial investments</b>                   | AfS | Equity and near-equity instruments | <b>3</b>     | <b>3</b>        | <b>3</b>     | <b>3</b>        |
|  | DFV | Contractually linked instruments   | -            | -               | 1            | 1               |
|  |     |                                    | <b>32</b>    | <b>30</b>       | <b>10</b>    | <b>10</b>       |
| thereof measured in profit or loss             |     |                                    | 29           | 27              | 6            | 6               |
| thereof not measured in profit of loss         |     |                                    | 3            | 3               | 4            | 4               |

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

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

### FAIR VALUE CHANGES LEVEL 3

| (€ m)                                     |     |                                  | 2015         |                 | 2014         |                 |
|---|-----|----------------------------------|--------------|-----------------|--------------|-----------------|
|   |     |                                  | advantageous | disadvantageous | advantageous | disadvantageous |
| <b>Loans and advances to customers</b>    | DFV | Debt instruments                 | 2            | 2               | 1            | 1               |
| <b>Trading assets/trading liabilities</b> | HfT | Interest rate derivatives        | 1            | 1               | 2            | 2               |
|   |     | Currency derivatives             | -            | -               | 1            | 1               |
|   |     | Credit derivatives               | -            | -               | 6            | 6               |
|   |     | Structured derivatives           | 4            | 4               | 4            | 4               |
| <b>Financial investments</b>              | DFV | Debt instruments                 | -            | -               | 1            | 1               |
|   |     | Contractually linked instruments | -            | -               | 6            | 6               |
| <b>Liabilities to banks</b>               | DFV | Debt instruments                 | 1            | 1               | 1            | 1               |
| <b>Liabilities to customers</b>           | DFV | Debt instruments                 | 2            | 2               | 1            | 1               |
| <b>Securitised liabilities</b>            | DFV | Debt instruments                 | 2            | 2               | 1            | 1               |
|   |     |                                  | <b>12</b>    | <b>12</b>       | <b>24</b>    | <b>24</b>       |
| thereof measured in profit or loss        |     |                                  | 12           | 12              | -            | -               |
| thereof not measured in profit or loss    |     |                                  | -            | -               | -            | -               |

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

### V. Day one profit and loss

The day one profit and loss reserve developed as follows:

| (€ m)                                      | 2015      | 2014      |
|--|-----------|-----------|
| Holdings as at 1 January                   | 24        | 30        |
| Additions not recognised in profit or loss | 3         | -         |
| Reversals recognised in profit or loss     | 5         | 6         |
| <b>Holdings as at 31 December</b>          | <b>22</b> | <b>24</b> |

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

### VI. Equity instruments measured at cost

For equity instruments which are not listed and whose fair value cannot be determined reliably by other methods, subsequent meas-

urement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39.A81. These are primarily equity instruments of unlisted companies for which no active market exists and reliable estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

The portfolio of shares and other non-interest bearing securities measured at cost amounts to € 137 million (previous year: € 140 million). Equity capital instruments accounted for at cost that relate to shares in affiliated companies and equity holdings amount to € 75 million (previous year: € 164 million). There are currently no concrete intentions to dispose of these equity instruments.

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

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 42 million (previous year: € 27 million) were disposed of. This resulted in a profit of € 6 million (previous year: € 11 million).



## 54. OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are netted and disclosed as a net amount on the balance sheet, if there is a legal entitlement to do so at the current point in time and there is the intention to settle the claims on a net basis or to settle the associated liability at the time the asset concerned is realised.

Set out below are the financial instruments on the balance sheet that were netted as at the reporting date as well as financial instruments, which are subject to a legally enforceable global netting agreement, irrespective of whether the financial instruments concerned are actually netted on the face of the balance sheet. ISDA master agreements and the Master Agreement for Financial Derivative Transactions (DRV) are the master agreements customarily used by HSH Nordbank AG. These only provide for the netting of reciprocal claims and obligations in the event of the termination of all individual transactions under a master agreement that is based on specific events and

therefore do not permit netting of the assets and liabilities on the balance sheet. HSH Nordbank AG has entered into clearing agreements with brokers for certain OTC derivatives enabling the Bank to access central counterparties (clearing houses). The importance of these transactions for HSH Nordbank will probably increase in future with the gradual build up of this portfolio of transactions covered by these agreements. The contractual arrangements for these transactions include a legal right to set off financial assets and financial liabilities that can be enforced legally at any time and thereby result in the offsetting of positive and negative fair values of derivative financial instruments and of collateral provided and received in accordance with IAS 32.42.

The fair value of the collateral received or provided in this connection is also given in this table. This includes cash collateral as well as financial instruments received or provided as collateral.

### FINANCIAL ASSETS

| (€ m)                           | Gross carrying amount | Gross carrying amount from netting | Net amount | Gross amount, netting criteria not met | Collateral received | Net amount after collateral |
|---------------------------------|-----------------------|------------------------------------|------------|--|---------------------|-----------------------------|
| <b>2015</b>                     |                       |                                    |            |  |                     |                             |
| Loans and advances to banks     | 5                     | –                                  | 5          | –                                      | –                   | 5                           |
| Loans and advances to customers | 40                    | 31                                 | 9          | –                                      | –                   | 9                           |
| Derivatives                     | 6,050                 | 457                                | 5,593      | 3,609                                  | 384                 | 1,600                       |

The netted amounts disclosed under Loans and advances to banks and Loans and advances to customers exclusively concern current accounts.

Of the net amount of derivatives disclosed on the balance sheet positive market values of hedging derivatives account for € 775 million and trading assets for € 4,818 million.

### FINANCIAL LIABILITIES

| (€ m)                    | Gross carrying amount | Gross carrying amount from netting | Net amount | Gross amount, netting criteria not met | Collateral provided | Net amount after collateral |
|--------------------------|-----------------------|------------------------------------|------------|--|---------------------|-----------------------------|
| <b>2015</b>              |                       |                                    |            |  |                     |                             |
| Liabilities to banks     | 1,585                 | 45                                 | 1,540      | –                                      | 1,404               | 136                         |
| Liabilities to customers | 449                   | 35                                 | 414        | –                                      | 207                 | 207                         |
| Derivatives              | 7,869                 | 408                                | 7,461      | 3,609                                  | 3,541               | 311                         |

The netted amounts disclosed under Liabilities to banks and Liabilities to customers exclusively resulted from current account transactions.

Of the net amount of derivatives disclosed on the balance sheet negative market values of hedging derivatives account for € 725 million and Trading liabilities for € 6,736 million.

**FINANCIAL ASSETS**

| (€ m)                           | Gross carrying amount | Gross carrying amount from netting | Net amount | Gross amount, netting criteria not met | Collateral received | Net amount after collateral |
|---------------------------------|-----------------------|------------------------------------|------------|--|---------------------|-----------------------------|
| <b>2014</b>                     |                       |                                    |            |  |                     |                             |
| Loans and advances to banks     | 91                    | 90                                 | 1          | 1                                      | –                   | –                           |
| Loans and advances to customers | 60                    | 41                                 | 19         | –                                      | –                   | 19                          |
| Derivatives                     | 8,110                 | –                                  | 8,110      | 5,255                                  | 577                 | 2,278                       |

The netted amounts disclosed under Loans and advances to banks and Loans and advances to customers exclusively concern current accounts.

Of the net amount of derivatives disclosed on the balance sheet positive fair value of hedging derivatives accounts for € 1,356 million and Trading assets for € 6,754 million.

**FINANCIAL LIABILITIES**

| (€ m)                    | Gross carrying amount | Gross carrying amount from netting | Net amount | Gross amount, netting criteria not met | Collateral provided | Net amount after collateral |
|--------------------------|-----------------------|------------------------------------|------------|--|---------------------|-----------------------------|
| <b>2014</b>              |                       |                                    |            |  |                     |                             |
| Liabilities to banks     | 1,619                 | 90                                 | 1,529      | 1                                      | 695                 | 833                         |
| Liabilities to customers | 514                   | 41                                 | 473        | –                                      | 109                 | 364                         |
| Derivatives              | 10,337                | –                                  | 10,337     | 5,255                                  | 4,621               | 461                         |

The netted amounts disclosed under Liabilities to banks and Liabilities to customers exclusively resulted from current account transactions.

Of the net amount of derivatives disclosed on the balance sheet the item Negative fair value of hedging derivatives accounts for € 1,153 million and Trading liabilities for € 9,184 million.

## 55. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED STATES

The following tables contain overviews of HSH Nordbank's commitments in European states where an increased economic risk is assumed. They present the risk directly attributable to the listed countries.

Contrary to the previous year no increased economic risk is assumed for the countries of Ireland, Slovenia and Hungary which leads to non-disclosure for these countries. Values for the country of Turkey are included for the first time in this overview.

### ASSETS CLASSIFIED AS LAR

| (€ m)            | Gross carrying amount |              | Individual valuation allowance |            | Fair value   |              |
|------------------|-----------------------|--------------|--------------------------------|------------|--------------|--------------|
|                  | 2015                  | 2014         | 2015                           | 2014       | 2015         | 2014         |
| <b>Portugal</b>  | <b>194</b>            | <b>207</b>   | <b>6</b>                       | <b>6</b>   | <b>203</b>   | <b>214</b>   |
| Country          | 169                   | 168          | -                              | -          | 186          | 182          |
| Corporates/Other | 25                    | 39           | 6                              | 6          | 17           | 32           |
| <b>Italy</b>     | <b>616</b>            | <b>675</b>   | <b>93</b>                      | <b>25</b>  | <b>519</b>   | <b>596</b>   |
| Country          | 26                    | 55           | -                              | -          | 28           | 51           |
| Banks            | 8                     | -            | -                              | -          | 8            | -            |
| Corporates/Other | 582                   | 620          | 93                             | 25         | 483          | 545          |
| <b>Greece</b>    | <b>1,094</b>          | <b>1,104</b> | <b>88</b>                      | <b>206</b> | <b>1,007</b> | <b>920</b>   |
| Corporates/Other | 1,094                 | 1,104        | 88                             | 206        | 1,007        | 920          |
| <b>Russia</b>    | <b>94</b>             | <b>89</b>    | <b>17</b>                      | <b>6</b>   | <b>78</b>    | <b>83</b>    |
| Corporates/Other | 94                    | 89           | 17                             | 6          | 78           | 83           |
| <b>Spain</b>     | <b>1,297</b>          | <b>1,478</b> | <b>87</b>                      | <b>78</b>  | <b>1,214</b> | <b>1,423</b> |
| Country          | 156                   | 161          | -                              | -          | 165          | 170          |
| Banks            | -                     | 21           | -                              | -          | -            | 21           |
| Corporates/Other | 1,141                 | 1,296        | 87                             | 78         | 1,049        | 1,232        |
| <b>Cyprus</b>    | <b>1,392</b>          | <b>1,691</b> | <b>447</b>                     | <b>506</b> | <b>943</b>   | <b>1,188</b> |
| Banks            | -                     | 21           | -                              | -          | -            | 22           |
| Corporates/Other | 1,392                 | 1,670        | 447                            | 506        | 943          | 1,166        |
| <b>Croatia</b>   | <b>104</b>            | <b>120</b>   | <b>-</b>                       | <b>-</b>   | <b>103</b>   | <b>122</b>   |
| Corporates/Other | 104                   | 120          | -                              | -          | 103          | 122          |
| <b>Turkey</b>    | <b>479</b>            | <b>483</b>   | <b>133</b>                     | <b>53</b>  | <b>343</b>   | <b>425</b>   |
| Banks            | 10                    | 32           | -                              | -          | 10           | 31           |
| Corporates/Other | 469                   | 451          | 133                            | 53         | 333          | 394          |
| <b>Total</b>     | <b>5,270</b>          | <b>5,847</b> | <b>871</b>                     | <b>880</b> | <b>4,410</b> | <b>4,971</b> |

## FINANCIAL TRANSACTIONS ALLOCATED TO THE HOLDING CATEGORY

| (€ m)            | HfT       |            | Hedge    |           | DFV        |            | AfS       |            |
|------------------|-----------|------------|----------|-----------|------------|------------|-----------|------------|
|                  | 2015      | 2014       | 2015     | 2014      | 2015       | 2014       | 2015      | 2014       |
| <b>Portugal</b>  | -         | -          | -        | -         | <b>54</b>  | <b>100</b> | <b>4</b>  | <b>3</b>   |
| Country          | -         | -          | -        | -         | 54         | 100        | -         | -          |
| Banks            | -         | -          | -        | -         | -          | -          | 4         | 3          |
| <b>Italy</b>     | <b>17</b> | <b>20</b>  | -        | -         | <b>418</b> | <b>541</b> | -         | <b>47</b>  |
| Country          | -         | -          | -        | -         | 418        | 540        | -         | 47         |
| Banks            | -         | 1          | -        | -         | -          | -          | -         | -          |
| Corporates/Other | 17        | 19         | -        | -         | -          | 1          | -         | -          |
| <b>Greece</b>    | <b>10</b> | <b>15</b>  | -        | -         | -          | -          | -         | <b>6</b>   |
| Country          | -         | -          | -        | -         | -          | -          | -         | 6          |
| Corporates/Other | 10        | 15         | -        | -         | -          | -          | -         | -          |
| <b>Russia</b>    | <b>3</b>  | <b>40</b>  | -        | -         | -          | -          | -         | -          |
| Banks            | 3         | 5          | -        | -         | -          | -          | -         | -          |
| Corporates/Other | -         | 35         | -        | -         | -          | -          | -         | -          |
| <b>Spain</b>     | <b>47</b> | <b>93</b>  | <b>9</b> | <b>23</b> | -          | <b>1</b>   | <b>59</b> | <b>200</b> |
| Banks            | 11        | 41         | 9        | 21        | -          | -          | -         | 53         |
| Corporates/Other | 36        | 52         | -        | 2         | -          | 1          | 59        | 147        |
| <b>Cyprus</b>    | <b>1</b>  | <b>7</b>   | -        | -         | -          | -          | -         | -          |
| Corporates/Other | 1         | 7          | -        | -         | -          | -          | -         | -          |
| <b>Croatia</b>   | <b>1</b>  | <b>2</b>   | -        | -         | -          | -          | -         | -          |
| Corporates/Other | 1         | 2          | -        | -         | -          | -          | -         | -          |
| <b>Turkey</b>    | <b>4</b>  | <b>5</b>   | -        | -         | -          | -          | -         | -          |
| Corporates/Other | 4         | 5          | -        | -         | -          | -          | -         | -          |
| <b>Total</b>     | <b>83</b> | <b>182</b> | <b>9</b> | <b>23</b> | <b>472</b> | <b>642</b> | <b>63</b> | <b>256</b> |

The cumulative measurement result recognised directly in equity for financial instruments held in the AfS category amounted to € -3 million for the selected countries (previous year: € -10 million). A cumulative measurement result did not arise (previous year: € 0 million).

## 56. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS

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

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

#### CREDIT QUALITY

| (€ m)   | 1(AAA) to 1(AA+) |               | 1(AA) to 1(A-) |               | 2 to 5        |               | 6 to 9        |               |
|---|------------------|---------------|----------------|---------------|---------------|---------------|---------------|---------------|
|   | 2015             | 2014          | 2015           | 2014          | 2015          | 2014          | 2015          | 2014          |
| Held for Trading (HfT)                                |                  |               |                |               |               |               |               |               |
| Trading assets  | 2,133            | 2,163         | 2,032          | 3,667         | 1,887         | 1,872         | 681           | 717           |
| Credit derivative second loss guarantee               | 663              | 3             | -              | -             | -             | -             | -             | -             |
| Designated at Fair Value (DFV)                        |                  |               |                |               |               |               |               |               |
| Loans and advances to banks                           | -                | 49            | -              | -             | -             | -             | -             | -             |
| Loans and advances to customers                       | 1,186            | 1,246         | -              | -             | -             | -             | -             | 15            |
| Financial investments                                 | 154              | 161           | 799            | 915           | 636           | 1,083         | -             | -             |
| Available for Sale (AfS)                              |                  |               |                |               |               |               |               |               |
| Cash reserve  | 694              | 413           | -              | -             | -             | -             | -             | -             |
| Loans and advances to banks                           | 43               | 61            | -              | 21            | 43            | 2             | -             | 3             |
| Loans and advances to customers                       | -                | -             | -              | -             | -             | -             | 38            | 97            |
| Financial investments                                 | 9,237            | 8,367         | 2,560          | 2,930         | 747           | 215           | 273           | 431           |
| Loans and Receivables (LaR)                           |                  |               |                |               |               |               |               |               |
| Cash reserve  | 2,700            | 5,554         | -              | -             | -             | -             | -             | -             |
| Loans and advances to banks                           | 1,819            | 1,699         | 2,084          | 3,226         | 1,553         | 1,773         | 39            | 67            |
| Loans and advances to customers                       | 4,399            | 4,761         | 4,434          | 4,836         | 14,171        | 14,136        | 14,645        | 15,849        |
| Financial investments                                 | 535              | 1,939         | 399            | 696           | 44            | 330           | 304           | 585           |
| Non-current assets held for sale and disposal groups  | -                | 3             | -              | 3             | 85            | 10            | 21            | 11            |
| Other assets  | -                | -             | -              | -             | -             | -             | -             | -             |
| No IAS 39 category                                    |                  |               |                |               |               |               |               |               |
| Positive fair value of hedging derivatives            | 248              | 252           | 335            | 580           | 181           | 455           | 13            | 105           |
| Receivables under finance leases                      | 11               | 11            | 11             | 11            | 35            | 32            | 36            | 36            |
| Value adjustments from the portfolio fair value hedge | 129              | 91            | 175            | 210           | 94            | 165           | 7             | 38            |
| <b>Total</b>  | <b>23,951</b>    | <b>26,773</b> | <b>12,829</b>  | <b>17,095</b> | <b>19,476</b> | <b>20,073</b> | <b>16,057</b> | <b>17,954</b> |



**CREDIT QUALITY**

| (€ m)   | 10 to 12     |              | 13 to 15     |              | 16 to 18   |              |
|---|--------------|--------------|--------------|--------------|------------|--------------|
|   | 2015         | 2014         | 2015         | 2014         | 2015       | 2014         |
| Held for Trading (HfT)                                |              |              |              |              |            |              |
| Trading assets  | 45           | 101          | 310          | 374          | 268        | 269          |
| Credit derivative second loss guarantee               | -            | -            | -            | -            | -          | -            |
| Designated at Fair Value (DFV)                        |              |              |              |              |            |              |
| Loans and advances to banks                           | -            | -            | -            | -            | -          | -            |
| Loans and advances to customers                       | -            | -            | 75           | 75           | 47         | 33           |
| Financial investments                                 | -            | 7            | 1            | 5            | 1          | 19           |
| Available for Sale (AFS)                              |              |              |              |              |            |              |
| Cash reserve  | -            | -            | -            | -            | -          | -            |
| Loans and advances to banks                           | -            | -            | -            | -            | -          | -            |
| Loans and advances to customers                       | -            | -            | 66           | -            | -          | -            |
| Financial investments                                 | 2            | -            | 9            | 18           | 9          | 9            |
| Loans and Receivables (LaR)                           |              |              |              |              |            |              |
| Cash reserve  | -            | -            | -            | -            | -          | -            |
| Loans and advances to banks                           | -            | -            | -            | -            | -          | -            |
| Loans and advances to customers                       | 2,956        | 3,180        | 2,592        | 3,766        | -          | 2,665        |
| Financial investments                                 | 18           | 74           | 173          | 198          | 148        | 98           |
| Non-current assets held for sale and disposal groups  | 62           | 2            | 6            | 3            | -          | 2            |
| Other assets  | 86           | 84           | -            | -            | -          | -            |
| No IAS 39 category                                    |              |              |              |              |            |              |
| Positive fair value of hedging derivatives            | 6            | 10           | -            | 3            | -          | -            |
| Receivables under finance leases                      | 7            | 7            | 6            | 8            | -          | 6            |
| Value adjustments from the portfolio fair value hedge | 3            | 4            | -            | 1            | -          | -            |
| <b>Total</b>  | <b>3,185</b> | <b>3,469</b> | <b>3,238</b> | <b>4,451</b> | <b>473</b> | <b>3,101</b> |

## II. Carrying amounts of overdue but unimpaired financial assets

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

### CARRYING AMOUNTS OF OVERDUE BUT UNIMPAIRED FINANCIAL ASSETS

| (€ m)  | Overdue < 3 months |              | Overdue 3 to 6 months |            | Overdue 6 to 12 months |            | Overdue > 12 months |              |
|--|--------------------|--------------|-----------------------|------------|------------------------|------------|---------------------|--------------|
|  | 2015               | 2014         | 2015                  | 2014       | 2015                   | 2014       | 2015                | 2014         |
| Loans and Receivables (LaR)                  |                    |              |                       |            |                        |            |                     |              |
| Loans and advances to customers              | 464                | 1,246        | 86                    | 215        | 113                    | 804        | 353                 | 1,012        |
| of which hedged by the second loss guarantee | 233                | 676          | 73                    | 170        | 74                     | 798        | 293                 | 917          |
| <b>Total</b>                                 | <b>464</b>         | <b>1,246</b> | <b>86</b>             | <b>215</b> | <b>113</b>             | <b>804</b> | <b>353</b>          | <b>1,012</b> |

Payments of € 33 million (previous year: € 22 million) on transactions with a carrying amount volume of € 231 million (previous year: € 527 million) were received up to ten days after the reporting date of 31 December 2015. Payments are regarded as being in arrears when they are one day overdue.

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

### III. Impaired financial assets

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

#### IMPAIRED FINANCIAL ASSETS

| (€ m)                                    | Gross carrying amount of impaired financial assets |               | Impairment   |              | Carrying amount of financial assets after impairment |              |
|--|--|---------------|--------------|--------------|--|--------------|
|  | 2015   | 2014          | 2015         | 2014         | 2015   | 2014         |
|  | Loans and Receivables (LaR)                        |               |              |              |  |              |
| Loans and advances to banks              | 14   | 14            | 14           | 14           | –  | –            |
| Loans and advances to customers          | 10,844   | 13,289        | 5,199        | 5,777        | 5,645  | 7,512        |
| Financial investments <sup>1)</sup>      | 877  | 959           | 360          | 383          | 517  | 576          |
| Assets held for sale and disposal groups | 4,908  | –             | 2,402        | –            | 2,506  | –            |
| Available for Sale (AFS)                 |  |               |              |              |  |              |
| Financial investments <sup>1)</sup>      | 216  | 140           | 146          | 108          | 70   | 32           |
| <b>Total</b>                             | <b>16,859</b>                                      | <b>14,402</b> | <b>8,121</b> | <b>6,282</b> | <b>8,738</b>   | <b>8,120</b> |

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

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

€ 15,354 million (previous year: € 13,198 million) of the total carrying amount of impaired financial assets of € 16,859 million (previous year: € 14,402 million) is hedged by the second loss guarantee, of which € 10,016 million is attributable to Loans and advances to customers (previous year: € 12,434 million), € 631 million to Financial investments in the LaR and AFS holding categories (previous year: € 764 million) as well as € 4,707 million to Non-current assets held for sale and disposal groups (previous year: € 0 million).

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

### IV. Credit risk exposure

With the exception of Loans and advances to banks and customers, credit risk exposure in accordance with IFRS 7.36 (a) as at the reporting date corresponds to the carrying amount of financial assets as presented in Note 50 as well as off-balance sheet liabilities as presented in Note 59.

In the case of Loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after valuation allowances as presented in Note 26. The maximum default risk of the

loans and advances designated at fair value (DFV) is not reduced by associated credit derivatives.

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

### V. Collateral received

#### A) Collateral values of financial assets reducing default risk

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

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

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

**FINANCIAL ASSETS AND ASSOCIATED COLLATERAL**

| (€ m)   | Value of collateral received |                                  |                         |                  |
|---|------------------------------|----------------------------------|-------------------------|------------------|
|   | Carrying amount              | Real estate and registered liens | Sureties and guarantees | Other collateral |
| <b>2015</b>   |                              |                                  |                         |                  |
| HfT   |                              |                                  |                         |                  |
| Trading assets  | 7,356                        | 470                              | 47                      | 560              |
| Credit derivative second loss guarantee               | 663                          | –                                | –                       | –                |
| DFV   |                              |                                  |                         |                  |
| Loans and advances to customers                       | 1,308                        | –                                | –                       | –                |
| Financial investments                                 | 1,591                        | –                                | –                       | –                |
| AFS   |                              |                                  |                         |                  |
| Cash reserve  | 694                          | –                                | –                       | –                |
| Loans and advances to banks                           | 86                           | –                                | –                       | –                |
| Loans and advances to customers                       | 104                          | –                                | 36                      | –                |
| Financial investments                                 | 12,907                       | –                                | –                       | –                |
| LaR   |                              |                                  |                         |                  |
| Cash reserve  | 2,700                        | –                                | –                       | –                |
| Loans and advances to banks                           | 5,509                        | 11                               | 60                      | 73               |
| Loans and advances to customers                       | 55,057                       | 22,169                           | 875                     | 1,969            |
| Financial investments                                 | 2,138                        | –                                | –                       | –                |
| Non-current assets held for sale and disposal groups  | 5,081                        | 1,917                            | 2                       | 1                |
| Other assets  | 86                           | –                                | –                       | 1                |
| No IAS 39 category                                    |                              |                                  |                         |                  |
| Positive fair value of hedging derivatives            | 783                          | –                                | –                       | –                |
| Value adjustments from the portfolio fair value hedge | 408                          | –                                | –                       | –                |
| Receivables under finance leases                      | 106                          | –                                | –                       | –                |
| Contingent liabilities                                | 2,833                        | 311                              | 8                       | 126              |
| Irrevocable loan commitments                          | 6,370                        | 754                              | 64                      | 217              |
| <b>Total assets</b>                                   | <b>105,780</b>               | <b>25,632</b>                    | <b>1,092</b>            | <b>2,947</b>     |

**FINANCIAL ASSETS AND ASSOCIATED COLLATERAL**

| (€ m)   | Value of collateral received |                                  |                         |                  |
|---|------------------------------|----------------------------------|-------------------------|------------------|
|   | Carrying amount              | Real estate and registered liens | Sureties and guarantees | Other collateral |
| <b>2014</b>   |                              |                                  |                         |                  |
| HfT   |                              |                                  |                         |                  |
| Trading assets  | 9,160                        | 451                              | 30                      | 701              |
| Credit derivative second loss guarantee               | 3                            | –                                | –                       | –                |
| DFV   |                              |                                  |                         |                  |
| Loans and advances to banks                           | 49                           | –                                | 45                      | –                |
| Loans and advances to customers                       | 1,369                        | –                                | –                       | –                |
| Financial investments                                 | 2,190                        | –                                | –                       | –                |
| AfS   |                              |                                  |                         |                  |
| Cash reserve  | 413                          | –                                | –                       | –                |
| Loans and advances to banks                           | 87                           | –                                | –                       | –                |
| Loans and advances to customers                       | 97                           | –                                | 35                      | –                |
| Financial investments                                 | 12,002                       | –                                | –                       | –                |
| LaR   |                              |                                  |                         |                  |
| Cash reserve  | 5,554                        | –                                | –                       | –                |
| Loans and advances to banks                           | 6,779                        | 18                               | 261                     | 650              |
| Loans and advances to customers                       | 65,760                       | 26,352                           | 1,593                   | 1,974            |
| Financial investments                                 | 4,496                        | –                                | –                       | –                |
| Non-current assets held for sale and disposal groups  | 34                           | 24                               | –                       | –                |
| Other assets  | 84                           | 18                               | –                       | 1                |
| No IAS 39 category                                    |                              |                                  |                         |                  |
| Positive fair value of hedging derivatives            | 1,405                        | –                                | –                       | 3                |
| Value adjustments from the portfolio fair value hedge | 510                          | –                                | –                       | –                |
| Receivables under finance leases                      | 111                          | –                                | –                       | –                |
| Contingent liabilities                                | 2,716                        | 261                              | 30                      | 111              |
| Irrevocable loan commitments                          | 7,081                        | 765                              | 72                      | 120              |
| <b>Total assets</b>                                   | <b>119,900</b>               | <b>27,889</b>                    | <b>2,066</b>            | <b>3,560</b>     |

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank (see Note 2).

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

HSH Nordbank has received collateral from counterparties with a total fair value of € 597 million (previous year: € 1,584 million). The collateral received is split up as follows: € 495 million (previous year: € 651 million) relate to OTC derivatives and structured transactions. The Group received collateral in the amount of € 102 million (previous year: € 933 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 448 million (previous year: € 604 million). Of the collateral received, an amount of € 50 million (previous year: € 325 million)

was resold or pledged. There are no restrictions on disposal or realisation, HSH Nordbank is obliged to return all collateral resold or pledged to the guarantor without exception.

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

**C) Other collateral received**

In the reporting period no assets were recognised from the realisation of collateral (previous year: € 0 million).

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

For information on the collateral transferred please refer to Note 62.



## 57. RESTRUCTURED OR MODIFIED LOANS

The following table shows the gross carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to place the debtor

in a position to continue to service or resume servicing its capital debt despite financial difficulties.

### FORBEARANCE EXPOSURE

| (€ m)  | Core Bank            |                       | Restructuring Unit   |                       | Total         |
|--|----------------------|-----------------------|----------------------|-----------------------|---------------|
|  | Rating class<br>1–15 | Rating class<br>16–18 | Rating class<br>1–15 | Rating class<br>16–18 |               |
| <b>2015</b>  |                      |                       |                      |                       |               |
| Loans and Receivables (LaR)                          | 1,334                | 5,633                 | 664                  | 9,470                 | 17,102        |
| Loans and advances to banks                          | –                    | 14                    | –                    | –                     | 14            |
| Loans and advances to customers                      | 1,327                | 4,143                 | 664                  | 6,790                 | 12,924        |
| Non-current assets held for sale and disposal groups | 7                    | 1,477                 | –                    | 2,680                 | 4,164         |
| Irrevocable and revocable loan commitments           | 52                   | 36                    | 22                   | 134                   | 244           |
| <b>Total</b>   | <b>1,386</b>         | <b>5,670</b>          | <b>686</b>           | <b>9,604</b>          | <b>17,346</b> |

### FORBEARANCE EXPOSURE

| (€ m)                                      | Core Bank            |                       | Restructuring Unit   |                       | Total         |
|--|----------------------|-----------------------|----------------------|-----------------------|---------------|
|  | Rating class<br>1–15 | Rating class<br>16–18 | Rating class<br>1–15 | Rating class<br>16–18 |               |
| <b>2014</b>                                |                      |                       |                      |                       |               |
| Loans and Receivables (LaR)                | 2,164                | 5,450                 | 1,536                | 11,660                | 20,810        |
| Loans and advances to banks                | –                    | 14                    | –                    | 1                     | 15            |
| Loans and advances to customers            | 2,164                | 5,434                 | 1,536                | 11,659                | 20,793        |
| Financial investments                      | –                    | 2                     | –                    | –                     | 2             |
| Irrevocable and revocable loan commitments | 127                  | 95                    | 27                   | 192                   | 441           |
| <b>Subtotal</b>                            | <b>2,291</b>         | <b>5,545</b>          | <b>1,563</b>         | <b>11,852</b>         | <b>21,251</b> |

Loan loss provisions in the amount of € 6,442 million (previous year: € 5,396 million) were already created for the volume of receivables stated here to which forbearance measures have been applied. The

cover for the forbearance exposure by the Sunrise guarantee is about 90% (previous year: about 92%).

## 58. INFORMATION ON UNCONSOLIDATED STRUCTURED ENTITIES

### I. Interests in unconsolidated subsidiaries

An interest is defined as a business relationship based on equity, debt instruments, derivatives, guarantees or similar.

HSH Nordbank summarises ABS conduits, securitisation and refinancing vehicles, investment funds and other structured entities under the term “structured entity”.

HSH Nordbank maintains business relationships in the form of an interest within the meaning of IFRS 12 with a total of 171 unconsolidated structured entities (previous year: 275). An interest exists if there is a business relationship between HSH Nordbank and a structured entity based on equity, debt instruments, derivatives or guarantees or if, based on other means, significant influence, joint control or

control can be exercised and HSH Nordbank is exposed to variable returns of the structured entity from the business relationship.

The following table shows the accumulated total assets of the unconsolidated structured entities with which HSH Nordbank maintains a business relationship.

#### INFORMATION ON THE SIZE OF UNCONSOLIDATED ENTITIES

| (€ m)                                   | Number     |            | Total assets  |                |
|---|------------|------------|---------------|----------------|
|   | 2015       | 2014       | 2015          | 2014           |
| ABS conduits                            | 138        | 228        | 53,625        | 89,766         |
| Investment funds                        | 14         | 27         | 2,396         | 11,054         |
| Securitisation and refinancing vehicles | 16         | 17         | 1,030         | 1,175          |
| Other                                   | 3          | 3          | 215           | 248            |
| <b>Total</b>                            | <b>171</b> | <b>275</b> | <b>57,266</b> | <b>102,243</b> |

HSH Nordbank uses ABS conduits for the purpose of risk diversification. ABS conduits are financed by the issuance of debentures. Furthermore these investments in ABS conduits are backed up by collateral. These companies are involved in the (revolving) purchase and securitisation of loan receivables, including refinancing with investors.

The function of refinancing and securitisation vehicles is to issue securities. These companies are involved in the (revolving) purchase and securitisation of receivables, including refinancing with investors. They are mainly financed through issuing debentures.

The main corporate purposes of investment funds are to finance assets, participate in non-listed companies and hold shares in real estate funds. The main activities of such investment funds are to carry out research for analysing markets, make decisions on investment and disinvestment in order to adjust portfolios and to attract investors. Investment funds raise their funds by the issuing of equity and debt instruments. The investment funds are funds launched by third parties, to which HSH Nordbank mainly grants loans.

#### II. Risks from interests in unconsolidated structured entities

The following information concerning risk refers not just to the current reporting period but also to risks which result from business relationships with unconsolidated structured entities in earlier reporting periods.

The risks from unconsolidated structured entities are presented in the form of the maximum potential loss which may arise from these business relationships based on an interest within the meaning of IFRS 12. HSH Nordbank discloses the carrying amounts of these transactions as a maximum potential loss. In the case of irrevocable loan commitments and contingent liabilities, the carrying amount matches the par value.

There are no credit derivatives relating to unconsolidated structured entities as of the balance sheet date.

The following table shows the IFRS carrying amounts of exposures involving unconsolidated structured entities as of 31 December 2015 broken down into the items of financial position.

**TYPE OF BUSINESS RELATIONSHIP**

| (€ m)                                      | Investment funds | ABS        | Refinancing and securitisation vehicles | Other structured entities | Total        |
|--|------------------|------------|---|---------------------------|--------------|
| <b>2015</b>                                |                  |            |   |                           |              |
| Loans and advances to customers            | 162              | -          | 313                                     | 7                         | 482          |
| Positive fair value of hedging derivatives | -                | -          | -                                       | -                         | -            |
| Trading assets                             | 2                | -          | 36                                      | 85                        | 123          |
| Financial investments                      | -                | 898        | 220                                     | -                         | 1,118        |
| <b>Total assets</b>                        | <b>164</b>       | <b>898</b> | <b>569</b>                              | <b>92</b>                 | <b>1,723</b> |
| Liabilities to customers                   | 21               | -          | 6                                       | 7                         | 34           |
| Trading liabilities                        | -                | -          | -                                       | -                         | -            |
| <b>Total equity and liabilities</b>        | <b>21</b>        | <b>-</b>   | <b>6</b>                                | <b>7</b>                  | <b>34</b>    |

| (€ m)                                      | Investment funds | ABS          | Refinancing and securitisation vehicles | Other structured entities | Total        |
|--|------------------|--------------|---|---------------------------|--------------|
| <b>2014</b>                                |                  |              |   |                           |              |
| Loans and advances to customers            | 366              | -            | 309                                     | 8                         | 683          |
| Positive fair value of hedging derivatives | 1                | -            | -                                       | -                         | 1            |
| Trading assets                             | 1                | -            | 51                                      | 84                        | 136          |
| Financial investments                      | -                | 2,557        | 252                                     | -                         | 2,809        |
| <b>Total assets</b>                        | <b>368</b>       | <b>2,557</b> | <b>612</b>                              | <b>92</b>                 | <b>3,629</b> |
| Liabilities to customers                   | 81               | -            | 17                                      | 7                         | 105          |
| Trading liabilities                        | -                | -            | 1                                       | -                         | 1            |
| <b>Total equity and liabilities</b>        | <b>81</b>        | <b>-</b>     | <b>18</b>                               | <b>7</b>                  | <b>106</b>   |

The above table contains the loans, debentures, deposits and derivatives in respect of unconsolidated structured entities.

In addition, there are maximum potential losses from irrevocable loan commitments amounting to € 19 million (previous year: € 32 million), € 0 million of which result from ABS (previous year: € 8 million) and € 19 million from refinancing and securitisation vehicles (previous year: € 24 million).

There are no business relationship risks based on an interest in unconsolidated structured entities as defined in IFRS 12, B26 that exceed the maximum potential loss, such as contractual terms under which HSH Nordbank would have to grant financial support, liquidity arrangements, guarantees extended or support provided by HSH Nordbank in the event of difficulties in refinancing unconsolidated structured entities.

Furthermore, HSH Nordbank has not entered into any loss-transfer agreements with unconsolidated structured entities. Mainly net interest income for granting loans and commission income were generated

from business relationships with unconsolidated structured entities based on an interest within the meaning of IFRS 12.

### III. Sponsoring

HSH Nordbank has sponsor relationships within the meaning of IFRS 12 if HSH Nordbank is exposed to variable return flows, although there is no business relationship in the form of an interest within the meaning of IFRS 12. HSH Nordbank is a sponsor if it was involved in establishing an unconsolidated structured entity, if it stands to gain the main profit from the entity or is the main collateral taker, if HSH Nordbank provides implicit guarantees or if the name of HSH Nordbank is part of the name of the structured entity or of the products issued by such entity.

Details of sponsored entities are only shown, if they are not already included in the disclosures under II, (Risks from interests in unconsolidated structured entities). This requirement is satisfied in the case of one structured entity, This company was sponsored by HSH Nordbank, but there is no interest within the meaning of IFRS 12.

During the reporting period HSH Nordbank sponsored a public fund, HSH Nordbank was involved in the establishment of this fund and provided the advisory investment committee during the reporting year. HSH Nordbank received an immaterial consultancy fee for this service.

#### IV. Provision of support

During the current reporting period HSH Nordbank has not supported any unconsolidated structured entity financially or in any other way without a contractual commitment to do so. HSH Nordbank has also no intention of granting financial support to any unconsolidated structured entity or helping to procure financial support from third parties.

### 59. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

#### CONTINGENT LIABILITIES

| (€ m)  | 2015         | 2014         |
|--|--------------|--------------|
| Contingent liabilities from guarantees and warranty agreements |              |              |
| Loan guarantees  | 121          | 130          |
| Letters of credit  | 258          | 307          |
| Other warranties   | –            | –            |
| Other guarantees   | 2,454        | 2,279        |
| <b>Total</b>   | <b>2,833</b> | <b>2,716</b> |

#### IRREVOCABLE LOAN COMMITMENTS

| (€ m)                            | 2015         | 2014         |
|----------------------------------|--------------|--------------|
| Irrevocable loan commitments for |              |              |
| Open account loans to banks      | 11           | 21           |
| Open account loans to customers  | 6,209        | 6,887        |
| Guarantees                       | 59           | 168          |
| Letters of credit                | –            | 1            |
| Other                            | 91           | 4            |
| <b>Total</b>                     | <b>6,370</b> | <b>7,081</b> |

Information on collateral transferred is presented in Note 62.

For reasons of practicality no information in accordance with IAS 37.89 is disclosed.

Please refer to Note 42 and explanations set out in the Management of legal risks section in the Risk Report of the Management Report with respect to existing uncertainties regarding risks arising from legal disputes.

Please refer to the explanations set out in the Forecast of loan loss provisions section of the Forecast, Opportunities and Risks Report in the Management Report with regard to uncertainties relating to the determination of loan loss provisions.

However, HSH Nordbank come to the conclusion in these cases, that the possibility of an outflow of resources is not remote within the meaning of IAS 37.28 in these cases and so has allowed for contingent liabilities. The financial impact of these contingent liabilities is estimated to be € 40 million (previous year: € 41 million).

Contingent liabilities include a material liability to a foreign bank in the amount of € 589 million.

The fair value or irrevocable loan commitments with a nominal volume of € 6,370 million (previous year: € 7,081 million) comes to € 10 million as at the balance sheet date (previous year: € 11 million).

## OTHER DISCLOSURES

### 60. REPORT ON BUSINESS IN DERIVATIVES

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of HSH Nordbank Group is predominantly transacted with banks based in OECD countries.

Positive and negative fair values are presented on the basis of gross values before offsetting in accordance with IAS 32.42.

#### I. Volumes

##### DERIVATIVE TRANSACTIONS WITH INTEREST RATE RISKS

| (€ m)                                    | Nominal values |                | Positive market values |              | Negative market values |              |
|--|----------------|----------------|------------------------|--------------|------------------------|--------------|
|  | 2015           | 2014           | 2015                   | 2014         | 2015                   | 2014         |
| Interest rate swaps                      | 162,200        | 180,690        | 4,606                  | 5,958        | 5,578                  | 7,102        |
| FRAs                                     | -              | 2,059          | -                      | -            | -                      | -            |
| Swaptions                                |                |                |                        |              |                        |              |
| Long positions                           | 3,381          | 3,953          | 131                    | 168          | 31                     | 34           |
| Short positions                          | 4,305          | 4,939          | 4                      | 2            | 222                    | 328          |
| Caps, floors                             | 7,822          | 7,687          | 54                     | 67           | 36                     | 47           |
| Exchange-traded contracts                | 2,236          | 1,130          | -                      | -            | -                      | -            |
| Other forward interest rate transactions | 373            | 721            | 15                     | 28           | 32                     | 37           |
| <b>Total</b>                             | <b>180,317</b> | <b>201,179</b> | <b>4,810</b>           | <b>6,223</b> | <b>5,899</b>           | <b>7,548</b> |

##### DERIVATIVE TRANSACTIONS WITH INTEREST RATE AND FOREIGN EXCHANGE RISKS

| (€ m)                              | Nominal values |               | Positive market values |            | Negative market values |            |
|------------------------------------|----------------|---------------|------------------------|------------|------------------------|------------|
|                                    | 2015           | 2014          | 2015                   | 2014       | 2015                   | 2014       |
| Cross-currency interest rate swaps | 20,362         | 27,288        | 221                    | 204        | 405                    | 730        |
| <b>Total</b>                       | <b>20,362</b>  | <b>27,288</b> | <b>221</b>             | <b>204</b> | <b>405</b>             | <b>730</b> |

##### DERIVATIVE TRANSACTIONS WITH FOREIGN EXCHANGE RISKS

| (€ m)                         | Nominal values |               | Positive market values |            | Negative market values |            |
|-------------------------------|----------------|---------------|------------------------|------------|------------------------|------------|
|                               | 2015           | 2014          | 2015                   | 2014       | 2015                   | 2014       |
| Forward exchange transactions | 12,439         | 11,415        | 179                    | 93         | 74                     | 209        |
| Currency options              |                |               |                        |            |                        |            |
| Long positions                | 706            | 475           | 59                     | 45         | -                      | -          |
| Short positions               | 1,005          | 725           | -                      | -          | 90                     | 65         |
| <b>Total</b>                  | <b>14,150</b>  | <b>12,615</b> | <b>238</b>             | <b>138</b> | <b>164</b>             | <b>274</b> |



**DERIVATIVE TRANSACTIONS WITH EQUITY AND OTHER PRICE RISKS**

| (€ m)                        | Nominal values |            | Positive market values |            | Negative market values |           |
|------------------------------|----------------|------------|------------------------|------------|------------------------|-----------|
|                              | 2015           | 2014       | 2015                   | 2014       | 2015                   | 2014      |
| Equity options               |                |            |                        |            |                        |           |
| Long positions               | 124            | 111        | 27                     | 58         | –                      | –         |
| Short positions              | 91             | 91         | –                      | –          | 23                     | 56        |
| Exchange-traded contracts    | 1              | –          | –                      | –          | –                      | –         |
| Commodity-based transactions | 10             | 792        | 36                     | 85         | 36                     | 43        |
| <b>Total</b>                 | <b>226</b>     | <b>994</b> | <b>63</b>              | <b>143</b> | <b>59</b>              | <b>99</b> |

**CREDIT DERIVATIVES**

| (€ m)                     | Nominal values |            | Positive market values |           | Negative market values |          |
|---------------------------|----------------|------------|------------------------|-----------|------------------------|----------|
|                           | 2015           | 2014       | 2015                   | 2014      | 2015                   | 2014     |
| Guarantor position        | 135            | 104        | 1                      | 1         | –                      | –        |
| Collateral taker position | 187            | 447        | 29                     | 26        | –                      | –        |
| <b>Total</b>              | <b>322</b>     | <b>551</b> | <b>30</b>              | <b>27</b> | <b>–</b>               | <b>–</b> |

**CREDIT DERIVATIVE SECOND LOSS GUARANTEE**

| (€ m)                     | Nominal values |            | Positive market values |          | Negative market values |          |
|---------------------------|----------------|------------|------------------------|----------|------------------------|----------|
|                           | 2015           | 2014       | 2015                   | 2014     | 2015                   | 2014     |
| Collateral-taker position | 2,723          | 230        | 663                    | 3        | –                      | –        |
| <b>Total</b>              | <b>2,723</b>   | <b>230</b> | <b>663</b>             | <b>3</b> | <b>–</b>               | <b>–</b> |

**DERIVATIVE TRANSACTIONS WITH STRUCTURED PRODUCTS**

| (€ m)               | Nominal values |              | Positive market values |            | Negative market values |            |
|---------------------|----------------|--------------|------------------------|------------|------------------------|------------|
|                     | 2015           | 2014         | 2015                   | 2014       | 2015                   | 2014       |
| Structured products | 6,411          | 7,965        | 519                    | 943        | 536                    | 595        |
| <b>Total</b>        | <b>6,411</b>   | <b>7,965</b> | <b>519</b>             | <b>943</b> | <b>536</b>             | <b>595</b> |

**DERIVATIVE TRANSACTIONS IN FAIR VALUE HEDGE ACCOUNTING**

| (€ m)               | Nominal values |               | Positive market values |              | Negative market values |              |
|---------------------|----------------|---------------|------------------------|--------------|------------------------|--------------|
|                     | 2015           | 2014          | 2015                   | 2014         | 2015                   | 2014         |
| Fair value hedges   |                |               |                        |              |                        |              |
| Interest rate swaps | 27,720         | 31,068        | 940                    | 1,405        | 829                    | 1,156        |
| <b>Total</b>        | <b>27,720</b>  | <b>31,068</b> | <b>940</b>             | <b>1,405</b> | <b>829</b>             | <b>1,156</b> |

## II. Counterparty classification

### COUNTERPARTY CLASSIFICATION

| (€ m)                   | Nominal values |                | Positive market values |              | Negative market values |               |
|-------------------------|----------------|----------------|------------------------|--------------|------------------------|---------------|
|                         | 2015           | 2014           | 2015                   | 2014         | 2015                   | 2014          |
| OECD banks              | 154,729        | 181,291        | 3,533                  | 4,881        | 6,134                  | 8,230         |
| Non-OECD banks          | 215            | 119            | 4                      | 5            | -                      | -             |
| Non-banks <sup>1)</sup> | 88,470         | 92,538         | 3,048                  | 3,903        | 1,351                  | 1,664         |
| Public authorities      | 8,817          | 7,941          | 899                    | 297          | 407                    | 508           |
| <b>Total</b>            | <b>252,231</b> | <b>281,889</b> | <b>7,484</b>           | <b>9,086</b> | <b>7,892</b>           | <b>10,402</b> |

<sup>1)</sup>Including exchange-traded contracts

## III. Maturities

### MATURITIES

| (€ m)              | Positive market value of derivatives |              | Positive market value of derivatives from fair value hedging |              | Negative market value of derivatives |              | Negative market value of derivatives from fair value hedging |              |
|--------------------|--------------------------------------|--------------|--|--------------|--------------------------------------|--------------|--|--------------|
|                    | 2015                                 | 2014         | 2015   | 2014         | 2015                                 | 2014         | 2015   | 2014         |
| Residual maturity  |                                      |              |  |              |                                      |              |  |              |
| Up to 3 months     | 204                                  | 165          | -  | -            | 126                                  | 233          | 4  | -            |
| 3 months to 1 year | 173                                  | 665          | 26   | 116          | 369                                  | 534          | 15   | 6            |
| 1 year to 5 years  | 1,876                                | 2,184        | 512  | 640          | 2,290                                | 3,255        | 394  | 403          |
| Over 5 years       | 4,291                                | 4,667        | 402  | 649          | 4,278                                | 5,224        | 416  | 747          |
| <b>Total</b>       | <b>6,544</b>                         | <b>7,681</b> | <b>940</b>   | <b>1,405</b> | <b>7,063</b>                         | <b>9,246</b> | <b>829</b>   | <b>1,156</b> |

## 61. LEASE RECEIVABLES AND LIABILITIES

Operating leases where HSH Nordbank acts as a lessee serve the purpose of leasing technical facilities and equipment required to operate IT networks, among other purposes.

In operating leases HSH Nordbank Group acts as lessor for aircraft.

In the case of finance leases on the US market HSH Nordbank acts as lessor under sale-and-lease-back leasing arrangements to finance photovoltaic installations.

For finance leases an accumulated valuation allowance in the amount of € 2 million (previous year: € 0 million) arose in the year under review.

### I. Lessee under operating leases

#### MINIMUM LEASE PAYMENTS UNDER OPERATING LEASES

| (€ m)                      | 2015       | 2014       |
|----------------------------|------------|------------|
| Minimum lease payments due |            |            |
| Up to 1 year               | 34         | 46         |
| 1 year to 5 years          | 91         | 162        |
| More than 5 years          | 5          | 43         |
| <b>Total</b>               | <b>130</b> | <b>251</b> |

#### EXPENSES FOR LEASE PAYMENTS

| (€ m)                  | 2015      | 2014      |
|------------------------|-----------|-----------|
| Expenses for           |           |           |
| Minimum lease payments | 36        | 41        |
| <b>Total</b>           | <b>36</b> | <b>41</b> |

Expenses on assets used under operating leases are disclosed in Administrative expenses (cf. Note 15).

### II. Lessor under operating leases

#### MINIMUM LEASE PAYMENTS TO BE EXPECTED UNDER OPERATING LEASES

| (€ m)                                 | 2015      | 2014      |
|---------------------------------------|-----------|-----------|
| Minimum lease payments to be received |           |           |
| Up to 1 year                          | 21        | 23        |
| 1 year to 5 years                     | 10        | 22        |
| More than 5 years                     | –         | –         |
| <b>Total</b>                          | <b>31</b> | <b>45</b> |

Income from conditional leasing payments was neither recorded in the reporting period nor in the previous year.

### III. Lessor under finance leases

#### FINANCE LEASES

| (€ m)   | 2015      | 2014      |
|---|-----------|-----------|
| Outstanding lease payments                            | 80        | 86        |
| + Guaranteed residual values                          | 15        | 13        |
| = Minimum lease payments                              | 95        | 99        |
| + Non-guaranteed residual values                      | 18        | 20        |
| = Gross investment                                    | 113       | 119       |
| – Unearned finance income                             | 7         | 9         |
| = Net investment                                      | 106       | 110       |
| – Net present value of non-guaranteed residual values | 13        | 14        |
| <b>= Net present value of minimum lease payments</b>  | <b>93</b> | <b>96</b> |

The gross investments amount and the net present value of the minimum lease payments break down by maturity as follows.

#### BREAKDOWN OF RESIDUAL MATURITIES

| (€ m)                                 | Gross investments in the lease |            | Net present value of the minimum lease payments |           |
|---------------------------------------|--------------------------------|------------|---|-----------|
|                                       | 2015                           | 2014       | 2015  | 2014      |
| Minimum lease payments to be received |                                |            |   |           |
| Up to 1 year                          | 11                             | 11         | 11  | 11        |
| 1 year to 5 years                     | 44                             | 50         | 39  | 41        |
| More than 5 years                     | 58                             | 58         | 43  | 45        |
| <b>Total</b>                          | <b>113</b>                     | <b>119</b> | <b>93</b>                                       | <b>97</b> |

Income from conditional lease payments was neither recorded during the year nor in the previous year.

## 62. DISCLOSURES ON COLLATERAL TRANSFERRED AND FINANCIAL ASSETS TRANSFERRED WITH RETENTION OF RIGHTS AND/OR OBLIGATIONS

### I. Collateral transferred

As at 31 December 2015 HSH Nordbank had assets transferred as collateral which do not meet the requirements of derecognition under IAS 39. The assets transferred as collateral continue to be recognised in the Group statement of financial position as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with the HSH Nordbank Group.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions, Notes on repurchase agreements are separately disclosed below. A small amount of collateral has been transferred in the course of securities lending business.

#### CARRYING AMOUNTS OF TRANSFERRED COLLATERAL

| (€ m)                                | 2015          | 2014         |
|--------------------------------------|---------------|--------------|
| Loans and advances                   | 11,804        | 8,717        |
| Loans and advances to banks          | 3,634         | 4,440        |
| Loans and advances to customers      | 8,170         | 4,277        |
| Trading assets/Financial investments | 1,830         | 843          |
| <b>Total</b>                         | <b>13,634</b> | <b>9,560</b> |

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Promissory notes and other receivables from lending are not pledged to the European Central Bank, but are assigned without this being disclosed. It is not possible to resell or pledge in the interim.

In addition, HSH Nordbank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. At the end of the reporting period, the carrying amount of the securities transferred as collateral in the framework of repo transactions was € 1,144 million (previous year: € 1,907 million). The fair value amounts to € 1,086 million (previous year: € 1,863 million). The corresponding liabilities are recognised in the amount of € 966 million (previous year: € 1,560 million) with the fair value corresponding to the carrying amount. A net position of € 120 million arose from the fair values of the assets transferred and the associated liabilities (previous year: € 303 million). Collateral transferred under repo transactions can be resold or repledged.

Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral the counterparty may require HSH Nordbank to provide additional securities to increase collateral. Where HSH Nordbank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights,

i.e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ('the same sort') must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to tri-party repo transactions between HSH Nordbank and its counterparties accordingly. The transactions are executed via a tri-party agent.

## II. Financial assets transferred with retention of rights and/or obligations

HSH Nordbank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The rights and obligations retained under these transfers were of an overall immaterial nature. The risks become transparent by recognition of provisions and/or recording of contingent liabilities. There is a hypothetical repurchase option relating to the sale of an equity holding, which the Bank, however, can only exercise based on the occurrence of certain biometric events. The option has a time value of € 0; it entails no risk.

## 63. TRUST TRANSACTIONS

The table below shows the volume of trust transactions not recognised in the statement of financial position.

| TRUST TRANSACTIONS              |          |           |
|---------------------------------|----------|-----------|
| (€ m)                           | 2015     | 2014      |
| Loans and advances to banks     | -        | -         |
| Loans and advances to customers | 7        | 9         |
| Other loans and advances        | -        | 2         |
| <b>Trust assets</b>             | <b>7</b> | <b>11</b> |
| Liabilities to banks            | -        | 1         |
| Liabilities to customers        | 7        | 8         |
| Other liabilities               | -        | 2         |
| <b>Trust liabilities</b>        | <b>7</b> | <b>11</b> |



## 64. RELATED PARTIES

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

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and fixed-term deposits, derivatives and securities transactions.

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

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

The guarantee amount with regard to the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR is identified as a significant transaction within the meaning of IAS 24. Please refer to Notes 2 and 19 for more details.

Please refer to Note 33 with regard to information on loans that are to be sold to the resolution institution (hsh portfoliomanagement AöR) formed by the federal states of Hamburg and Schleswig-Holstein under the informal agreement reached with the EU Commission and the formal decision taken on 2 May 2016.

## II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

### SUBSIDIARIES - ASSETS

| (€ m)                           | 2015      | 2014       |
|---------------------------------|-----------|------------|
| Loans and advances to customers | 83        | 120        |
| Loan loss provisions            | -23       | -17        |
| Financial investments           | -         | 1          |
| Other assets                    | -         | 1          |
| <b>Total</b>                    | <b>60</b> | <b>105</b> |

### SUBSIDIARIES - LIABILITIES

| (€ m)                    | 2015      | 2014      |
|--------------------------|-----------|-----------|
| Liabilities to customers | 25        | 16        |
| Provisions               | 22        | 17        |
| Other liabilities        | 2         | 2         |
| <b>Total</b>             | <b>49</b> | <b>35</b> |

### SUBSIDIARIES - INCOME STATEMENT

| (€ m)                  | 2015     | 2014     |
|------------------------|----------|----------|
| Net interest income    | 2        | 3        |
| Loan loss provisions   | -4       | -1       |
| Other operating income | 4        | 7        |
| <b>Total</b>           | <b>2</b> | <b>9</b> |

**III. Associates**

The following table shows the transactions with associates:

**ASSOCIATES - ASSETS**

| (€ m)                           | 2015       | 2014       |
|---------------------------------|------------|------------|
| Loans and advances to customers | 53         | 64         |
| Loan loss provisions            | -40        | -35        |
| Financial investments           | 124        | 176        |
| Other assets                    | -          | 6          |
| <b>Total</b>                    | <b>137</b> | <b>211</b> |

**ASSOCIATES - LIABILITIES**

| (€ m)                    | 2015     | 2014     |
|--------------------------|----------|----------|
| Liabilities to customers | 1        | -        |
| <b>Total</b>             | <b>1</b> | <b>-</b> |

**ASSOCIATES - INCOME STATEMENT**

| (€ m)                                 | 2015     | 2014       |
|---------------------------------------|----------|------------|
| Net interest income                   | 1        | 2          |
| Loan loss provisions                  | -1       | -9         |
| Net trading income                    | -        | -2         |
| Net income from financial investments | 2        | -          |
| Administrative expenses               | -2       | -7         |
| <b>Total</b>                          | <b>-</b> | <b>-16</b> |

Other financial liabilities to associates amount to € 11 million (previous year: € 66 million).

**IV. Joint ventures**

The following tables show the transactions with joint ventures:

**JOINT VENTURES - ASSETS**

| (€ m)                           | 2015      | 2014     |
|---------------------------------|-----------|----------|
| Loans and advances to customers | 33        | 62       |
| Loan loss provisions            | -         | -62      |
| <b>Total</b>                    | <b>33</b> | <b>-</b> |

**JOINT VENTURES - LIABILITIES**

| (€ m)                    | 2015      | 2014      |
|--------------------------|-----------|-----------|
| Liabilities to customers | 27        | 23        |
| <b>Total</b>             | <b>27</b> | <b>23</b> |

**JOINT VENTURES - INCOME STATEMENT**

| (€ m)                                 | 2015      | 2014     |
|---------------------------------------|-----------|----------|
| Net interest income                   | -         | 2        |
| Loan loss provisions                  | -6        | -4       |
| Net trading income                    | -1        | -1       |
| Net income from financial investments | 1         | 5        |
| <b>Total</b>                          | <b>-6</b> | <b>2</b> |

Irrevocable loan commitments to joint ventures amount to € 0 million (previous year: € 1 million).

**V. Other related parties and companies**

Transactions with individuals in key positions at HSH Nordbank AG and their close relatives or companies controlled by these individuals in the immaterial amount of less than € 1 million were recorded as at the balance sheet date. The same applies to the previous year.

## VI. Remuneration of persons in key management positions

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. Furthermore, each board member receives 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 persons in key management positions. In contrast to the previous year's financial statements, payments to employee representatives on the Supervisory Board which they receive in their capacity as employees are no longer included. Remuneration of the Supervisory Board consists of additions to provisions for the activities of the Supervisory Board carried out during the financial year excluding value-added tax.

### REMUNERATION OF PERSONS IN KEY MANAGEMENT POSITIONS

| (€ k)                     | Management Board |              | Supervisory Board |            | Total        |              |
|---------------------------|------------------|--------------|-------------------|------------|--------------|--------------|
|                           | 2015             | 2014         | 2015              | 2014       | 2015         | 2014         |
| Short-term benefits       | 2,920            | 2,809        | 467               | 462        | 3,387        | 3,271        |
| Termination benefits      | -                | -            | -                 | -          | -            | -            |
| Other long-term benefits  | -                | -            | -                 | -          | -            | -            |
| Post-employment benefits  | 500              | 500          | -                 | -          | 500          | 500          |
| <b>Total remuneration</b> | <b>3,420</b>     | <b>3,309</b> | <b>467</b>        | <b>462</b> | <b>3,887</b> | <b>3,771</b> |

## VII. Additional disclosures under Section 315a HGB

HSH Nordbank is obliged to provide additional disclosures in its Group financial statements under Section 315a HGB. Several differences compared to the IFRS disclosures should be borne in mind in this regard: termination benefits payable are not included in the total remuneration of the active members of the Management Board. This remuneration is disclosed instead under total remuneration payable to former members of the Management Board.

### REMUNERATION OF EXECUTIVE BODIES

| (€ k)  | 2015         | 2014         |
|--|--------------|--------------|
| <b>Total remuneration of all active members of executive bodies</b>                            |              |              |
| Management Board   | 3,420        | 3,309        |
| Supervisory Board  | 467          | 462          |
| <b>Total</b>   | <b>3,887</b> | <b>3,771</b> |
| <b>Total remuneration of former members of executive bodies and their surviving dependants</b> |              |              |
| Management Board   | 2,751        | 2,734        |

As at 31 December 2015, a total of €k 53,820 (previous year: €k 59,841) 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 2015. For members of the Supervisory Board they amounted to €k 469 (previous year: €k 499). In the 2015 reporting year no new loans were granted to members 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 totalled €k 30 in total in 2015 (previous year: €k 28).

### VIII. Disclosure of Supervisory Board remuneration

The members of the Supervisory Board receive remuneration for their service during a financial year in an amount determined by the Annual General Meeting of the following year. The remuneration for the Supervisory Board for the 2014 financial year was therefore paid in the 2015 reporting period. Appropriate provisions have been recognised in the 2015 Annual Accounts for the 2015 reporting year.

The remuneration system is based on the requirements of the German Corporate Governance Code and is organised as follows after the resolution of the Annual General Meeting of HSH Nordbank AG on 23 May 2014 and applies to the term of office of the Supervisory Board that has started on 23 May 2014:

| (in €)                            |              |                 |                |
|-----------------------------------|--------------|-----------------|----------------|
| Executive body                    | Function     | Fixed component | Attendance fee |
| Supervisory Board                 | Chair        | 25,000          | 250            |
|                                   | Deputy Chair | 18,000          | 250            |
|                                   | Member       | 11,000          | 250            |
| Risk Committee                    | Chair        | 15,000          | 250            |
|                                   | Member       | 7,000           | 250            |
| Executive Committee               | Chair        | 15,000          | 250            |
|                                   | Member       | 7,000           | 250            |
| Audit Committee                   | Chair        | 15,000          | 250            |
|                                   | Member       | 7,000           | 250            |
| Remuneration Monitoring Committee | Chair        | 12,000          | 250            |
|                                   | Member       | 5,000           | 250            |

The Mediation Committee to be formed under the German Co-determination Act of 1976 (*Mitbestimmungsgesetz*) does not receive any separate remuneration. Members of the Supervisory Board are also reimbursed for any value-added tax payable and for their expenses.

€k 533 of the amount provided for in the 2014 financial year (€k 550, thereof VAT: €k 88) were paid to the members of the Supervisory Board in the reporting period. This includes €k 76 of value-added tax.

€K 556 have been provided for activities of the Supervisory Board (thereof value-added tax: €k 89), which will be disbursed after the Annual General Meeting provided a corresponding resolution is passed by the Annual General Meeting 2016. Remuneration (excl. VAT) is expected to be distributed among the members of the Supervisory Board as follows:

| (in €)                                  | Fixed remuneration |                | Attendance fee |               | Total          |                |
|---|--------------------|----------------|----------------|---------------|----------------|----------------|
|   | 2015               | 2014           | 2015           | 2014          | 2015           | 2014           |
| <b>Members of the Supervisory Board</b> |                    |                |                |               |                |                |
| Dr Thomas Mirow,<br>Chair               | 59,000             | 54,103         | 6,000          | 5,500         | 65,000         | 59,603         |
| Olaf Behm, Deputy Chair                 | 44,000             | 40,278         | 7,000          | 6,250         | 51,000         | 46,528         |
| Dr Jürgen Allenkamp <sup>1)</sup>       | –                  | 15,205         | –              | 2,500         | –              | 17,705         |
| Stefanie Arp                            | 18,000             | 17,412         | 3,250          | 2,750         | 21,250         | 20,162         |
| Sabine-Almut Auerbach                   | 11,000             | 10,608         | 2,250          | 1,750         | 13,250         | 12,358         |
| Peter Axmann <sup>2)</sup>              | 7,540              | –              | 1,500          | –             | 9,040          | –              |
| Hans-Werner Blöcker <sup>3)</sup>       | –                  | 3,918          | –              | 500           | –              | 4,418          |
| Berthold Bose <sup>3)</sup>             | –                  | 3,918          | –              | 250           | –              | 4,168          |
| Oliver Dircks <sup>3)</sup>             | –                  | 6,464          | –              | 750           | –              | 7,214          |
| Simone Graf <sup>4)</sup>               | 30,000             | 18,247         | 6,000          | 3,500         | 36,000         | 21,747         |
| Silke Grimm <sup>4)</sup>               | 16,000             | 9,732          | 2,500          | 1,500         | 18,500         | 11,232         |
| Torsten Heick <sup>5)</sup>             | 8,926              | 17,412         | 1,750          | 2,750         | 10,676         | 20,162         |
| Oke Heuer <sup>3)</sup>                 | –                  | 9,011          | –              | 1,500         | –              | 10,511         |
| Stefan Jütte                            | 26,000             | 25,021         | 3,000          | 2,000         | 29,000         | 27,021         |
| Sabine Kittner-Schürmann <sup>3)</sup>  | –                  | 6,464          | –              | 750           | –              | 7,214          |
| Dr Rainer Klemmt-Nissen                 | 30,000             | 27,258         | 6,000          | 5,250         | 36,000         | 32,508         |
| Lutz Koopmann <sup>3)</sup>             | –                  | 3,918          | –              | 500           | –              | 4,418          |
| Dr Joachim Lemppenau <sup>3)</sup>      | –                  | 9,207          | –              | 750           | –              | 9,957          |
| Manfred Lener <sup>3)</sup>             | –                  | 6,464          | –              | 1,000         | –              | 7,464          |
| Thomas Losse-Müller <sup>6)</sup>       | –                  | 24,463         | –              | 4,000         | –              | 28,463         |
| Rieka Meetz-Schawaller                  | 18,000             | 22,505         | 3,000          | 4,000         | 21,000         | 26,505         |
| Dr David Morgan <sup>11)</sup>          | 25,000             | 24,216         | 4,500          | 4,250         | 29,500         | 28,466         |
| Dr Philipp Nimmermann <sup>7)</sup>     | 30,000             | 2,066          | 5,250          | 250           | 35,250         | 2,316          |
| Dieter Randau <sup>8)</sup>             | –                  | 4,792          | –              | 750           | –              | 5,542          |
| Edda Redeker <sup>3)</sup>              | –                  | 3,918          | –              | 500           | –              | 4,418          |
| Stefan Schlatermund <sup>4)</sup>       | 18,000             | 10,948         | 3,250          | 2,000         | 21,250         | 12,948         |
| Klaus-Dieter Schwetscher <sup>9)</sup>  | 10,699             | –              | 2,000          | –             | 12,699         | –              |
| Elke Weber-Braun <sup>4)</sup>          | 26,000             | 15,814         | 3,250          | 2,000         | 29,250         | 17,814         |
| Bernd Wrede <sup>3)</sup>               | –                  | 6,464          | –              | –             | –              | 6,464          |
| Jörg Wohlers <sup>10)</sup>             | 24,118             | –              | 4,750          | –             | 28,868         | –              |
| <b>Total</b>                            | <b>402,283</b>     | <b>399,826</b> | <b>65,250</b>  | <b>57,500</b> | <b>467,533</b> | <b>457,326</b> |

<sup>1)</sup> 23 May until 31 December 2014

<sup>2)</sup> from 14 July 2015

<sup>3)</sup> until 23 May 2014

<sup>4)</sup> from 23 May 2014

<sup>5)</sup> until 30 June 2015

<sup>6)</sup> until 27 November 2014

<sup>7)</sup> from 27 November 2014

<sup>8)</sup> 23 May until 29 October 2014

<sup>9)</sup> from 10 January 2015

<sup>10)</sup> from 1 January 2015

<sup>11)</sup> Amounts before deduction of Supervisory Council tax and solidarity surcharge

The members of the Supervisory Board have again not provided any advisory or brokerage services or any other personal services to the

Bank in the year 2015. Accordingly no additional remunerations were granted.



## 65. OTHER FINANCIAL OBLIGATIONS

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The transactions listed below include payment obligations under pending contracts or continuing obligations 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.

There are shareholder liabilities of € 11 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 18 million).

A new calculation methodology for determining target volumes in the guarantee scheme was approved as part of the implementation of the German Law on Deposit Insurance (EinSiG) that came into effect on 3 July 2015. The target amount to be calculated annually on the basis of the data as at 31 December of the previous year is to be raised by the member institutions by 3 July 2024 (build-up phase). The annual premium required for this is determined by 31 May of the current year by the German Savings Banks Association (DSGV) as the association responsible for the guarantee scheme. Special or additional contributions over and above those already paid may be levied, for instance, as part of a compensation case where support is provided. The obligation to pay contributions until 2024 and any special or additional contributions represent a risk with regard to HSH Nordbank's financial position.

With the transposition of the Bank Recovery and Resolution Directive (BRRD) into German law a new legal basis for determining the bank levy came into force as at 1 January 2015. The target amount of the EU-wide Single Resolution Fund (SRF) is to be achieved by 1 January

2024 through contributions paid by European banks. The current levy is determined by the supervisory authorities as at 31 May of each year and is payable by 30 June. Subsequent assessments are not provided for.

Further obligations resulting from long-term leases for land and buildings used for business purposes do not exist (previous year: € 65 million). Additional obligations amounting to € 127 million (previous year: € 172 million) result from leasing agreements for IT services.

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

Under a sale of an equity holding the Bank has undertaken to purchase fund units at the market price up to a nominal amount of € 8 million (previous year: € 22 million) and to provide indemnities up to a maximum amount of € 47 million (previous year: € 47 million).

Within the framework of a loan restructuring HSH Nordbank AG agreed to bear costs of up to € 8 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. It applies to liabilities entered into until 18 July 2001 regardless of their term.

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

## 66. LIST OF SHAREHOLDINGS

The following information is based on German commercial law.

### CONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF MORE THAN 50 %

| Serial no. | Name/Place  | Share  | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|--------|---------------|---------------|---------------------------------------|------------------------------------|
| 1          | Avia Management S.à.r.l., Luxembourg, Luxembourg                                  | 100.00 | 100.00        | EUR           | -33,910.72                            | 248.50                             |
| 2          | BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg                                | 100.00 | 100.00        | EUR           | 277,090.65                            | -22,909.35                         |
| 3          | Bu Wi Beteiligungsholding GmbH, Hamburg   | 100.00 | 100.00        | EUR           | 16,929.56                             | -83.74                             |
| 4          | CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg <sup>1)</sup>                   | 100.00 | 100.00        | EUR           | 1,923.68                              | -1,766.27                          |
| 5          | CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg <sup>1)</sup>                    | 100.00 | 100.00        | EUR           | 2,455,560.30                          | -51,730.27                         |
| 6          | CAPCELLENCE Holding GmbH & Co. KG, Hamburg <sup>1)</sup>                          | 100.00 | 100.00        | EUR           | 116,788,455.69                        | 489,552.21                         |
| 7          | Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup> | 83.33  | 99.91         | EUR           | 1,274,037.67                          | 13,262.77                          |
| 8          | Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup> | 83.33  | 99.99         | EUR           | 1,861,415.59                          | 12,946.51                          |
| 9          | Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.90         | EUR           | 215,982.29                            | -8,743.19                          |
| 10         | Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.90         | EUR           | 2,210,670.47                          | -8,746.96                          |
| 11         | CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.99         | EUR           | 14,604,796.39                         | 343,459.40                         |
| 12         | CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.95         | EUR           | 1,623,394.90                          | -10,265.41                         |
| 13         | CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.47         | EUR           | 273,592.35                            | -8,390.06                          |
| 14         | CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.00         | EUR           | 3,419,060.23                          | -9,064.43                          |
| 15         | CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup>    | 83.33  | 99.00         | EUR           | <sup>3)</sup>                         | <sup>3)</sup>                      |
| 16         | CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg <sup>1)</sup>                   | 100.00 | 100.00        | EUR           | 8,307,898.50                          | -42,027.46                         |
| 17         | CHIOS GmbH, Hamburg   | 100.00 | 100.00        | EUR           | 2,263.51                              | -11,360.73                         |
| 18         | DEERS Green Power Development Company, S.L., Madrid, Spain <sup>1)</sup>          | 100.00 | 100.00        | EUR           | -30,475,546.00                        | 603,010.00                         |
| 19         | GODAN GmbH, Hamburg   | 100.00 | 100.00        | EUR           | -946,471.57                           | -9,960.27                          |
| 20         | HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg                        | 100.00 | 100.00        | EUR           | 36,562,283.25                         | 12,133,118.53                      |
| 21         | HSH Care+Clean GmbH, Hamburg <sup>1) 4)</sup>                                     | 51.00  | 51.00         | EUR           | 25,000.00                             | -68,719.08                         |
| 22         | HSH Facility Management GmbH, Hamburg <sup>2)</sup>                               | 100.00 | 100.00        | EUR           | 205,600.00                            | -3,544,355.87                      |
| 23         | HSH Gastro+Event GmbH, Hamburg <sup>1) 4)</sup>                                   | 100.00 | 100.00        | EUR           | 25,000.00                             | -583,367.18                        |
| 24         | HSH Move+More GmbH, Kiel <sup>1) 4)</sup>   | 51.00  | 51.00         | EUR           | 25,000.00                             | 86,220.29                          |
| 25         | HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey                        | 100.00 | 100.00        | EUR           | 519,882.00                            | 93,951.00                          |
| 26         | HSH N Funding II, George Town, Cayman Islands                                     | 56.33  | 100.00        | USD           | 654,305,988.00                        | 36,276,800.00                      |
| 27         | HSH Nordbank Securities S.A., Luxembourg, Luxembourg                              | 100.00 | 100.00        | EUR           | 190,972,608.02                        | 13,447,359.34                      |
| 28         | HSH N Residual Value Ltd., Hamilton, Bermuda                                      | 100.00 | 100.00        | USD           | 3,686,501.00                          | -105,772.00                        |
| 29         | HSH Private Equity GmbH, Hamburg <sup>2)</sup>                                    | 100.00 | 100.00        | EUR           | 550,000.00                            | -526,528.17                        |
| 30         | Ilex Integra GmbH, Hamburg <sup>1)</sup>  | 100.00 | 100.00        | EUR           | -20,846,990.04                        | -3,426,011.99                      |
| 31         | ISM Agency, LLC, New York, USA <sup>1)</sup>                                      | 100.00 | 100.00        | USD           | <sup>7)</sup>                         | <sup>7)</sup>                      |

| Serial no. | Name/place   | Share  | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|--|--------|---------------|---------------|---------------------------------------|------------------------------------|
| 32         | Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg   | 100.00 | 100.00        | USD           | 375.07                                | 0.00                               |
| 33         | Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg <sup>12)</sup>                       | 100.00 | 100.00        | USD           | 1,853,181.83                          | 1,839,870.00                       |
| 34         | Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s., Luxembourg, Luxembourg <sup>5)</sup> | 100.00 | 100.00        | USD           | 755,457.47                            | 217,317,449.36                     |
| 35         | RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong <sup>1)</sup>                       | 0.01   | 100.00        | USD           | -6,015,287.00                         | -1,182,463.00                      |
| 36         | RESPARCS Funding II Limited Partnership, St. Helier, Jersey <sup>1)</sup>                        | 0.01   | 100.00        | EUR           | -252,429,987.00                       | 206,084.00                         |
| 37         | Solar Holdings S.à.r.l., Luxembourg, Luxembourg  | 100.00 | 100.00        | EUR           | -21,941,115.13                        | -1,630,006.15                      |
| 38         | Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung i.L., Hamburg  | 100.00 | 100.00        | EUR           | 25,564.59                             | 0.00                               |
| 39         | 2200 Victory LLC, Dover (Kent County), USA   | 100.00 | 100.00        | USD           | 43,609,872.00                         | 9,323,657.00                       |

#### CONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF 50 % OR LESS

– of which subsidiaries due to a principal-agent relationship

| Serial no. | Name/place  | Share | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|-------|---------------|---------------|---------------------------------------|------------------------------------|
| 40         | Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland <sup>1)</sup>        | 49.00 | 49.00         | USD           | -13,970,316.00                        | -2,883,749.00                      |
| 41         | Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland <sup>1)</sup>         | 49.00 | 49.00         | USD           | -10,737,019.00                        | -56,943.00                         |
| 42         | Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland <sup>1)</sup>       | 49.00 | 49.00         | USD           | -13,871,522.00                        | -185,017.00                        |
| 43         | Mitco Real Estate A S.à.r.l., Canach, Luxembourg                                | 0.00  | 0.00          | EUR           | -15,320,330.97                        | 1,175,394.41                       |
| 44         | Mitco Resolution 1 S.à.r.l., Canach, Luxembourg                                 | 0.00  | 0.00          | EUR           | -3,470,981.75                         | -73,933.85                         |
| 45         | Mitco Resolution 2 S.à.r.l., Canach, Luxembourg                                 | 0.00  | 0.00          | EUR           | -8,208,537.01                         | -1,783,868.55                      |
| 46         | Mitco Resolution 3 S.à.r.l., Canach, Luxembourg                                 | 0.00  | 0.00          | EUR           | -899,082.13                           | -246,359.54                        |
| 47         | Mitco Resolution 4 S.à.r.l., Canach, Luxembourg                                 | 0.00  | 0.00          | EUR           | -1,908,280.18                         | 415,106.84                         |
| 48         | Mitco Resolution 5 S.à.r.l., Canach, Luxembourg                                 | 0.00  | 0.00          | EUR           | 130,301.48                            | 591,521.30                         |
| 49         | Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg <sup>1)</sup> | 49.00 | 49.00         | EUR           | -6,683,478.00                         | -3,122,848.00                      |
| 50         | Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg <sup>1)</sup> | 49.00 | 49.00         | EUR           | -8,229,734.00                         | -3,038,580.00                      |
| 51         | RDM Limited, George Town, Cayman Islands  | 0.00  | 0.00          | USD           | -154,407,519.00                       | -25,489,155.00                     |
| 52         | SPE II Pissarro SAS, Paris, France  | 0.00  | 0.00          | EUR           | -26,688,940.00                        | -14,281,308.00                     |

– of which subsidiaries due to contractual rights

| Serial no. | Name/place  | Share | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|-------|---------------|---------------|---------------------------------------|------------------------------------|
| 53         | Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Mainz | 0.00  | 0.00          | EUR           | - 523,866.47                          | 35,371.66                          |
| 54         | Castellum ABF S.A., Luxembourg, Luxembourg                                | 0.00  | 0.00          | EUR           | <sup>3)</sup>                         | <sup>3)</sup>                      |
| 55         | GmbH Altstadt Grundstücksgesellschaft, Mainz <sup>1)</sup>                | 50.00 | 50.00         | EUR           | - 172,896.36                          | 88,325.36                          |
| 56         | Life Insurance Fund Elite LLC, New York, USA                              | 0.00  | 0.00          | USD           | <sup>7)</sup>                         | <sup>7)</sup>                      |
| 57         | Life Insurance Fund Elite LLC, Minneapolis, USA                           | 0.00  | 0.00          | USD           | <sup>7)</sup>                         | <sup>7)</sup>                      |
| 58         | OCEAN Funding 2013 GmbH, Frankfurt am Main                                | 0.00  | 0.00          | EUR           | 26,186.15                             | 1,127.75                           |
| 59         | Senior Assured Investment S.A., Luxembourg, Luxembourg                    | 0.00  | 0.00          | EUR           | 31,000.00                             | 0.00                               |
| 60         | Senior Preferred Investments S.A., Luxembourg, Luxembourg                 | 0.00  | 0.00          | EUR           | 31,000.00                             | 0.00                               |
| 61         | Stratus ABF S.A., Luxembourg, Luxembourg                                  | 0.00  | 0.00          | EUR           | 31,002.00                             | 0.00                               |

#### ASSOCIATES AND JOINT VENTURES CONSOLIDATED UNDER THE EQUITY METHOD

| Serial no. | Name/place   | Share | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|--|-------|---------------|---------------|---------------------------------------|------------------------------------|
| 62         | Kontora Family Office GmbH, Hamburg <sup>14)</sup> | 51.00 | 51.00         | EUR           | 926,096.98                            | 141,837.21                         |
| 63         | SITUS NORDIC SERVICES ApS, Copenhagen, Denmark     | 40.00 | 40.00         | DKK           | 8,178,086.00                          | 3,604,830.00                       |

#### UNCONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF MORE THAN 50 %

| Serial no. | Name/place  | Share  | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|--------|---------------|---------------|---------------------------------------|------------------------------------|
| 64         | Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong <sup>1)</sup>  | 51.00  | 51.00         | USD           | 115.00                                | 0.00                               |
| 65         | Aviation Leasing OpCo France III, Paris, France <sup>1)</sup>                       | 100.00 | 100.00        | EUR           | - 113,703.00                          | - 47,213.00                        |
| 66         | Aviation Leasing OpCo France IV, Paris, France <sup>1)</sup>                        | 100.00 | 100.00        | EUR           | - 21,273.00                           | - 12,719.00                        |
| 67         | CAPCELLENCE Vintage Year 12 Beteiligungen GmbH, Hamburg <sup>1)</sup>               | 100.00 | 100.00        | EUR           | 13,966.97                             | - 1,850.45                         |
| 68         | European Capital Investment Opportunities Limited, St. Helier, Jersey <sup>1)</sup> | 51.00  | 51.00         | EUR           | 95.00                                 | 5.00                               |
| 69         | Folkesta Handelsfastigheter AB, Stockholm, Sweden <sup>1)</sup>                     | 100.00 | 100.00        | SEK           | 18,445,500.00                         | 147,082.00                         |
| 70         | Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg                           | 100.00 | 100.00        | EUR           | - 2,019,683.80                        | - 399.31                           |
| 71         | HSH N Structured Situations Limited, St. Helier, Jersey <sup>8)</sup>               | 100.00 | 100.00        | USD           | 351,241.00                            | 10,805.00                          |
| 72         | Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg                  | 100.00 | 100.00        | USD           | 3,186.13                              | 0.00                               |
| 73         | NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands                           | 100.00 | 100.00        |               | <sup>7)</sup>                         | <sup>7)</sup>                      |
| 74         | PERIMEDES GmbH, Hamburg   | 100.00 | 100.00        | EUR           | 23,048.70                             | 4,238.45                           |

**UNCONSOLIDATED SUBSIDIARIES WITH A SHARE OF VOTING RIGHTS OF THE BANK OF 50 % OR LESS**

– of which subsidiaries due to a principal-agent relationship

| Serial no. | Name/place  | Share | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|-------|---------------|---------------|---------------------------------------|------------------------------------|
| 75         | AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland <sup>1)</sup>  | 49.00 | 49.00         | USD           | – 4,736,784.00                        | – 192,366.00                       |
| 76         | Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland <sup>1)</sup> | 49.00 | 49.00         | USD           | 2,544,513.00                          | 1,131,440.00                       |
| 77         | Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland <sup>1)</sup>   | 49.00 | 49.00         | USD           | – 6,521,915.00                        | – 2,858,784.00                     |
| 78         | TEAL FUNDING NO 1 LTD, Dublin, Ireland <sup>1)</sup>                      | 0.00  | 0.00          | GBP           | – 42,435.00                           | 16,717.00                          |

– of which subsidiaries due to contractual rights

| Serial no. | Name/place   | Share | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|--|-------|---------------|---------------|---------------------------------------|------------------------------------|
| 79         | Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart <sup>1) 9)</sup> | 80.00 | 0.00          | EUR           | – 192,138.73                          | 198,186.39                         |
| 80         | Sverigefastigheter AS, Stabekk, Norway   | 0.00  | 0.00          | NOK           | 100,000.00                            | 0.00                               |

**UNCONSOLIDATED JOINT VENTURES**

| Serial no. | Name/place  | Share  | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|--------|---------------|---------------|---------------------------------------|------------------------------------|
| 81         | AGV Irish Equipment Leasing No. 4 Limited, Dublin, Ireland <sup>1) 3)</sup> | 100.00 | 100.00        | USD           | 17,882.00                             | 106,977,824.00                     |
| 82         | Fosse Way Shipping Limited, London, Great Britain <sup>9) 14)</sup>         | 58.85  | 58.85         | EUR           | – 20,030,801.00                       | – 135,705.00                       |
| 83         | Infrastructure Holding S.à.r.l., Luxembourg, Luxembourg <sup>9)</sup>       | 0.00   | 0.00          | EUR           | 12,500.00                             | 0.00                               |
| 84         | LAGAN Viking Limited, Hong Kong, Hong Kong <sup>9) 14)</sup>                | 58.85  | 58.85         | EUR           | – 16,009,776.00                       | – 96,400.00                        |
| 85         | Mersey Viking Limited, Hong Kong, Hong Kong <sup>9) 14)</sup>               | 58.85  | 58.85         | EUR           | – 15,470,737.00                       | – 150,774.00                       |
| 86         | Watling Street Shipping Limited, London, Great Britain <sup>9) 14)</sup>    | 58.85  | 58.85         | EUR           | – 36,449,309.00                       | – 169,085.00                       |

**UNCONSOLIDATED ASSOCIATES**

| Serial no. | Name/place  | Share | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|-------|---------------|---------------|---------------------------------------|------------------------------------|
| 87         | Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg <sup>1)</sup> | 33.33 | 33.33         | EUR           | – 8,372.72                            | – 8,745.16                         |
| 88         | First Ship Lease Trust, Singapore, Singapore                                      | 0.00  | 0.00          |               | 7)                                    | 7)                                 |
| 89         | FSL Holdings Pte. Ltd., Singapore, Singapore <sup>1)</sup>                        | 20.00 | 20.00         | USD           | – 4,640,423.00                        | – 5,981,916.00                     |
| 90         | Global Format GmbH & Co. KG, Munich   | 28.57 | 28.57         | EUR           | 1,520,936.97                          | 9,886.26                           |
| 91         | HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg                             | 56.44 | 56.44         | EUR           | 21,223,560.22                         | – 853,667.70                       |
| 92         | KAIACA LLC, New York, USA <sup>14)</sup>  | 55.30 | 55.30         | USD           | 100,000.00                            | 0.00                               |
| 93         | Relacom Management AB, Stockholm, Sweden <sup>15)</sup>                           | 21.17 | 21.17         | SEK           | 301,651,000.00                        | – 1,194,715,000.00                 |
| 94         | 4Wheels Management GmbH, Düsseldorf <sup>1) 10)</sup>                             | 68.75 | 40.00         | EUR           | 13,840,156.18                         | – 126,079.26                       |



**OTHER COMPANIES WITH A SHARE OF 20 % OR MORE**

| Serial no. | Name/place  | Share  | Voting rights | Currency code | Equity capital in respective currency | Income/loss in respective currency |
|------------|---|--------|---------------|---------------|---------------------------------------|------------------------------------|
| 95         | BRINKHOF Holding Deutschland GmbH, Erfurt <sup>1)</sup> | 100.00 | 0.00          | EUR           | <sup>6)</sup>                         | <sup>6)</sup>                      |

<sup>1)</sup> Indirect holding.

<sup>2)</sup> A profit transfer agreement with the company is in place.

<sup>3)</sup> No information available due to newly established company.

<sup>4)</sup> There is a profit transfer agreement with HSH Facility Management GmbH.

<sup>5)</sup> Both direct and indirect holdings.

<sup>6)</sup> No information available due to insolvency of the company.

<sup>7)</sup> No data available.

<sup>8)</sup> Only data as at 31. December 2010 is available.

<sup>9)</sup> Only data as at 31 December 2013 is available.

<sup>10)</sup> Only data as at 31 July 2014 is available.

<sup>11)</sup> Only data as at 30 November 2014 is available.

<sup>12)</sup> Only data as at 9 December 2014 is available.

<sup>13)</sup> Joint control was explicitly agreed by contract, therefore the company is not a subsidiary despite a voting majority.

<sup>14)</sup> This is not a subsidiary due to the requirement for a qualified voting majority for important decisions.

<sup>15)</sup> Not included under the equity method, as held for sale (IFRS 5).

**FOREIGN EXCHANGE RATES FOR € 1 AS AT 31 DECEMBER 2015**

|               |     |        |
|---------------|-----|--------|
| Denmark       | DKK | 7.4626 |
| Great Britain | GBP | 0.7340 |
| Norway        | NOK | 9.6030 |
| Sweden        | SEK | 9.1895 |
| USA           | USD | 1.0887 |

**67. OTHER DISCLOSURES IN ACCORDANCE WITH GERMAN COMMERCIAL LAW****I. Basic principles**

Under the terms of Section 315a (1) HGB, HSH Nordbank is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS Group financial statements by following this link: [www.hsh-nordbank.com](http://www.hsh-nordbank.com). The complete list of equity holdings is set out in Note 66.

HSH Facility Management GmbH, Hamburg, makes use of the exemption from disclosure obligations in accordance with Section 264 (3) HGB.

## II. Number of employees

The average number of employees as of the reporting date is calculated on the basis of staff figures at quarter-end for all fully consolidated companies:

### NUMBER OF EMPLOYEES

|                      | 2015         |              |              | 2014         |
|----------------------|--------------|--------------|--------------|--------------|
|                      | Male         | Female       | Total        | Total        |
| Full-time employees  | 1,440        | 544          | 1,984        | 2,170        |
| Part-time employees  | 132          | 594          | 726          | 759          |
| <b>Total</b>         | <b>1,572</b> | <b>1,138</b> | <b>2,710</b> | <b>2,929</b> |
| Apprentices/trainees | 24           | 13           | 37           | 39           |

## III. Corporate governance code

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 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2015 Annual Report.

## IV. Auditor's fees

### AUDITOR'S FEES

| (€ m)  | 2015      | 2014      |
|--|-----------|-----------|
| Audits KPMG AG   | 8         | 6         |
| Other certification and valuation services provided by KPMG AG | 2         | 2         |
| Tax consultancy services provided by KPMG AG                   | –         | 1         |
| Other services provided by KPMG AG                             | 3         | 2         |
| <b>Total</b>   | <b>13</b> | <b>11</b> |

## V. Seats on supervisory bodies

On the reporting date, no seats were held by members of the Management Board on statutory supervisory bodies of major corporations or financial institutions.

## 68. NAMES OF BOARD MEMBERS AND DIRECTORSHIPS HELD

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### I. The Supervisory Board of the HSH Nordbank Group

**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

**Stefanie Arp, Norderstedt**

Employee of HSH Nordbank AG

**Sabine-Almut Auerbach, Neumünster**

(until 31 March 2016)  
District secretary, ver.di Southern Holstein district

**Peter Axmann, Hamburg**

(from 14 July 2015)  
Employee of HSH Nordbank AG

**Simone Graf, Altenholz**

Employee of HSH Nordbank AG

**Silke Grimm, Reinbek**

Member of the Board of Euler Hermes Deutschland AG

**Torsten Heick, Rellingen**

(until 30 June 2015)  
Employee of HSH Nordbank AG

**Cornelia Hintz, Dortmund**

(from 18 May 2016)  
Ver.di district North Rhine-Westphalia

**Stefan Jütte, Bonn**

Former Chairman of the Management Board of Deutsche Postbank AG

**Dr Rainer Klemmt-Nissen, Hamburg**

Managing Director, HGV Hamburger Gesellschaft für  
Vermögens- und Beteiligungsmanagement mbH

**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**

Secretary of State at the Schleswig-Holstein Ministry of Finance

**Stefan Schlatermund, Hamburg**

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**

Independent chartered accountant

**Jörg Wohlers, Rellingen**

Former Member of the Board of Hamburger Sparkasse AG and  
HASPA Finanzholding

**II. Members of the Risk Committee**

**Stefan Jütte**  
Chair

**Olaf Behm**

**Simone Graf**

**Torsten Heick**  
(until 30 June 2015)

**Dr Rainer Klemmt-Nissen**

**Rieka Meetz-Schawaller**  
(from 27 August 2015)

**Dr Thomas Mirow**

**Dr David Morgan**

**Stefan Schlatermund**

**III. Members of the Audit Committee**

**Elke Weber-Braun**  
Chair

**Stefanie Arp**

**Peter Axmann**  
(from 27 August 2015)

**Olaf Behm**

**Rieka Meetz-Schawaller**  
(until 27 August 2015)

**Dr Philipp Nimmermann**

**Jörg Wohlers**  
(from 23 January 2015)

**IV. Members of the General/Nomination Committee****Dr Thomas Mirow**

Chair

**Olaf Behm****Simone Graf****Dr Rainer Klemmt-Nissen****Dr David Morgan****Dr Philipp Nimmermann****Jörg Wohlers**

(from 23 January 2015)

**V. Members of the Remuneration Monitoring Committee****Dr Thomas Mirow**

Chair

**Olaf Behm****Simone Graf****Silke Grimm****Dr Rainer Klemmt-Nissen****Dr Philipp Nimmermann****VI. Members of the Mediation Committee****Dr Thomas Mirow**

Chair

**Olaf Behm****Dr Rainer Klemmt-Nissen****Rieka Meetz-Schawaller**



## VII. The Management Board of the HSH Nordbank Group

### **Constantin von Oesterreich**

Born in 1953

Chair

### **Stefan Ermisch**

Born in 1966

Deputy Chair (since 1 June 2015)

Chief Financial Officer

Chief Risk Officer (on a temporary basis from  
1 June to 30 September 2015)

### **Ulrik Lackschewitz**

(since 1 October 2015)

Born in 1968

Chief Risk Officer

### **Torsten Temp**

Born in 1960

Shipping, Project & Real Estate Financing

### **Matthias Wittenburg**

Born in 1968

Corporates & Markets

### **Edwin Wartenweiler**

(until 31 May 2015)

Born in 1959

Chief Risk Officer

# ANNEX TO THE GROUP FINANCIAL STATEMENTS

## COUNTRY-BY-COUNTRY REPORTING 2015

### Basic principles

The requirements for country-specific reporting, referred to as country-by-country reporting in Article 89 of the Directive 2013/36/EU (Capital Requirement Directive, CRD IV), have been transposed into German law in Section 26a (1) of the German Banking Act (KWG).

### Disclosure at HSH Nordbank

HSH Nordbank country-by-country reporting includes the necessary information for all the subsidiaries fully consolidated in the Group financial statements as of this reporting date. Entities that were deconsolidated during the reporting year are not included in the figures presented. The geographical allocation is made on the basis of the location of a company's registered office. Branches are disclosed as independent companies. Representative offices are not listed. All accounting-related information is based on IFRS accounting.

In this report, HSH Nordbank defines the required size of turnover as the sum of total income as presented in the income statement and other operating income (gross amounts before consolidation). The consolidated non-bank entities in particular report their turnover in Other operating income.

The profit or loss before tax disclosed in this report corresponds to the result before taxes of the individual entities presented. The tax position also corresponds to the definition under IFRS standards in the income statement.

To secure the Bank's future, HSH Nordbank has been granted a guarantee facility of € 10 billion by its owners which requires approval by the EU as state aid. It is a second loss guarantee in which rating-induced actual payment defaults are secured. Please refer to Note 2 for more details.

The figure for the number of employees corresponds to the arrangement of Section 267 (5) of the German Commercial Code (HGB) for the entities still included in the Group financial statements as of the reporting date.

The information on the type of activities of the relevant companies is presented in line with the definitions used in Article 4 (1) CRR once the CRR came into effect.

The return on capital to be disclosed as at 31 December 2015, calculated as the quotient of net profit (Group net result after taxes) and total assets, is 0.10%.

## Reporting

## COUNTRY-SPECIFIC DETAILS OF TURNOVER, PROFIT OR LOSS AND TAXES AS WELL AS EMPLOYEE NUMBERS

| (€ m /number)           |          |                           |                       |                     |
|-------------------------|----------|---------------------------|-----------------------|---------------------|
| <b>2015</b>             |          |                           |                       |                     |
| Country                 | Turnover | Profit or loss before tax | Tax on profit or loss | Number of employees |
| <b>EU</b>               |          |                           |                       |                     |
| Germany                 | 1,345    | 304                       | -335                  | 2,671               |
| Luxembourg              | 151      | 228                       | -23                   | 84                  |
| Ireland                 | 18       | 3                         | -                     | -                   |
| Spain                   | 6        | 3                         | -                     | -                   |
| Greece                  | 1        | -                         | -                     | 6                   |
| France                  | 3        | -2                        | -                     | -                   |
| <b>Third countries</b>  |          |                           |                       |                     |
| USA                     | 22       | -94                       | -1                    | 38                  |
| Singapore               | 39       | 2                         | -                     | 31                  |
| British Channel Islands | 0        | -1                        | -                     | -                   |
| Hong Kong               | -2       | -2                        | -                     | -                   |
| Bermuda                 | 1        | 1                         | -                     | -                   |
| Cayman Islands          | 57       | 46                        | -                     | -                   |

## COUNTRY-SPECIFIC DETAILS OF THE HEDGING EFFECT OF THE SECOND LOSS GUARANTEE AS STATE AID RECEIVED

| (€ m)   | Country |            |        |           |
|---|---------|------------|--------|-----------|
|   | EU      |            | Non-EU |           |
|   | Germany | Luxembourg | USA    | Singapore |
| <b>2015</b>   |         |            |        |           |
| <b>Balance sheet amounts</b>                            |         |            |        |           |
| Hedging effect before guarantee costs                   | 6,722   | 583        | -      | 117       |
| Credit derivative                                       | 591     | 42         | -      | 30        |
| Additional premium ex post                              | -       | -          | -      | -         |
| Debt waiver   | -       | -          | -      | -         |
| Base and additional premium ex ante                     | -       | -          | -      | -         |
| Claim for compensation of interest                      | -       | -          | -      | -         |
| Remaining payment obligations for guarantee premiums    | -235    | -21        | -      | -4        |
| Compensation under the second loss guarantee            | 6,487   | 562        | -      | 113       |
| Compensation under the second loss guarantee derivative | 591     | 42         | -      | 30        |

| (€ m)   | Country |            |        |           |
|---|---------|------------|--------|-----------|
|   | EU      |            | Non-EU |           |
|   | Germany | Luxembourg | USA    | Singapore |
| <b>2015</b>   |         |            |        |           |
| <b>P&amp;L amounts</b>  |         |            |        |           |
| Hedging effect before guarantee costs                                 | 2,358   | 124        | - 116  | 57        |
| Additional premium ex post  | 981     | 103        | 26     | 13        |
| Debt waiver   | - 682   | - 72       | - 18   | - 9       |
| Base and additional premium ex ante                                   | 501     | 53         | 14     | 7         |
| Claim for compensation of interest                                    | 8       | -          | -      | -         |
| Remaining payment obligations for guarantee premiums                  | - 235   | - 21       | -      | - 4       |
| Hedging effect of credit derivative                                   | 586     | 42         | -      | 30        |
| Compensation under the second loss guarantee                          | 2,931   | 188        | - 95   | 64        |
| Compensation by the second loss guarantee from the hedging derivative | 586     | 42         | -      | 30        |
| Base premium ex post as expense for government guarantees             | - 402   | - 59       | -      | - 12      |

**NATURE OF ACTIVITIES AND GEOGRAPHICAL LOCATION OF THE BRANCHES AND FULLY CONSOLIDATED SUBSIDIARIES**

| Serial no. | Name of the company   | Place         | Country    | Nature of activities     |
|------------|---|---------------|------------|--------------------------|
| 1          | HSH Nordbank AG   | Hamburg, Kiel | Germany    | Bank                     |
| 2          | HSH Nordbank AG, Luxembourg branch                                | Luxembourg    | Luxembourg | Bank                     |
| 3          | HSH Nordbank AG, New York branch                                  | New York      | USA        | Bank                     |
| 4          | HSH Nordbank AG, Singapore branch                                 | Singapore     | Singapore  | Bank                     |
| 5          | HSH Nordbank AG, Athens branch                                    | Athens        | Greece     | Bank                     |
| 6          | Adessa Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG | Mainz         | Germany    | Miscellaneous activities |
| 7          | Amentum Aircraft Leasing No. Five Limited                         | Dublin        | Ireland    | Miscellaneous activities |
| 8          | Amentum Aircraft Leasing No. Six Limited                          | Dublin        | Ireland    | Miscellaneous activities |
| 9          | Amentum Aircraft Leasing No. Three Limited                        | Dublin        | Ireland    | Miscellaneous activities |
| 10         | Avia Management S.à.r.l.  | Luxembourg    | Luxembourg | Financial Institution    |
| 11         | BINNENALSTER-Beteiligungsgesellschaft mbH                         | Hamburg       | Germany    | Financial Institution    |
| 12         | Bu Wi Beteiligungsholding GmbH                                    | Hamburg       | Germany    | Financial Institution    |
| 13         | CAPCELLENCE Erste Fondsbeteiligung GmbH                           | Hamburg       | Germany    | Financial Institution    |
| 14         | CAPCELLENCE Holding GmbH & Co. KG                                 | Hamburg       | Germany    | Financial Institution    |
| 15         | Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG        | Hamburg       | Germany    | Financial Institution    |
| 16         | Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG        | Hamburg       | Germany    | Financial Institution    |
| 17         | Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 18         | Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 19         | CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 20         | CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 21         | CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 22         | CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 23         | CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG           | Hamburg       | Germany    | Financial Institution    |
| 24         | CAPCELLENCE Zweite Fondsbeteiligung GmbH                          | Hamburg       | Germany    | Financial Institution    |
| 25         | CAPCELLENCE Dritte Fondsbeteiligung GmbH                          | Hamburg       | Germany    | Financial Institution    |
| 26         | Castellum ABF S.A.  | Luxembourg    | Luxembourg | Miscellaneous activities |
| 27         | CHIOS GmbH  | Hamburg       | Germany    | Financial Institution    |
| 28         | DEERS Green Power Development Company S.L.                        | Madrid        | Spain      | Miscellaneous activities |
| 29         | GmbH Altstadt Grundstücksgesellschaft                             | Mainz         | Germany    | Financial Institution    |
| 30         | GODAN GmbH  | Hamburg       | Germany    | Financial Institution    |
| 31         | HSH Auffang- und Holdinggesellschaft mbH & Co. KG                 | Hamburg       | Germany    | Financial Institution    |

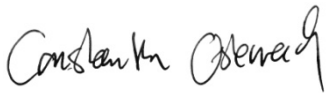


| Serial no. | Name of the company   | City              | Country        | Type of business               |
|------------|---|-------------------|----------------|--------------------------------|
| 32         | HSH Care+Clean GmbH   | Hamburg           | Germany        | Miscellaneous activities       |
| 33         | HSH Facility Management GmbH  | Hamburg           | Germany        | Provider of ancillary services |
| 34         | HSH Gastro+Event GmbH   | Hamburg           | Germany        | Miscellaneous activities       |
| 35         | HSH Move+More GmbH  | Kiel              | Germany        | Miscellaneous activities       |
| 36         | HSH N Finance (Guernsey) Limited  | St, Peter Port    | Guernsey       | Financial Institution          |
| 37         | HSH N Funding II  | George Town       | Cayman Islands | Financial Institution          |
| 38         | HSH N Residual Value Ltd.   | Hamilton          | Bermuda        | Insurance company              |
| 39         | HSH Nordbank Securities S.A.  | Luxembourg        | Luxembourg     | Financial Institution          |
| 40         | HSH Privat Equity GmbH  | Hamburg           | Germany        | Financial Institution          |
| 41         | Ilex Integra GmbH   | Hamburg           | Germany        | Financial Institution          |
| 42         | ISM Agency, LLC   | New York          | USA            | Miscellaneous activities       |
| 43         | Life Insurance Fund Elite LLC   | New York          | USA            | Miscellaneous activities       |
| 44         | Life Insurance Fund Elite Trust   | Minneapolis       | USA            | Miscellaneous activities       |
| 45         | Mitco Real Estate A S.a.r.l.  | Canach            | Luxembourg     | Miscellaneous activities       |
| 46         | Mitco Resolution 1 S.a.r.l.   | Canach            | Luxembourg     | Miscellaneous activities       |
| 47         | Mitco Resolution 2 S.a.r.l.   | Canach            | Luxembourg     | Miscellaneous activities       |
| 48         | Mitco Resolution 3 S.a.r.l.   | Canach            | Luxembourg     | Miscellaneous activities       |
| 49         | Mitco Resolution 4 S.a.r.l.   | Canach            | Luxembourg     | Miscellaneous activities       |
| 50         | Mitco Resolution 5 S.a.r.l.   | Canach            | Luxembourg     | Miscellaneous activities       |
| 51         | Neptune Finance Partner S.à.r.l.  | Luxembourg        | Luxembourg     | Financial Institution          |
| 52         | Neptune Finance Partner II S.à.r.l.   | Luxembourg        | Luxembourg     | Financial Institution          |
| 53         | Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.                        | Luxembourg        | Luxembourg     | Financial Institution          |
| 54         | Next Generation Aircraft Finance 2 S.à.r.l.                                       | Munsbach          | Luxembourg     | Miscellaneous activities       |
| 55         | Next Generation Aircraft Finance 3 S.à.r.l.                                       | Munsbach          | Luxembourg     | Miscellaneous activities       |
| 56         | OCEAN Funding 2013 GmbH   | Frankfurt am Main | Germany        | Miscellaneous activities       |
| 57         | RESPARCS Funding Limited Partnership I  | Hong Kong         | Hong Kong      | Financial Institution          |
| 58         | RESPARCS Funding II Limited Partnership   | St. Helier        | Jersey         | Financial Institution          |
| 59         | RDM Limited   | George Town       | Cayman Islands | Miscellaneous activities       |
| 60         | Senior Assured Investment S.A.  | Luxembourg        | Luxembourg     | Miscellaneous activities       |
| 61         | Senior Preferred Investments S.A.   | Luxembourg        | Luxembourg     | Miscellaneous activities       |
| 62         | Solar Holding S.à.r.l.  | Luxembourg        | Luxembourg     | Financial Institution          |
| 63         | SPE II Pissarro SAS   | Paris             | France         | Miscellaneous activities       |
| 64         | Stratus ABF S.A.  | Luxembourg        | Luxembourg     | Miscellaneous activities       |
| 65         | Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung | Hamburg           | Germany        | Provider of ancillary services |
| 66         | 2200 Victory LLC  | Dover             | USA            | Miscellaneous activities       |

## DATE OF RELEASE FOR PUBLICATION

The Management Board of HSH Nordbank has prepared the Group financial statements on 31 May 2016 and released these for forwarding to the Supervisory Board. The Supervisory Board is responsible for reviewing the Group financial statements and approving of these.

Hamburg/Kiel, 31 May 2016



Constantin von Oesterreich



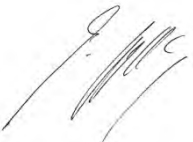
Stefan Ermisch



Ulrik Lackschewitz



Torsten Temp



Matthias Wittenburg

## AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HSH Nordbank AG, Hamburg and Kiel, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, together with the group management report for the business year from 1 January to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the company's Management Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the consolidated financial statements and group 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 consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we refer to the discussion in the Group management report in the paragraph "Opportunities and risks resulting from the formal decision in the EU state aid proceedings" as well as to Note 1 to the consolidated financial statements. It is stated there that the going concern assumption for accounting and measurement purposes is based in particular on the following assumptions:

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

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

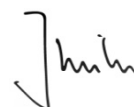
It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's business model and the requirements under the formal decision of the EU Commission is maintained or gained.

Hamburg, 31 May 2016

KPMG AG  
Wirtschaftsprüfungsgesellschaft



Leitz  
Wirtschaftsprüfer

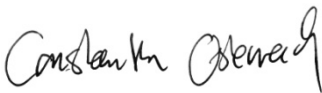


Thiede  
Wirtschaftsprüfer

## RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

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

Hamburg/Kiel, 31 May 2016



Constantin von Oesterreich



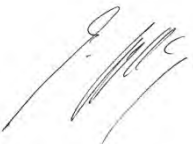
Stefan Ermisch



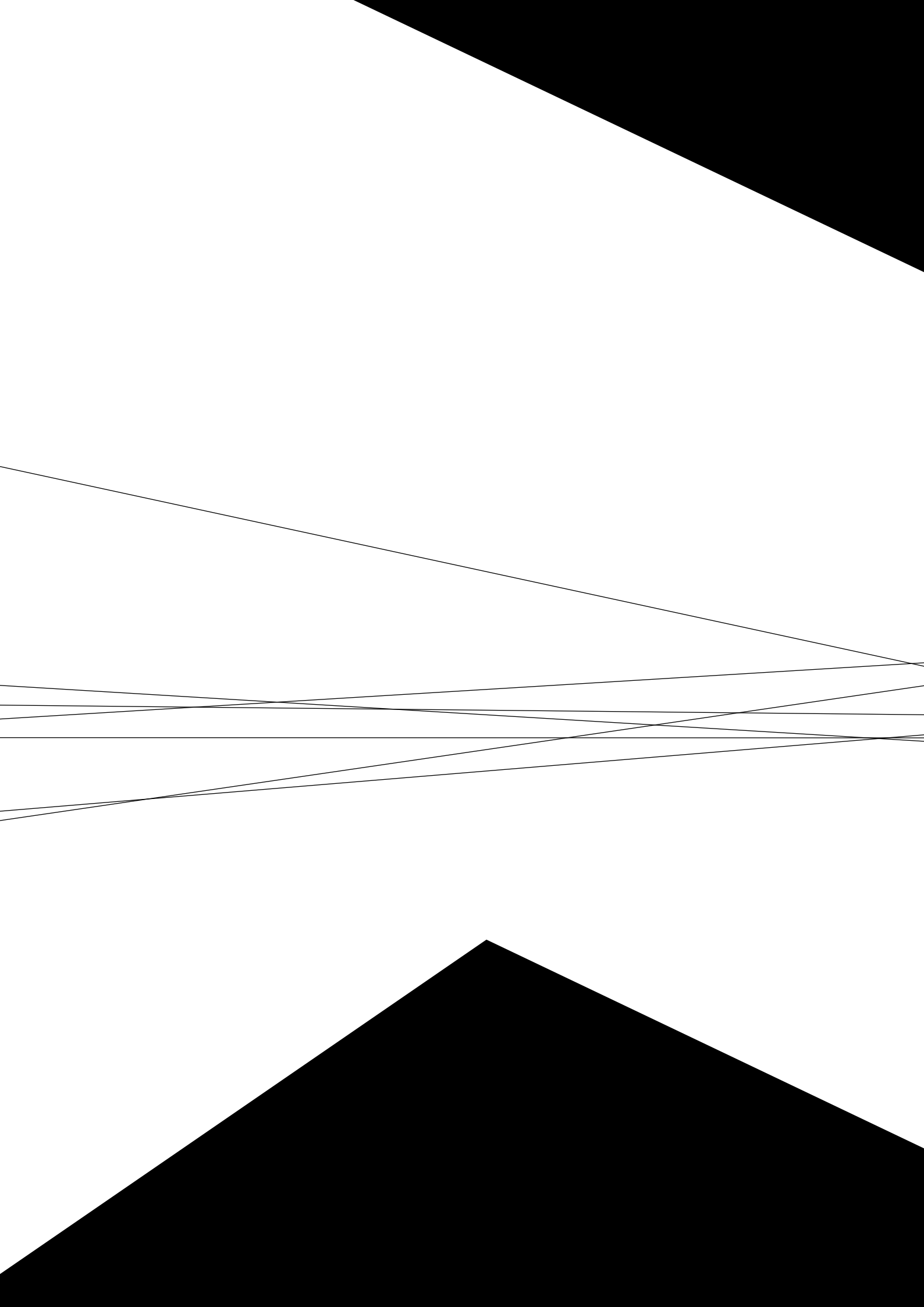
Ulrik Lackschewitz



Torsten Temp



Matthias Wittenburg







# **FURTHER INFORMATION**

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## **HSH NORDBANK ADVISORY BOARD**

HSH Nordbank AG formed an Advisory Board to provide the Management Board with expert advice on performing its duties and to foster contact with the business community and the savings banks as well as any other Groups of public life. The members of the Advisory Board are being appointed by the Management Board.

## MEMBERS OF THE ADVISORY BOARD

### **Dr Jan Behrendt**

Managing Partner  
Behrendt Wohnungsbau KG (GmbH & Co.)  
Hamburg  
(until 30.06.2015)

### **Ulrich Boike**

Deputy Chairman of the Board of Management  
Förde Sparkasse  
Kiel  
(since 10.11.2015)

### **Reinhard Boll**

President of the Savings Banks Association of Schleswig-Holstein  
Kiel  
(since 01.01.2016)

### **Götz Bormann**

Chairman of the Board of Management  
Förde Sparkasse  
Kiel  
(until 30.06.2015)

### **Thomas H. Eckelmann**

Chairman of the Group Management Board  
EUROKAI KGaA  
Hamburg

### **Jutta Humbert**

Managing Partner NORD DRIVESYSTEMS Gruppe  
Bargteheide

### **Jan Christoph Kersig**

Managing Director  
Kersig GmbH & Co. KG  
Kiel

### **Dr Johann Killinger**

Managing Partner  
Buss Group GmbH & Co. KG  
Hamburg

### **Jochen Klösges**

Chief Executive Officer  
E.R. Capital Holding  
Hamburg  
(since 10.11.2015)

### **Max-Arnold Köttgen**

Member of the Board of Management  
REMONDIS SE & Co. KG  
(since 01.05.2016)

### **Dr Bernd Kortüm**

Managing Director  
Norddeutsche Vermögen Holding GmbH & Co. KG  
Hamburg  
(until 30.06.2015)

### **Angela Krüger-Steinhoff**

Managing Partner Steinhoff Familienholding GmbH  
Westerstede

### **Dirk Lütje**

Managing Director  
CITTI Handelsgesellschaft mbH & Co. KG  
Kiel  
(until 04.05.2016)

### **Fritz Horst Melsheimer**

President of the Hamburg Chamber of Commerce  
Hamburg

**Dr Claus-Georg Nette**

Member of the Board of Management  
Marquard & Bahls AG  
Hamburg

**Dr Arend Oetker**

Managing Partner  
Dr. Arend Oetker Holding GmbH  
Berlin

**Erck Rickmers**

Chairman  
E.R. Capital Holding  
Hamburg  
(Chairman, until 30.06.2015)

**Reinhard Sager**

Head of the Ostholstein District authority (Landrat)  
Eutin  
(until 31.12.2015)

**Frank Schumacher**

Chairman of the Board of Management  
Sparkasse zu Lübeck AG  
Lübeck

**Dieter Schön**

Managing Partner  
Schön Klinik Verwaltungsgesellschaft mbH  
Prien  
(until 30.06.2015)

**Katharina Strümpell**

Partner and Authorized Officer (Prokuristin)  
Linnhoff Schifffahrt GmbH & Co. KG  
Buxtehude

**Dr Fritz Süverkrüp**

Honorary President  
Kiel Chamber of Industry and Commerce  
Kiel

**Egbert Tölle**

Member of the Board of Management  
REMONDIS SE & Co. KG  
Lünen

**Dr Harald Vogelsang**

Speaker of the Board of Management  
Hamburger Sparkasse AG  
Hamburg

**Christian Wriedt**

Chairman of the Executive Board  
Körper-Foundation  
Hamburg  
(until 30.06.2015)

## MULTI-YEAR OVERVIEW

### HSH NORDBANK GROUP 2011 – 2015

|                                    |       | 2015    | Following adjustment |         |         |         |
|------------------------------------|-------|---------|----------------------|---------|---------|---------|
|                                    |       |         | 2014                 | 2013    | 2012    | 2011    |
| <b>Income statement</b>            | (€ m) |         |                      |         |         |         |
| Net income before restructuring    |       | 954     | 883                  | -48     | 160     | 912     |
| Net income before taxes            |       | 450     | 278                  | -518    | -185    | -206    |
| Group net result for the year      |       | 98      | 160                  | -769    | -124    | -265    |
| <b>Balance sheet</b>               | (€ m) |         |                      |         |         |         |
| Equity                             |       | 4,885   | 4,672                | 4,579   | 5,272   | 4,816   |
| Total assets                       |       | 96,973  | 110,082              | 109,111 | 130,606 | 135,901 |
| Business volume                    |       | 106,176 | 119,880              | 118,729 | 138,515 | 145,409 |
| <b>Capital ratios<sup>1)</sup></b> | (%)   |         |                      |         |         |         |
| Tier 1 capital ratio               |       | 16.4    | 14.4                 | 15.3    | 12.3    | 13.8    |
| Regulatory capital ratio           |       | 20.6    | 18.7                 | 23.8    | 19.1    | 21.3    |
| <b>Employees<sup>2)</sup></b>      |       |         |                      |         |         |         |
| Total                              |       | 2,838   | 3,072                | 3,391   | 3,750   | 4,265   |
| Germany                            |       | 2,702   | 2,897                | 3,150   | 3,411   | 3,778   |
| Abroad                             |       | 136     | 175                  | 241     | 339     | 487     |

<sup>1)</sup> After having established the annual financial statements 2015.

<sup>2)</sup> Headcount.



# CONTACT/IMPRINT

## CONTACT

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info@hsh-nordbank.com  
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## INVESTOR RELATIONS

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## IMPRINT

### CONCEPT AND BASIC DESIGN

Kirchhoff Consult AG, Hamburg, Germany

### PRODUCTION

Inhouse produced with FIRE.sys

### PHOTOS

Rätzke, Thies  
Wied, Sven  
www.gettyimages.de

### PRINTED BY

HSH Nordbank AG

## NOTE

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

This Annual Report was published on 9 June 2016 and is available at [www.annualreport2015.hsh-nordbank.com](http://www.annualreport2015.hsh-nordbank.com).

This is an English translation of the original German version of the Annual Report.

## FORWARD-LOOKING STATEMENTS

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

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



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