

LOOKING AHEAD

EMBARKING ON A SUCCESSFUL FUTURE

MANAGEMENT REPORT OF HSH NORDBANK AG **2**

Basis	2
Business activities	2
Objectives and strategy	4
Management system	5
Remuneration system	8
Economic report	10
Underlying economic and industry conditions	10
Business developments	15
Earnings, net assets and financial position	21
Report on events after the reporting period	30
Forecast, opportunities and risks report	31
Forecast report including opportunities and risks	31
Risk Report	49
Risks within HSH Nordbank Group	49
Risk management system	49
Default risk	54
Market risk	62
Liquidity risk	65
Operational risk	69
Other material risks	71
Summary of risk assessment and outlook	72
Final declaration to the dependent company report	73

ANNUAL ACCOUNTS OF HSH NORDBANK AG **74**

Balance sheet	74
Income statement	78
Notes	80
General information and notes	80
Accounting and valuation principles	84
Notes on balance sheet assets	96
Notes on balance sheet liabilities	103
Notes on the income statement	109
Other disclosures	113

AUDITOR'S REPORT **141**

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD **142**

MANAGEMENT REPORT OF HSH NORDBANK AG

BASIS

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.

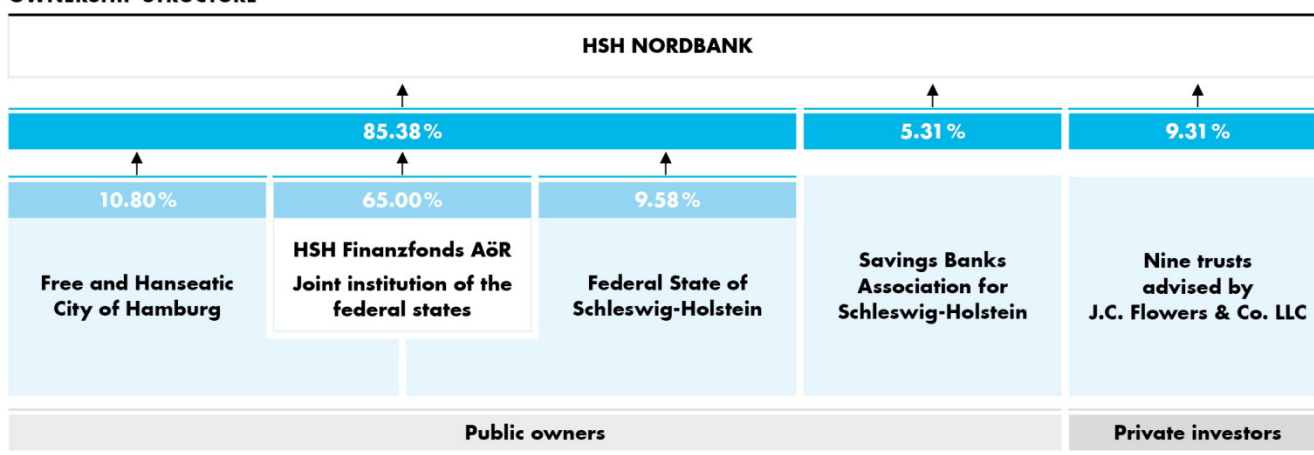
Furthermore, the Corporate Clients, Energy & Infrastructure as well as Wealth Management divisions were merged into the new Corpo-

rate Clients division as at 1 July 2015 in the segment Corporates & Markets in order to focus on 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 organisational structure of the staff divisions was also streamlined in order to improve efficiency and processes were optimised across divisions, for example in the field of lending and loan processing. 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, Hanover, 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).

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. 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 Federal 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 to 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 and HSH Nordbank AG (single entity) are 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 the 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 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.

Reconciliation

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

Reconciliation is not performed for key management indicators: new business volume, total income of the Core Bank, return on equity, cost-income ratio, liquidity ratio of the Liquidity Ordinance (LiqV), liquidity development report (LDR) for the stress case as well as loan

loss provisions and total assets for the Restructuring Unit, as these are not determined for the single entity. Actual figures for the CET1 ratio and RWA are determined for the past financial year at the HGB single entity level. However, these two key figures are not forecast separately for the single entity.

Major differences between the key ratios of the single entity and the Group arise from the different accounting standards applied (HGB versus IFRS) and the fact that subsidiaries are accounted for in the Group.

Total income

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

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

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

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

HGB these are measured through profit and loss applying the strict lower of cost or market value principle.

Furthermore, the measurement of hybrid capital in accordance with IAS 39.A8 is included in IFRS total income taking account of the expected cash flows (net interest income), whereas, depending on the result in the reporting period, income from the loss participation in hybrid capital or expenses for the replenishment of the hybrid capital are disclosed under HGB as a separate line item outside total income. Other specific IFRS effects are the measurement of basis swaps, DFV liabilities and fair value adjustments. There are also differences in hedge accounting and regarding currency effects arising on the translation of non-monetary items such as equity holdings denominated in foreign currency

Administrative expenses

Differences in administrative expenses and the number of employees in the IFRS Group are mainly attributable to the inclusion of subsidiaries – in administrative expenses reduced by consolidation effects. In addition, administrative expenses in the HGB financial statements contain the expenses for the bank levy and deposit guarantee which are disclosed separately in the IFRS Group financial statements.

Loan loss provisions

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

Hedging effect of credit derivative second loss guarantee

This line item only exists in the Group financial statements prepared under IAS/IFRS and maps the measurement result of the credit derivative in connection with the hedging effect of the second loss guarantee (partial guarantee Two). Under HGB the second loss guarantee is uniformly recognised as loan collateral received within the meaning of IDW S BFA 1 for both partial guarantees. The hedging effect of the second loss guarantee is included in the loan loss provisions line item under HGB.

Net income before taxes

Differences in net income before taxes between the IFRS Group and HGB single entity financial statements result from the differing effects as described above in the Total income, Administrative expenses and

Loan loss provisions line items presented. Furthermore, the result from restructuring and expenses for government guarantee are disclosed separately in the IFRS Group financial statements, whereas the result from restructuring is included in Extraordinary income and expenses and current guarantee expense from the base premium is disclosed under Net commission income in the HGB single entity financial statements.

CET1 capital ratio and RWA

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

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 Nordbank maintains significant business relationships.

Further information on Management Board remuneration is set out in Note 76 Remuneration paid to members of the Management Board and Supervisory Board.

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.

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.

TREND OF TIME CHARTER RATES IN THE SHIPPING INDUSTRY

(Market average, USD/day)

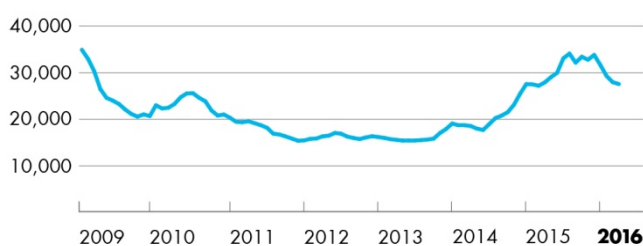
Container ships



Bulk carriers



Oil tankers



The weak demand in the commodity markets was reflected in the bulkier 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 health-care 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 effect of this support factor on 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.

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 US dollar denominated assets in 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 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 Commission 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 Nordbank 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 Annual Accounts

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 the net assets, financial position and results of operations was taken into account in the 2015 Annual Accounts 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), and tax result (elimination of deferred taxes on losses carried forward and reduction 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 wind-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 Annual Accounts, 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 Annual Accounts. 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 compensation for the valuation allowances as a result of the guarantee is accounted for in loan loss provisions. The settlement of the losses resulting from the sale or 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 wind-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 yet 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

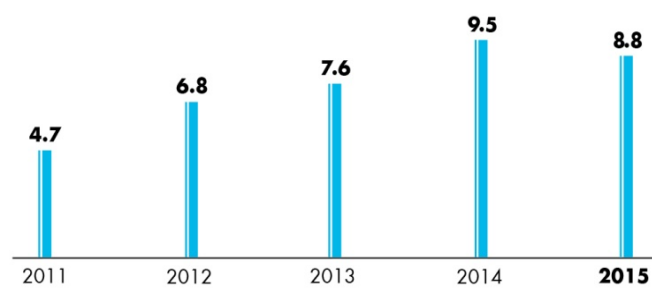
HSH Nordbank's operating activities were vigorously driven forward in the past year regardless of the issues surrounding the pending EU proceedings. The focus was on generating new business with solid income and risk profiles in a very challenging market environment. At the same time legacy portfolio 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.

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 (IFRS Group financial statements) 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.

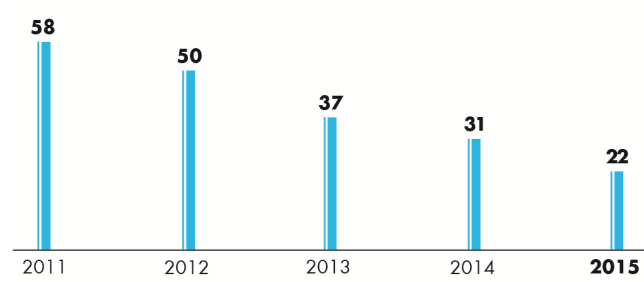
A focus was on reducing the troubled assets denominated in US dollars against the backdrop of sharp fluctuations in the exchange rate. At the same time the accelerated winding down resulted in a release of liquidity against the background of the extensive maturities of bonds covered by the guarantor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

RESTRUCTURING UNIT: SEGMENT ASSETS (EXCLUDING CONSOLIDATION)

(€ bn)



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 (IFRS Group financial statements) 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, 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 of the Group in the reporting year. Key milestones reached at the process level are in particular efficiency improvements across divisions in 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 (FTE) decreased as planned to 2,117 (31 December 2014: 2,265) at the end of the year 2015 as a result of the ongoing reduction in staff within HSH Nordbank AG.

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.

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 participation. 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 groundbreaking 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 Lack-schewitz 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 Lack-schewitz, 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.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

Net income of HSH Nordbank AG characterised by the recognition of the effect of the structural measures

For the year 2015, HSH Nordbank AG disclosed an annual net loss in the amount of € –100 million (previous year: € –312 million). HSH Nordbank's net income is characterised by the adverse effects of the restructuring measures in the shipping portfolio, book value losses arising on the disposal of receivables as well as 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 structural measures. Overall, the informal agreement which was basically confirmed by the formal decision, had a significant positive impact on the earnings situation. The Operating income after loan loss provisions/valuation amounted to € 75 million (previous year: € –175 million). However, the Bank reported a negative net income under HGB due to the tax charges.

Material effects from the disclosure of the informal agreement were reflected 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 in the amount of € 210 million and provision of liquidity to the holding company in the amount of € 50 million), because it has become unlikely that, in light of the binding undertaking given by the federal states of Hamburg and Schleswig-Holstein to implement the informal agreement,

HSH Nordbank AG will be requested to pay the additional premium and base premiums on the utilised portion of the guarantee. 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 not related to credit ratings. Taking the hedging effect of the guarantee into account, it was possible to disclose a positive income from loan loss provisions/valuation despite higher loan loss provisions for shipping loans.

At the same time, the operating progress made in the client business was reflected in the earnings performance. This noticeable positive impact was offset by charges arising from the additional measures implemented last year to wind down legacy assets, the high base premium for the guarantee for the past year as well as the European bank levy that was payable for the first time and contribution to the deposit guarantee scheme. 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 markets.

Further details underlying the business performance are discussed below in the sections Earnings situation and Net assets and financial position.

EARNINGS SITUATION

INCOME STATEMENT (HGB SINGLE ENTITY)

(€ m)	2015	2014	Change in %
Net interest income	983	918	7
Net commission income	-362	-393	8
of which: Fees for second loss guarantees	-475	-521	9
Net income/Net expenses from the trading portfolio	-37	-230	84
Administrative expenses	-693	-624	11
of which: Personnel expenses	-314	-291	8
of which: Operating expenses	-379	-333	14
Other operating income/expenses	-5	-93	95
Operating result before loan loss provisions/valuation	-114	-422	73
Loan loss provisions/valuation	189	247	23
Operating result after loan loss provisions/valuation	75	-175	> 100
Extraordinary result	-33	-74	55
Income tax expenses	-181	-184	-2
Income from the assumption of losses	39	121	-68
Accumulated loss	-100	-312	-68

Total income increased

IFRS total income of the Group (key management indicator) increased to € 1,296 million in the reporting year 2015 compared to € 908 million in the previous year, taking the largely satisfactory development of the Core Bank (apart from the Shipping division) as well as the remeasurement of hybrid instruments (positive effect of € 214 million) based on the assumption that coupon payments will no longer need to be made in the future in the divestiture period under the current corporate planning, against the backdrop of the informal agreement as well as the formal decision into account. In the previous year, the forecast was based on a more or less stable total income only. IFRS total income of the Core Bank (key management indicator), which increased clearly in line with the forecast in the previous year (from € 590 million to € 995 million) reflected the positive effects from new business with clients on income as well as the positive effect from the remeasurement of hybrid instruments.

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

HGB total income of the single entity is composed of the Net interest income, Net commission income, Net income from the trading portfolio as well as Other operating income line items. It amounted to € 578 million as at the 2015 year end and therefore clearly exceeded the level of the previous year as expected (€ 202 million). The following income items contributed to total income as follows:

Net interest income of the single entity amounted to € 983 million compared to € 918 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 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 volume of loans and advances.

Net commission income of HSH Nordbank AG in the amount of € -362 million (previous year: € -393 million) was adversely impacted by the fees for the second loss guarantee of € -475 million (previous year: € -521 million).

After being adjusted for the expenses for public guarantees, net commission income of HSH Nordbank AG of € 113 million decreased significantly compared to the previous year (€ 128 million). This decrease 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.

Net income from the trading portfolio amounted to € -37 million (previous year: € -230 million). The clear increase is mainly attributable to currency effects.

Other operating income amounted to € –5 million (previous year: € –93 million). It mainly reflected foreign exchange income from not specifically hedged portfolios in the banking book (€ 74 million), income from the reversal of provisions (€ 88 million), income from cost allocations and reimbursement of expenses (€ 33 million) and losses resulting from the sale of loans and advances from different asset classes (in particular real estate, shipping and energy loans) in the amount of € 106 million.

Cost reductions show effect

The Bank was able to reduce IFRS administrative expenses of the Group (key management indicator) more than planned to € –634 million (previous year: € –724 million). This reflects the cost savings successes achieved under the ongoing cost reduction programme.

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

In the year under review, administrative expenses of the single entity (HGB) amounted to € –693 million (previous year: € –624 million excluding expenses for the bank levy and the deposit guarantee scheme) after taking the expenses for the bank levy and the deposit guarantee scheme in the amount of € –50 million into account. Furthermore, interest rate changes had a significant negative impact on discounting of pension provisions. This means that the planned significant decrease of administrative expenses at the single entity level was not achieved.

Loan loss provisions account for effects of the transaction portfolios

Loan loss provisions are characterised mainly 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 liquidity backing of the holding company) and cancellation of the debt waiver. IFRS loan loss provisions (key management indicator) increased clearly compared to the previous year, which was also due to the recognition of the hedging effect of the credit derivative in the separate line item Hedging effect of credit derivative second loss guarantee of € 658 million, according to plan. IFRS loan loss provision expense increased from a positive amount of € 576 million in the previous year to € –354 million. In the Restructuring Unit, the IFRS loan loss provision expense (key management figure) amounted to € –137 million in 2015 and therefore was significantly higher than in the previous year (income € 641 million) due to the sharp increase in impairment losses relating to the recognition of the portfolio transactions provided for under the informal agreement. A reduction in loan loss provisions was planned compared to the previous year. Reconciliation between IFRS Group

loan loss provisions and HGB single entity loan loss provisions is performed to explain the earnings of the single entity. Please refer to the Management system section in the part Reconciliation for more details.

HSH Nordbank AG discloses a positive value of € 189 million accounting for the guarantee effects under the line item Loan loss provisions/valuation of the HGB single entity that is composed of loan loss provisions, the valuation of securities and investment transactions as well as additions or reversals of Section 340g HGB reserves (previous year: € 247 million).

Loan loss provisions continue to be characterised by additions in the shipping loan portfolios, which were extraordinarily high in the financial year 2015.

Loan loss provisions include high valuation adjustments 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 institution of the federal states (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.

In addition, the Bank had to create extensive general loan loss provisions. 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 markets.

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.

The relief provided to the Bank from the adverse impact of guarantee fees agreed within the framework of the informal agreement had a positive effect of € 623 million on loan loss provisions and comprises the reversal of future guarantee premiums (€ 1,556 million) through profit or loss with the exception of 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 com-

pany) offset by the reversal of the debt waiver through profit or loss (€ –673 million).

In the context of the second loss guarantee this resulted in relief of loan loss provisions of € 3,688 million (previous year: € 1,246 million).

Thanks to this relief, loan loss provisions amounted to a positive value of € 169 million (previous year: € 795 million).

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 € 2.1 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 second loss guarantee. Please refer to Note 2 for more details concerning the second loss guarantee.

The loan loss provisions/valuation result in the securities business decreased to € 47 million (previous year: € 128 million). This result reflects the positive effects from the sale and valuation of securities, which did not reach the level of the previous year, however. Losses incurred on the sale of positions in the credit investment portfolio, which 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.

HSH Nordbank continued to create a valuation allowance for the securities portfolio of Heta Asset Resolution AG (HETA). The increase in market values compared to the previous year resulted in the recognition of a write-up of € 20 million as at 31 December 2015, which is disclosed under Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets. 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.

The loan loss provisions/valuation result from equity holdings amounted to € –27 million (previous year: € –2 million). The negative result is mainly due to the fact that write-downs of equity holdings in non-affiliated companies were higher than the profits from sales.

The Operating income after loan loss provisions/valuation amounted to € 75 million after € –175 million in the previous year. This reflected the effects of the informal agreement and the formal decision in the EU proceedings setting out the details (reversal of guarantee premiums and cancellation of the debt waiver apart from the one-off pay-

ments and provision of liquidity to the holding company 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), the increase in total income as well as the positive compensation effect of the guarantee on loan loss provisions.

The extraordinary result increased to € –33 million, compared to € –74 million in the previous year. The result was driven by restructuring expense once again, which was lower in 2015 than in the previous year.

Net income before taxes negative as expected

In the IFRS Group (key management indicator), HSH Nordbank generated a positive net income before taxes of € 450 million (previous year: € 278 million) in the year 2015 accounting for the operating performance as well as the effects of the informal agreement and the corresponding specifications within the framework of the formal decision in the EU proceedings, which was clearly above plan. The return on equity (key management indicator) for the Group calculated on the basis of the net income before taxes was 9% (previous year: 6%) and therefore higher than planned. The cost-income ratio at Group level (key management indicator) improved more strongly than expected thanks to decreased administrative expenses and a higher total income, and reached 48% (previous year: 70%).

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

At the level of the single entity, net income before taxes under HGB amounted to € 42 million (previous year: € –249 million). After taking account of income taxes of € –181 million (previous year: € –184 million) and income from the transfer of losses of € 39 million (previous year: € 121 million) from the participation of silent partners and holders of profit participation certificates in the net loss for the year or accumulated losses, HSH Nordbank AG discloses a net loss for the financial year 2015 of € –100 million (previous year: € –312 million).

In 2015, HSH Nordbank AG recognised provisions of € 27 million for potential additional tax payments resulting from ongoing tax audits of previous years in the Income tax line item. Furthermore, the Income tax line item includes tax expense from deferred taxes in the amount of € 154 million. This is mainly characterised by the reduction in temporary differences as a result of the effect of the informal agreement and the formal decision of the EU Commission setting it out in more detail as well as the reversal of deferred income taxes recognised on tax loss carryforwards due to the planned change in shareholders and related formation of the holding structure. Taking the current and deferred taxes into account, this results in an overall tax result of € 181 million (previous year: € 184 million).

Due to the annual net loss and a corresponding accumulated loss, the silent participations and profit participation rights receive no distributions in 2015. The silent participations and profit participation capital also shared in the net loss for the year and accumulated loss of the Bank. The existing loss carryforward from the year 2014 in the amount of € -312 million was offset by withdrawing funds from capital reserves in the 2015 financial year.

Silent participations participated in the loss of the Bank in the amount of € 39 million. The profit participation capital bore a loss of € 0.4 million in the 2015 financial year. This is equivalent to a reduction in the carrying amount of the silent participations and profit participation capital of 3.1%. The carrying amounts of the hybrid financial instruments were 52.4% of the original nominal amount due to the attributed losses at the end of the year 2015.

NET ASSETS AND FINANCIAL POSITION

BALANCE SHEET (HGB SINGLE ENTITY)

(€ m)	2015	2014	Change in %
Assets			
Cash reserve, debt instruments issued by public authorities, bills eligible for refinancing with central banks	3,329	5,893	-44
Loans and advances to banks	3,103	7,473	-58
Loans and advances to customers	61,014	65,787	-7
Securities	19,358	21,067	-8
Trading portfolio	5,001	9,441	-47
Equity holdings in non-affiliated companies and interests in affiliated companies	775	748	4
Other assets	3,277	2,280	44
Total liabilities	95,857	112,689	-15
Liabilities			
Liabilities to banks	14,855	15,067	-1
Liabilities to customers	46,348	45,922	1
Securitised liabilities	20,811	28,195	-26
Trading portfolio	2,011	8,885	-77
Subordinated debt and profit participation capital	2,101	4,127	-49
Fund for general banking risks	2,082	2,082	-
Equity capital	4,324	4,422	-2
Other liabilities	3,325	3,989	-17
Total liabilities	95,857	112,689	-15
Contingent liabilities	3,289	4,519	-27
Other commitments	6,417	7,277	-12
Derivatives (credit equivalents)	1,196	1,713	-30
Volume off-balance sheet positions	10,902	13,509	-19
Business volume	106,759	126,198	-15

Decrease in total assets

HSH Nordbank's total assets declined clearly to € 95,857 million in the 2015 reporting year (31 December 2014: € 112,689 million). What was decisive in this context was the accelerated reduction in risk positions in particular in the Restructuring Unit.

The movement in material items on the asset side of the balance sheet was as follows: Loans and advances to banks decreased significantly to € 3,103 million (31 December 2014: € 7,473 million). The reduced portfolio of call deposits with other banks was the main reason for this.

Loans and advances to customers amounted to € 61,014 million (31 December 2014: € 65,787 million). The reason for this decrease was the accelerated winding down in the Restructuring Unit as well as principal repayments in the customer divisions. This more than offset new business in the last year.

The securities portfolio decreased from € 21,067 million to € 19,358 million. This was due, amongst other things, to further winding down of the credit investment portfolio. Trading portfolio assets showed a clear decrease. In the reporting period, fair values of derivatives of the trading portfolio traded over the counter and cash collateral were netted for the first time. Due to the initial application, the previous-year figures of the trading portfolio assets and liabilities are not comparable to the figures of this year. Please refer to Note 70 for more details on this issue.

Liabilities to banks largely remained stable compared to the previous year. Whilst call deposits from other banks were decreasing, term deposits as well as the repo business increased.

Liabilities to customers increased slightly to € 46,348 million (31 December 2014: € 45,922 million). This reflected in particular higher overnight deposits from institutional investors. Securitised liabilities stood at € 20,811 million (31 December 2014: € 28,195 million) which was significantly below the level of the previous year. The expiry of the guarantor liability and the associated maturities materially contributed to this decrease.

Subordinated liabilities and profit participation capital clearly declined compared to the previous year end (31 December 2015: € 2,101 million, previous year: € 4,127 million). The expiry of the guarantor liability and the associated maturities had a material impact here as well.

Equity disclosed on the balance sheet under HGB decreased in 2015, from € 4,422 million as at 31 December 2014 to € 4,324 million as at 31 December 2015, due to the net loss for the year 2015.

Business volume also decreasing

The business volume decreased in line with the decreasing total assets and amounted to € 106,759 million (31 December 2014: € 126,198 million). Off-balance sheet transactions also decreased significantly. Contingent liabilities decreased to € 3,289 million (31 December 2014: € 4,519 million) and other obligations to € 6,417 million (31 December 2014: € 7,277 million).

Capital and funding

CET1 ratio of 14.3% taking into account the effects of the informal agreement

The CET1 ratio as a key management indicator in the IFRS Group (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 lower RWA as part of the ongoing reduction in the portfolio as well as the net income for the year 2015 in the Group financial statements. 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 provision of liquidity to the holding company). The reversal of additional premiums under the debt waiver of the guarantors if the CET1 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% in the IFRS Group.

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 of the IFRS Group (key management indicator) 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. The risk weight in mathematical terms was around 0.3% 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%.

The in-phase CET1 ratio of HSH Nordbank AG in the single entity under HGB was 14.3% (under the Basel III transitional arrangement). In the previous year, an in-phase CET1 ratio of 11.5% plus a buffer of 2.8 percentage points was disclosed.

This was mainly due to the elimination of a deduction item of core capital specific to HSH Nordbank AG relating to the additional premium for the second loss guarantee and reduction in total RWA as a result of the ongoing portfolio reduction.

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

The classical Tier 1 capital ratio of HSH Nordbank AG reached a value of 17.7% (previous year: 14.5%), the overall capital ratio of HSH Nordbank AG was 21.1% (previous year: 18.3%) (both in-phase).

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 the 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 (Gewährträgerhaftung) matured in 2015 (€ 18 billion). There still remain guarantor liability 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 unse-

cured 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 higher 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 2015 Annual Accounts 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.

REPORT ON EVENTS AFTER THE REPORTING YEAR

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 and 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 Accounts as well as the half-yearly annual accounts 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

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

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 (key management indicator for the Group and the Core Bank), which benefited from non-recurring items in the financial year 2015. In the Core Bank, the positive operating earnings performance will be driven by the Corporate Clients, 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.

A significant increase in total income compared to the previous year is expected at the level of the single entity under HGB – influenced by a higher commission surplus due to reduced guarantee fees.

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

Opportunities and risks in the earnings forecast

Opportunities

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 demand trend for loan financing than assumed. The competitive situation could also put more pressure on margins than expected. The assumed increase in net interest income could also be lower than expected as a result of a more marked rise in the amount of impaired loans.

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 held in portfolio arising as a consequence of market developments or tensions in the financial markets also cannot be ruled out in the IFRS Group. 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.

Stronger adverse impacts than expected may also arise for the HGB single entity from the trend in the US dollar and interest rates. There may be effects on the participation of hybrid financial instruments in profit or loss as well as on the measurement of deferred taxes.

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 in the IFRS Group (key management indicator) 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. Administrative 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 Accounts, 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.

At single entity level under HGB a moderate decrease of administrative expenses is expected.

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

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 Portfoliomangement AöR by HSH Nordbank the Bank assumes that any additional expenses of the Bank 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 potential is 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 of the IFRS Group is strongly influenced by the movement in the EUR/USD exchange rate and would have a significant impact on loan loss provisions before compensation under the second loss guarantee on an increasing weakness of the euro, although the effect of the exchange rate movement will be gradually reduced accordingly by the further reduction in the US dollar legacy portfolios. If the currency translation relates to guaranteed portfolios, it is compensated for by the guarantee. For foreign exchange positions held in portfolios not covered by the guarantee, hedging instruments continue to be used.

Loan loss provisions to be recognised for legacy portfolios 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 and the Restructuring Unit (key management indicator for the Group and the Restructuring Unit) is expected for 2016, 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.

A slight relief is expected at the single entity level under HGB also in the Loan loss provisions/valuation line item compared to the previous year.

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

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 to HSH Nordbank under the second loss 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 a single loan loss provision based on the assumption of the continuation of the borrower's business) or "not capable of recovery" (and therefore recognition of a single 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 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. Additional significant loan loss provisions might arise in relation to the sale of loan portfolios of € 3.2 billion in the market, if the actual transaction prices are lower than the anticipated market values as at the respective transaction date assumed by the Bank on which the calculation of the loan loss provisions 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.

Capital and RWA forecast

HSH Nordbank expects the capital ratios to remain at an adequate level in 2016. HSH Nordbank also expects to be able to continue to disclose a regulatory CET1 ratio in the IFRS Group (key management indicator) 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 in the IFRS Group (key management indicator) 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.

No separate forecasts for the CET1 ratio and RWA are made at HGB single entity level.

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 require-

ments 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 of 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 (LDR) (key management parameter) for the combined stress scenario, will continue to be complied with.

No separate forecasts for the liquidity ratio of the Liquidity Ordinance (LiqV) and the liquidity development report are made at HGB single entity level.

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 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 portfolios.

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 within the framework of discretionary decisions.

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 initially € 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 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 new planning of the Group and the single entity 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 Annual Accounts 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 reduc-

tion 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 report "Opportunities and risks in the earning forecast").

Opportunities and risks 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, 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 (key management indicator) 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 still to be expected under the formal decision of the EU Commission and the provision of liquidity to the holding company). Against the same backdrop, the return on equity for the Group (key management indicator) 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 (key management indicator) is benefiting from further reductions in administrative expenses. Compared to the previous year, 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 still to be expected after the formal decision of the EU Commission and the liquidity backing of the holding company) 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.

Following the positive net income before taxes in the year 2015, a positive net income before taxes is expected for 2016 for HSH Nordbank AG as well under German GAAP. Taking the expected tax expense into account, a more or less balanced net income after taxes is expected.

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

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

RISK REPORT

RISK WITHIN THE HSH NORDBANK GROUP

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

RISK MANAGEMENT SYSTEM

Principles of risk management

Active risk management represents a core component of the overall bank management at HSH Nordbank. The current version of the Minimum Requirements for Risk Management (MaRisk) laid down by the Supervisory Authorities serves as the main framework for the design of our risk management system. 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 (Generalbevollmächtigter, 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 controlling to ensure that a Group-wide coordinated risk controlling process is in place.

HSH Nordbank has stipulated rules according to the specifications of MaRisk under which formalised audit processes are gone through prior to entering into transactions in new products or new markets (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, amongst 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 prepared quarterly and shows HSH Nordbank's overall risk position together with detailed information on the material risk types.
- Furthermore, the Management Board is informed monthly of HSH Nordbank's overall situation with respect to the key value drivers, especially income, costs, liquidity and risk in the Finance and Risk Report.
- The MaSan Committee and the Overall Management Board are informed of the development of the recovery and early warning indicators by way of regular MaSan reporting.

Other overall risk reports include the Disclosure Report under Part 8 of the Capital Requirements Regulation (CRR), the Risk Report in the Annual Report 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 transactions 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, 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
Economic risk coverage potential¹⁾	10.2	7.7
Economic capital required	2.5	2.8
of which for default risks ²⁾	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
Risk coverage potential buffer	7.6	4.9
Utilisation of risk coverage potential (in %)	25	36

¹⁾ 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.

²⁾ Taking the second loss guarantee into account.

The risk tolerance of HSH Nordbank is determined as part of the annual preparation of the risk strategy and the Bank planning process. Amongst other things this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global 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. 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 CATEGORY¹⁾

(€ 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 ²⁾	208	120	328	-	395	105	500	-
Total	70,672	27,365	98,037	42	73,268	36,535	109,803	48

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

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

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

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	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	-	-	-	-	-	-
Total	70,672	27,365	98,037	73,268	36,535	109,803

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
Total	70,672	27,365	98,037	73,268	36,535	109,803

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
Total	23,642	16,008	39,650	27,629	23,198	50,827

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
Total	824	1,178	88	209	5,268	5,954	6,180	7,341

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 73 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 specific loan loss provisions 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 creates general loan loss provisions, with regard to receivables not subject to loan loss provisions but which contain latent risks. In the case of loans to borrowers with an increased country risk, country-specific general loan loss provisions are created taking into account the respective internal country rating as well as collateral.

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 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.

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

The individual elements of loan loss provisions are shown in the table Total loan loss provisions.

TOTAL LOAN LOSS PROVISIONS		
(€ m)	2015	2014
Loans and advances to customers	61,014	65,787
Loans and advances to banks	3,103	7,473
Volume of impaired loans	16,263	14,954
Total specific loan loss provisions for loans and advances to customers	-7,827	-6,108
Total general loan loss provisions for loans and advances to customers	-671	-399
Total specific loan loss provisions for loans and advances to banks	-14	-14
Total general loan loss provisions for loans and advances to banks	-3	-1
Total loan loss provisions for balance sheet items	-8,515	-6,523
Provisions for individual risks in the lending business	-59	-50
Provisions for contingent liabilities (general loan loss provisions) in the lending business	-52	-53
Total loan loss provisions for off-balance sheet items	-111	-103
Total loan loss provisions (before compensation item)	-8,626	-6,626
Compensation item	7,841	4,145
Total loan loss provisions (including compensation item)	-785	-2,481

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.

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 in the corporate loan portfolio.

In addition, HSH Nordbank had to recognise extensive general loan loss provisions 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 (€ 673 million).

The loss rate in the Group amounted to 1.35% in the reporting year (previous year: 0.93%). The loss rate is calculated based on the actually realised defaults (utilisation of SLLP plus direct write-downs less income from recoveries on loans and advances previously written-off) as a ratio of the credit volume. The total amount of actually realised defaults in 2015 was € 1,392 million (previous year: € 1,132 million) and the credit volume € 103,062 million (previous year: € 121,335 million).

Loan loss provisions for the Bank in the form of specific loan loss provisions and provisions for default risks amounted to € -7,900 million in total as at 31 December 2015 (previous year: € -6,172 million) corresponding to a ratio of 7.67% in relation to the credit volume (previous year: 5.09%). General loan loss provisions (including country-specific general loan loss provisions) amounted to € -726 million (previous year: € -454 million). Total loan loss provisions (including compensation item) amounted to € -785 million as at 31 December 2015 (previous year: € -2,481 million) due to the hedging effect of the second loss guarantee.

Planning for loan loss provisions and losses

Loan loss provisions are planned as part of the annual Bank plan under the plan assumptions specified therein. The planning includes the annual changes in the amounts of the single and general loan loss provisions, 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 general to specific loan loss provisions 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 specific loan loss provisions 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 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 Note 13 Hedge accounting via valuation units and Note 71 Report on business in derivatives.

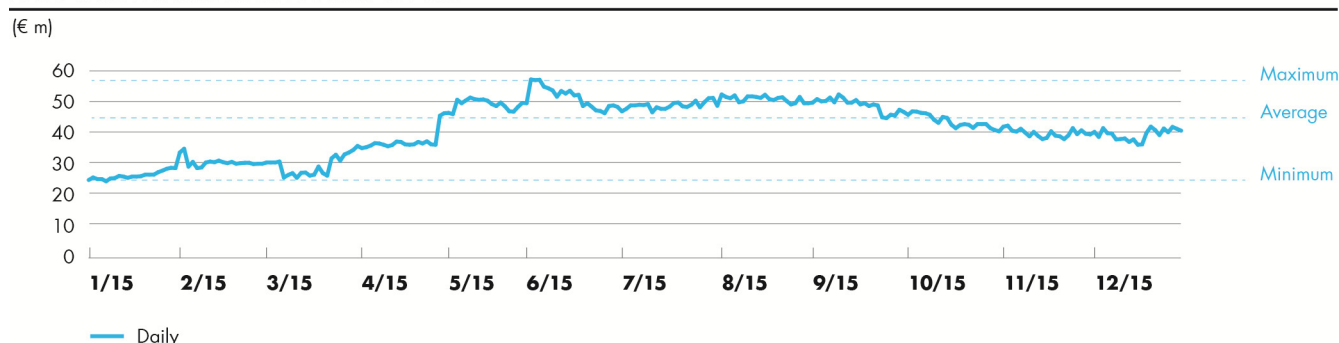
Market risks arising from the lending business and liabilities of the Bank are transferred to the trading divisions and taken into account in the corresponding risk positions. There they are managed as part of a proactive portfolio management process and hedged through external transactions.

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 ¹⁾		Credit spread risk ¹⁾		Foreign exchange risk		Equity risk		Commodity risk		Total ²⁾	
	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

¹⁾ Credit spread risk is a sub-type of interest rate risk. It is not disclosed as part of interest rate risk but as a separate item due to its significance for HSH Nordbank.

²⁾ 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 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.

Instruments for managing market risk as part of hedge accounting

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

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

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 42.

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

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

The liquidity potential available to close 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.

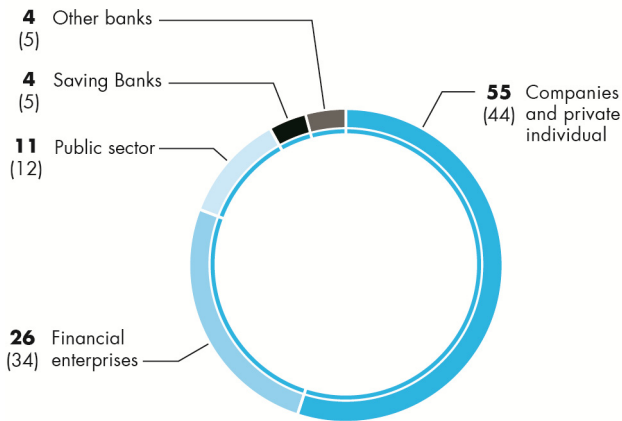
Risk concentrations

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 2015¹⁾

in % (previous year figures)



¹⁾ In addition to call on 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.

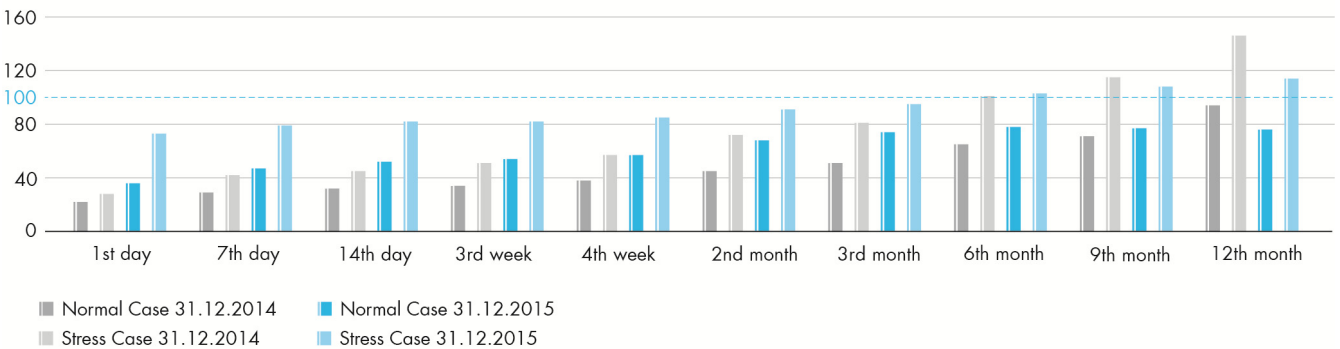
In addition to the analysis of the depositor structure with regard to existing depositor concentrations, risk concentrations are examined with regard to the US dollar asset/liability position. This shows a dependency of the liquidity situation on the movement in the US dollar, which is still to be regarded 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 liquid-

ity 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 Require-

ments 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 Manage-

ment 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 is 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 € 35 million (previous year: € 48 million) for litigation risks and costs as at the reporting date. In addition, contingent liabilities of € 34 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 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.

FINAL DECLARATION CONCERNING THE DEPENDANT COMPANY REPORT IN ACCORDANCE WITH SECTION 312 AKTG

In accordance with Section 312 of the German Securities Act (AktG), the Management Board of HSH Nordbank AG is obliged to submit a Dependent Company Report for the financial year 2015.

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

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

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

Hamburg/Kiel, 31 May 2016



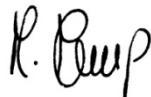
Constantin von Oesterreich



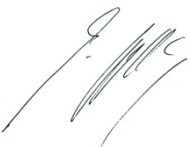
Stefan Ermisch



Ulrik Lackschewitz



Torsten Temp



Matthias Wittenburg

ANNUAL ACCOUNTS OF HSH NORDBANK AG

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2015

ASSETS

(€ k)	(Note)			31.12.2015	31.12.2014
1. Cash reserve					
a) Cash on hand			6,572		11,865
b) Balances with central banks			2,681,313		5,530,443
thereof:				2,687,885	5,542,308
with Deutsche Bundesbank		2,668,462			
	(previous year	2,070,638)			
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks					
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions			641,052		350,576
thereof:					
eligible for refinancing at the Deutsche Bundesbank		356,570			
	(previous year	343,109)		641,052	350,576
3. Loans and advances to banks	(5, 6, 22–26)				
a) Payable on demand			419,643		4,433,448
b) Other loans and advances			2,683,633		3,039,814
				3,103,276	7,473,262
4. Loans and advances to customers	(5, 6, 23–26)			61,013,978	65,787,016
thereof:					
secured by mortgages		11,323,802			
	(previous year	12,076,541)			
public-sector loans		6,194,615			
	(previous year	6,761,184)			
secured by ship mortgages		9,645,045			
	(previous year	9,402,647)			
5. Debentures and other fixed-interest securities	(8, 23–26, 29, 30, 38)				
a) Money market instruments					
aa) from other issuers			–		65,978
b) Bonds and debentures					
ba) from public-sector issuers		8,500,513			7,837,955
thereof:					
eligible as collateral at the Deutsche Bundesbank		7,829,195			
	(previous year	7,220,147)			
bb) from other issuers		8,036,076			10,174,280
thereof:				16,536,589	
eligible as collateral at the Deutsche Bundesbank		5,941,165			
	(previous year	6,078,667)			
c) Own debentures				2,523,674	2,690,085
Nominal value		2,511,571			
	(previous year	2,679,389)		19,060,263	20,768,298
To be carried forward				86,506,454	99,921,460

ASSETS

(€ k)	(Note)			31.12.2015	31.12.2014
	Carried forward			86,506,454	99,921,460
6. Shares and other non-fixed-interest securities	(8, 29, 30, 31, 38)			297,538	299,131
6a. Trading portfolio	(9, 28)			5,001,397	9,440,930
7. Equity holdings in non-affiliated companies	(14, 29, 38, 68)			87,756	125,033
thereof:					
in banks		41,103			
	(previous year	42,257)			
8. Interests in affiliated companies	(14, 29, 38, 68)			686,782	622,826
thereof:					
in banks		57,000			
	(previous year	57,000)			
in financial services institutions		–			
	(previous year	206)			
9. Trust assets	(32)			6,848	8,706
thereof:					
trust loans		6,848			
	(previous year	8,706)			
10. Intangible fixed assets	(15, 37)				
a) Industrial property rights acquired in-house and similar rights and assets			2,618		3,543
b) Licences, industrial property rights and assets as well as licenses to use such rights and assets purchased			7,719		12,727
				10,337	16,270
11. Tangible fixed assets	(17, 38)			91,361	94,124
12. Other assets	(33)			2,297,193	206,435
13. Prepaid expenses	(5, 19, 34)			191,743	268,141
14. Deferred tax assets	(18, 35)			679,443	1,685,803
Total assets				95,856,852	112,688,859

LIABILITIES

(€ k)	(Note)			31.12.2015	31.12.2014
1. Liabilities to banks	(19, 39–42)				
a) Payable on demand			585,112		1,253,662
b) With agreed maturities or notice periods			14,270,065		13,812,904
				14,855,177	15,066,566
2. Liabilities to customers	(19, 39–42)				
a) Savings deposits					
aa) with agreed notice period of three months		21,874			26,319
ab) with agreed notice period of more than three months		–			170
			21,874		26,489
b) Other liabilities					
ba) Payable on demand		17,062,710			13,570,053
bb) With agreed maturities or notice periods		29,262,798			32,325,617
			46,325,508		45,895,670
				46,347,382	45,922,159
3. Securitised liabilities	(19, 42, 72)				
a) Debentures issued			20,791,616		28,152,629
b) Other securitised liabilities			19,536		42,661
thereof:				20,811,152	28,195,290
money market instruments		19,536			
	(previous year	42,661)			
3a. Trading portfolio	(9, 43)			2,011,469	8,884,520
4. Trust liabilities	(44)			6,848	8,706
thereof:					
trust loans		6,848			
	(previous year	8,706)			
5. Other liabilities	(45)			1,631,896	1,292,904
6. Deferred income	(5, 19, 46)			159,841	180,696
6a. Deferred tax liabilities	(18, 47)			180,152	1,032,094
7. Provisions	(20)				
a) Provisions for pensions and similar obligations			800,971		720,737
b) Tax provisions			45,094		121,944
c) Other provisions	(48)		500,117		632,367
				1,346,182	1,475,048
8. Subordinated debt	(49)			2,087,134	4,097,910
9. Profit participation capital	(50)			13,616	28,920
thereof:					
maturing in less than two years		13,616			
	(previous year	14,866)			
10. Funds for general banking risks	(51)			2,081,858	2,081,858
of which special items under Section 340e (4) HGB		29,523			
	(previous year	29,523)			
To be carried forward				91,532,707	108,266,671

LIABILITIES

(€ k)	(Note)			31.12.2015	31.12.2014
	Carried forward			91,532,707	108,266,671
11. Equity capital	(52)				
a) Subscribed capital					
aa) Share capital		3,018,225			3,018,225
ab) Silent participations		1,229,386			1,227,394
			4,247,611		4,245,619
b) Capital reserves			176,569		488,961
d) Accumulated loss			- 100,035		- 312,392
				4,324,145	4,422,188
Total liabilities				95,856,852	112,688,859
1. Contingent liabilities	(64)				
a) Liabilities from guarantee and indemnity agreements				3,288,521	4,518,937
2. Other commitments	(64)				
a) Irrevocable loan commitments				6,416,835	7,277,021

INCOME STATEMENT OF HSH NORDBANK AG

FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2015

(€ k)	(Note)			2015	2014
1. Interest income from	(53, 54)				
a) lending and money market transactions		4,393,086			4,791,196
negative interest resulting from loan and money market transactions		-40,673	4,352,413		-18,857
b) fixed-interest securities and book-entry securities		418,539			495,063
negative interest resulting from securities and book-entry securities		-	418,539		-
			4,770,952		5,267,402
2. Interest expenses	(54)				
from the banking business		3,872,101			4,445,827
positive interest resulting from the banking business		-10,887			-5,241
			3,861,214		4,440,586
				909,738	826,816
3. Current income from	(53)				
a) shares and other non-fixed-interest securities			8,273		9,768
b) equity holdings in non-affiliated companies			32,427		11,757
c) interests in affiliated companies			33,043		69,995
				73,743	91,520
4. Commission income	(53, 55)		150,804		180,102
5. Commission expenses	(55)		513,212		572,919
				-362,408	-392,817
6. Net income/Net expenses from the trading portfolio	(53)			-37,402	-229,735
7. Other operating income	(53, 56)			232,774	155,763
8. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		210,691			216,976
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		103,215			74,267
			313,906		291,243
thereof:					
for retirement pensions		73,452			
					(previous year 43,937)
b) Other administrative expenses	(61)		364,805		318,250
				678,711	609,493
9. Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets				14,146	14,613
10. Other operating expenses	(57)			234,371	247,341
11. Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business				153,234	905,481
To be carried forward				42,451	485,581

(€ k)	(Note)			2015	2014
	Carried forward			42,451	485,581
12. Additions to the fund for general banking risks				-	672,642
13. Income from additions to equity holdings in non-affiliated and interests in affiliated companies and securities treated as fixed assets				37,415	18,455
14. Expenses from the transfer of losses				1,622	4,071
15. Profit on ordinary activities				78,244	- 172,677
16. Extraordinary income			4,794		50,581
17. Extraordinary expenses			37,365		124,932
18. Extraordinary result	(58)			- 32,571	- 74,351
19. Income tax expenses	(59)		181,525		184,049
20. Other taxes not shown under item 10			3,657		1,991
				185,182	186,040
21. Income from the assumption of losses	(60)			39,474	120,676
22. Annual net loss				- 100,035	- 312,392
23. Loss carried over from the previous year				- 312,392	- 424,719
24. Withdrawals from the capital reserve				312,392	106,842
25. Withdrawals from the retained earnings					
a) other retained earnings				-	317,877
26. Accumulated loss				- 100,035	- 312,392

NOTES FOR THE 2015 FINANCIAL YEAR

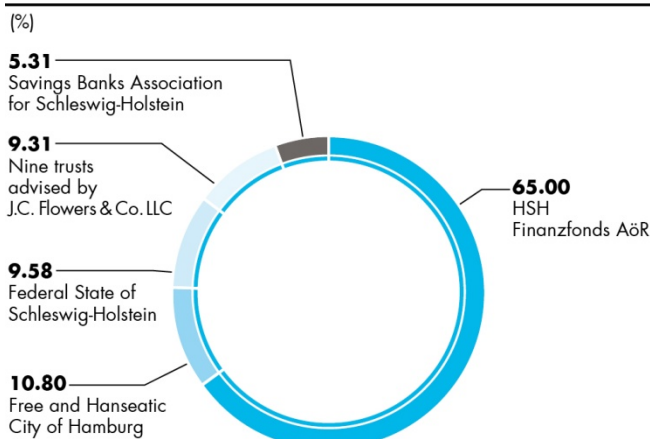
GENERAL INFORMATION AND NOTES

1. HSH NORDBANK AG AND ITS SHAREHOLDERS

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

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

HSH NORDBANK AG AND ITS SHAREHOLDERS



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 is subject to approval by the European Commission in accordance with the law regarding state aid. The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on commitments with all the parties involved and imposed conditions. The conditions include a prohibition on the payment of dividends until the financial year 2014. The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee One relates to non-structured financial instruments and is accounted for in the same manner as loan collateral received in the annual accounts. Partial guarantee Two is also disclosed as a loan collateral received in accordance with IDW AcPS BFA 1 new version.

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

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

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

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

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

As long as and insofar as the cash drawdown of the guarantee is not yet made through the invoicing of losses that in total exceed the first loss piece of € 3.2 billion to be borne by the Bank, a claim for compensation against HSH Finanzfonds AöR cannot be recognised. Against this background the hedging effect of partial guarantee One recog-

nised in the balance sheet is accounted for on a net basis. The Bank initially determines specific and general loan loss provisions without taking the hedging effect of the second loss guarantee into account and then records the hedging effect on the face of the balance sheet through the use of a compensation item and deducts it from loan loss provisions disclosed separately under loans and advances to customers on the assets side. The individual valuation allowance and general loan loss provisions recognised are not changed by the accounting applied to the hedging effect.

The compensation item is reduced by the additional premium imposed by the EU Commission in the amount of 3.85% p.a. This additional premium is only paid to HSH Finanzfonds AöR in the case of an actual drawdown of the guarantee. The additional premium is payable at the latest until 31 December 2019 and ceases to apply retroactively in the event that the guarantee is not drawn down. 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 a partial guarantee Two under the framework agreement, subject to approval from the trustee appointed by the guarantor. The maximum guarantee amount is not altered by the revival of partial guarantee Two and the respective partial amounts offset each other.

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

Accounting impact of the second loss guarantee in the 2015 financial year and decisions of the EU Commission

The guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR which had a hedging effect for the first time as at 31 December 2010, amounted to € 8,101 million as at 31 December 2015 (previous year: € 5,028 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 € 418 million at the end of the 2014 financial year and are offset against the compensation item. An amount of € 278 million is attributable to the future additional premium (ex ante additional premium) and € 140 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. Under this agreement the Bank is to be split into a holding company and an operating company that is 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 the second loss guarantee HSH Nordbank AG has therefore reversed the obligations resulting from the additional premium and future portions of the base premium, which were recognised in the compensation item in the past, 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) through profit or loss in the total amount of € 1,296 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 € 673 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 formal 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 € 623 million. As at 31 December 2015 the hedging effect of the second loss guarantee resulted in a compensation item on the balance sheet in the amount of € 7,841 million (previous year: € 4,145 million) which is offset in the item loan loss provisions. The corresponding compensation effect in loan loss provisions in the income statement amounts to € 3,688 million (previous year: € 1,246 million).

HEDGING EFFECT OF THE GUARANTEE ON LOAN LOSS PROVISIONS

(€ m)	2015		2014			
	Balance sheet	Balance sheet	Income statement	Income statement		
	Loan loss provisions	Loan loss provisions	Loan loss provisions	Net interest income	Loan loss provisions	Net interest income
Hedging effect before guarantee costs	8,101	5,028	3,073	–	881	–
Additional premium ex-post	–	– 1,130	1,130	–	– 360	–
Debt waiver	–	673	– 673	–	673	–
Base and additional premium ex-ante	–	– 418	418	–	52	– 11
Claim for compensation of interest	–	– 8	–	8	–	– 1
Remaining payment obligations for guarantee premiums	– 260	–	– 260	–	–	–
Compensation under the second loss guarantee	7,841	4,145	3,688	8	1,246	– 12

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

HSH Nordbank AG as a member of the Savings Banks Finance Group is integrated into the support system of the Landesbanken via the support fund.

The German Savings Banks Finance Group has an institutional guarantee scheme: This has been recognised as a deposit guarantee scheme under the German Law on Deposit Insurance (*Einlagensicherungs-gesetz - EinSiG*) since 3 July 2015.

The primary objective of the guarantee scheme is to protect the member institutions themselves and to avert imminent or existing financial difficulties at these institutions. This is intended to avoid triggering a deposit guarantee event and ensure that the business relationship with the customer is continued on a sustainable basis and without restrictions (voluntary institutional guarantee).

The institutional guarantee scheme of the German Savings Banks Finance Group also meets the statutory deposit guarantee requirements under the EinSiG by its official recognition as a deposit guarantee scheme. Under the statutory deposit guarantee the customer has a claim against the guarantee scheme for the repayment of its deposits up to EUR 100,000.

4. ACCOUNTING STANDARDS APPLIED

We prepared the annual financial statements and the management report of HSH Nordbank AG as at 31 December 2015 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Account-

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

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

ing Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association - IDW.

ACCOUNTING AND VALUATION PRINCIPLES

Accounting and measurement are based on the assumption that the Bank is a going concern. The Bank's corporate planning 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 structural measures are discussed in the 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.

5. LOANS AND ADVANCES

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

of-cost-or-market principle by rigorously applying our risk provisioning principles which are described below.

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

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

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

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

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

Finally, we create general loan loss provisions in accordance with the German commercial law for the remaining loan exposures not ac-

counted for in the first two steps, but still involving latent risks. 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 factor (LIP) used in the calculation represents the interval between the occurrence of a loss event and its becoming known and serves to derive the losses that actually occurred from the expected loss. We recognise general loan loss provisions for loans and advances, contingent liabilities and irrevocable loan commitments to customers. These general loan loss provisions are determined for tax purposes in accordance with the bulletin of the Federal Ministry of Finance dated 10 January 1994.

Additional general loan loss provisions had to be created for risks resulting from the challenging environment in particular in the shipping market.

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

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

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

7. DETERMINING FAIR VALUE

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

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

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

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

Where valuation techniques and models are concerned, a distinction can be drawn between procedures based exclusively on observable market data or parameters that are non-observable only to an insignificant extent (mark-to-market) on the one hand and those based to a significant extent on non-observable parameters (mark-to-model) on the other hand. Observable market data is usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices).

Valuation techniques and models based on non-observable market data or valuation parameters, and which therefore require assumptions to be made with regard to these parameters, are usually necessary for structured securities – or more generally for securities whose markets are illiquid – and for complex OTC derivatives. Examples of non-observable parameters are special correlations and volatilities. In these cases a significant number of judgements have to be made with regard to the selection of both the model and the parameter estimates.

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

If the valuation of a financial instrument is based partly on non-observable parameters, the fair value determined is the best estimated value in accordance with a discretionary decision by the Bank. How-

ever, it remains subjective in that there may be alternative parameter selection options that cannot be refuted by observable market data.

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

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

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

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

8. SECURITIES

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

Given that securities held in the investment portfolio are intended for long-term investment, we value at the moderate lower-of-cost-or-market value. When impairments are considered to be temporary we recognise the corresponding securities at acquisition cost. Impairments are considered to be temporary if they are not considered indications of future disruptions in the servicing of interest and capital payments. This is the case, for example, where impairments are caused by changes in interest rates. We thus avoid reporting performance volatility, which would not be economically justified based on the

short-term nature of the value fluctuations. As part of the risk provisioning process for securities, we have defined comprehensive criteria (“trigger events”) for identifying possible permanent impairments. These are identified on a quarterly basis. All securities under review including any cover assets/underlyings are subjected to an analysis and a two-stage risk assessment process. Depending on the security’s asset class, this analysis includes additional indicators (e.g. external ratings, calculation of over-collateralisation for mezzanine tranches, cash flow analyses). As long as this analysis of an individual case does not confirm a trigger event in economic terms or no trigger event is identified, there is no permanent impairment. In the case of impairments expected to be permanent – usually caused by changes in the credit rating – we write down the security to the lower of the exchange price, market price or fair value.

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

For the balance sheet treatment and the presentation of hedging relationships, please refer to our remarks under Note 13.

Interest resulting from the Bank's own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on

securities held in the investment portfolio are allocated to Net income from financial investments (item 13 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 11 in the income statement).

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

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

9. FINANCIAL INSTRUMENTS HELD IN THE TRADING PORTFOLIO

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

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

A funding valuation adjustment of € 18 million has been recognised for the first time in this reporting period to take account of the funding costs and advantages arising from the provision or receipt of cash collateral in connection with the hedging of an uncollateralised OTC derivative with a collateralised OTC derivative. The amount was charged to net expenses of the trading portfolio.

Against the backdrop of associated market and industry sector developments a truer and fairer view of the net assets, financial position and earnings is presented in the annual financial statements through the additional recognition of funding valuation adjustments taking the generally accepted accounting principles into account.

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

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

Each year that HSH Nordbank AG discloses net income in the trading portfolio, 10% of this net income is allocated to the special item Fund for General Banking Risks (liability item 10). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or as far as the item exceeds 50% of the average of the past five years net income in the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expense of the trading portfolio. In the last financial year no funds have been allocated from net income in the trading portfolio to the special item Fund for General Banking Risks.

10. BALANCE SHEET PRESENTATION ON A NET BASIS

We have netted the fair values of trading portfolio derivatives traded over the counter and cash collateral, for which measurement is performed and collateral provided on a daily basis under a master agreement with collateral agreement, for the first time in the reporting period. From an economic point of view daily settlement by its performance nature and related net balance sheet presentation results in

the proper disclosure of net assets and the financial position. The netting has no effect on the disclosure of net income from the trading portfolio. The amounts disclosed on the balance sheet for the previous year are not comparable due to the first-time application of the netting method in the reporting period. Cf. also Note 70.

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

As at 31 December 2015, accounting for internal derivatives resulted in interest income in the amount of € 1,734 million (previous year: € 2,123 million), interest expense in the amount of € 1,501 million (previous year: € 1,883 million), Other operating income of € 11 million (previous year: € 8 million) and Other operating expense of € 11 million (previous year: € 2 million). Reverse effects are reported in the Net income from the Trading portfolio.

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

To the extent a margin system is used in the case of financial instruments, the initial margin payments are recognised as assets or liabilities. Variation margin payments in the trading portfolio are recognised for income purposes directly in trading portfolio net income or loss. Variation margins outside of the trading portfolio are recognised as assets or liabilities. We have disclosed both initial margins and variation margins arising from OTC derivatives for the first time in the reporting period under Other assets (cf. Note 33) or Other liabilities (cf. Note 45) (previous year: disclosed under Loans and advances to banks, Loans and advances to customers, Liabilities to banks or Liabilities to customers, respectively). With this change in disclosure we also apply the provisions of IDW AcPS BFA 5 to derivatives traded over the counter.

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

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

12. STRUCTURED PRODUCTS

We account for structured products in accordance with the IDW AcPS HFA 22 interpretation. Structured products valued at fair value or in accordance with the strict lower-of-cost-or-market principle are not subject to separate accounting. Structured assets that are valued in accordance with the moderate lower-of-cost-or-market principle are subject to separate accounting with regard to the derivative compo-

nents and the host instrument. As a matter of principle, the separated derivative components are included in valuation units (cf. also Note 13). Derivate components of equity-linked structured products, however, are valued individually under the recognition-of-loss principle (imparity principle).

13. HEDGE ACCOUNTING VIA VALUATION UNITS

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

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

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

valuation units for the corresponding securities portfolios included in the liquidity reserve.

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

The prospective and retrospective effectiveness of a hedging relationship is substantiated and documented at least once a year at the time the annual financial statements are prepared. In the case of micro hedges, the prospective documentation of effectiveness is made on the basis of the critical-terms-match method. As part of this substantiation it needs to be shown that the value parameters of the hedged item and the hedging instruments to be allocated to the hedged risk match. If they match, it is to be presumed that changes in value attributable to the hedged risk will be offset over the entire residual maturity/the designated term of the transactions. In the case of portfolio hedges, prospective substantiation of effectiveness is accomplished by means

of quantitative and maturity range-dependent sensitivity analyses in relation to the hedged risk. In the case of a corresponding offset of sensitivities of hedged items and hedging instruments in the relevant maturity ranges, it may be presumed that there will be a high degree of correlation between the changes in the value attributable to the hedged item and those attributable to the hedging instrument over the entire residual maturity of the transactions. The retrospective measurement of effectiveness is generally accomplished, not only for micro but also for portfolio hedges by mathematically determining the ratio of the cumulative changes in value on the part of the hedged item to be attributed to the hedged risk arising since the designation of the hedge to those of the hedging instruments.

Amount of hedged items and hedging instruments included in valuation units

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

HEDGED ITEMS

(€ k)	31.12.2015		31.12.2014	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Loans and advances to banks	–	–	5,175	–
Loans and advances to customers	861,517	–	871,641	–
Debentures and other fixed-interest securities	1,109,266	10,166,249	1,483,824	10,172,938
Liabilities				
Liabilities to banks	102,506	–	195,747	–
Liabilities to customers	1,554,192	–	2,374,432	–
Securitised liabilities	145,032	–	1,730,801	–
Positive market values of derivatives	169,308	–	211,509	–
Negative market values of derivatives	248,835	–	635,999	–

HEDGING INSTRUMENTS

(€ k)	31.12.2015		31.12.2014	
	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market values of derivatives	618,508	2,350	1,117,876	895
Negative market values of derivatives	1,183,730	657,061	1,536,191	803,042

In relation to the underlying nominal values, interest rate risk is being hedged in approximately 94% of the valuation units. The other risks largely involve currency risks.

Amount of the risks hedged in valuation units

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

HEDGED ITEMS

(€ k)	31.12.2015				31.12.2014			
	Micro valuation units		Portfolio valuation units		Micro valuation units		Portfolio valuation units	
	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Loans and advances to banks	-	-	-	-	8	-	-	-
Loans and advances to customers	374,641	-	-	-	427,832	-	-	-
Debentures and other fixed-interest securities	534,978	633	434,854	-	670,003	-	545,305	-
Liabilities								
Liabilities to banks	82	5,644	-	-	249	6,335	-	-
Liabilities to customers	-	226,397	-	-	-	292,654	-	-
Securitised liabilities	30	4,583	-	-	-	28,114	-	-
Derivatives	109,017	65,048	-	-	132,289	77,308	-	-

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

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

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

deducted the risk costs and administrative costs determined on a present value basis from the amount of the net present values exceeding the carrying amounts.

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation no provisions needed to be created as at 31 December 2015.

Derivative financial instruments not allocated to the trading book and that are neither included in a valuation unit nor in the net risk expo-

sure of the loss-free valuation and do also not fall under the specific cover are valued individually under the recognition-of-loss principle.

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

We recognise equity holdings in non-affiliated companies and interests in affiliated companies at acquisition cost. In the case of impair-

ments expected to be permanent – usually induced by changes in the credit rating – we write them down to the lower fair value.

16. INTANGIBLE FIXED ASSETS

We account for internally-developed and purchased software under Intangible fixed assets. Internally developed software is recognised in the amount of the production costs incurred in its development. Production costs include expenses directly attributable to the development of the software (so-called development costs). Expenses which cannot be directly allocated to the development of the software (so-called research costs) are not included in production costs but are expensed against income for the year incurred. During the financial year, software development costs in the amount of € 3 million (previous year: € 4 million) and no research costs were incurred as in the previous year.

Purchased software is valued at acquisition cost.

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

17. TANGIBLE FIXED ASSETS

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

Tangible fixed asset category	Useful life in years
Buildings	50
Leasehold improvements	The useful life is determined on the basis of the remaining period of the lease.
Plant and equipment	3 to 15
Leasing assets	Customary useful life
Low-value items (€ 150.00 to € 1,000.00)	5

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

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

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

18. DEFERRED TAXES

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

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

19. LIABILITIES

We recognise liabilities at the amount repayable. Premiums and discounts are shown as deferred income or prepaid expenses, respectively, and are reversed over the term on a straight-line basis. We treat

pro-rata interest on an accrual basis and report it in the corresponding liabilities line item.

20. PROVISIONS

We value provisions at the expected call on the provisions in accordance with reasonable commercial judgment. Provisions with a residual maturity of more than one year are generally discounted on the basis of the average market rate determined and published by the Deutsche Bundesbank in accordance with the Regulations on the Determination and Disclosure of Discount Rates for Provisions (RückAbzinsV) in the version applicable as at the reporting date which corresponds to the residual maturity. We disclose income and expenses from the discounting or compounding of provisions under Other operating income (see also Notes 56 and 57); including the income effect of changes in the discount rate applied. The result due to the change in the discount interest rate in provisions for pensions and similar obligations is disclosed under Personnel expenses.

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

	2015	2014
Salary growth	2.0%	2.0%
Personnel growth	0.5%	0.5%
Pension growth		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules	2.0%	2.0%
Employment contract 4	2.0%	2.0%
Staff turnover		
Age 30	6.0%	6.0%
Age 30–55	linear decline to zero	linear decline to zero
Age above 56	0.0%	0.0%
Retirement age	pursuant to the 2007 AGAnpassG	pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted using the applicable average market interest rate which results from the assumption of a residual maturity of 15 years. The discount rate applied as at the balance sheet date was 3.94% p.a. (previous year: 4.58% p.a.). The interest rate is determined based on a seven year mean.

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets) are recog-

nised at their fair value of € 7 million (previous year: € 7 million), which is also equivalent to the acquisition cost of the assets. Fund assets in the same amount have been offset against provisions for pensions and similar obligations. The amount required to meet the resultant liability was € 10 million as at 31 December 2015 (previous year: € 10 million). Please refer to Note 7 for information concerning the determination of fair value.

21. CURRENCY TRANSLATION

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

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

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

To the extent the assets, liabilities and pending transactions are specifically hedged by other assets, liabilities or pending transactions, all expenses and income from currency translation are reported through profit and loss. All assets, liabilities and pending transactions in the

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

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

22. ACCOUNTING TREATMENT APPLIED TO THE RESTRUCTURING

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

As soon as an obligation becomes sufficiently certain or can be quantified – e.g. through the signing of agreements – it is reclassified to liabilities or provisions for pensions and similar obligations. The informal agreement reached with the EU Commission on 19 October 2015, which in principle was confirmed and set out in more detail by the formal decision of the EU Commission on 2 May 2016, does not give rise to any additional restructuring activities of the Bank requiring a provision.

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

NOTES ON BALANCE SHEET ASSETS

23. LOANS AND ADVANCES TO ASSOCIATED SAVINGS BANKS

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

(€ k)	31.12.2015	31.12.2014
Loans and advances to associated savings banks	36,155	222,028

24. AFFILIATED COMPANIES

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

(€ k)	31.12.2015	31.12.2014
Loans and advances to banks	622,033	589,432
Loans and advances to customers	804,497	717,340
Debentures and other fixed-interest securities		
Bonds and debentures	871,266	591,619

25. NON-AFFILIATED COMPANIES

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

(€ k)	31.12.2015	31.12.2014
Loans and advances to banks	105	528
Loans and advances to customers	372,139	575,934
Debentures and other fixed-interest securities		
Bonds and debentures	–	3,028

26. SUBORDINATED ASSETS

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

(€ k)	31.12.2015	31.12.2014
Loans and advances to banks		
Other receivables	108,223	100,908
Loans and advances to customers	182,840	209,326
Debentures and other fixed-interest securities		
Bonds and debentures	29,569	114,777

27. RESIDUAL MATURITIES

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

(€ k)	31.12.2015	31.12.2014
Loans and advances to banks		
Other receivables		
Up to 3 months	954,335	1,298,724
Between 3 months and 1 year	524,985	585,746
Between 1 year and 5 years	486,485	447,043
More than 5 years	717,828	708,301
Loans and advances to customers		
Up to 3 months	13,690,665	14,795,809
Between 3 months and 1 year	8,580,635	9,728,934
Between 1 year and 5 years	23,923,594	26,191,288
More than 5 years	14,819,084	15,070,985
Debentures and other fixed-interest securities		
Due in the following year	2,250,990	2,858,085

28. TRADING PORTFOLIO (ASSETS)

The trading portfolio is comprised of the following:

(€ k)	31.12.2015	31.12.2014
Derivative financial instruments	2,619,440	7,649,783
Loans and advances	10,015	-
Debentures and other fixed-interest securities	2,367,632	1,786,148
Shares and other non-fixed-interest securities	484	2,080
Other assets	12,600	9,106
Risk discount	-8,774	-6,187
Total	5,001,397	9,440,930

29. NEGOTIABLE SECURITIES

(€ k)	Listed		Unlisted		Total	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Debentures and other fixed-interest securities.	16,592,615	18,411,367	2,467,648	2,356,931	19,060,263	20,768,298
Shares and other non-fixed-interest securities	9,420	5,322	150,366	139,055	159,786	144,377
Equity holdings in non-affiliated companies	40,212	1,461	3,576	80,051	43,788	81,512
Interests in affiliated companies	-	-	32,700	32,700	32,700	32,700

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

(€ k)	31.12.2015	31.12.2014
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	3,950,752	6,377,553
Carrying amount of securities reported above their fair value	1,431,210	3,184,911
Market value of securities reported above their fair value	1,333,050	3,072,926
Unrealised losses	98,160	111,985
of which unrealised losses on securities which are not part of a valuation unit	94,178	110,073
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	277,654	280,785
Carrying amount of securities reported above their fair value	-	14,772
Market value of securities reported above their fair value	-	11,613
Unrealised losses	-	3,159

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

Unrealised losses relating to securities held in valuation units, which are not to be allocated to the hedged risk (resulting for the most part from the creditworthiness of the issuer), amounted to € 110 million as at 31 December 2015 (previous year: € 142 million). The unhedged risk is not recorded as the valuation is based on the moderate lower-of-cost-or-market principle. These also include unrealised losses on securities relating to the unhedged risk, which would show an unrealised loss without taking the valuation unit into account.

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

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

(€ k)	Securities rating	31.12.2015	31.12.2014
No "trigger events" have occurred		64,285	66,051
	Rating investment grade or better	47,027	54,566
	Rating lower than investment grade	17,258	11,485
"Trigger events" have occurred		33,875	49,094
	Rating investment grade or better	26,816	38,730
	Rating lower than investment grade	7,059	10,364
Total		98,160	115,145

A review of instruments with existing "trigger events" and a rating lower than investment grade did not identify any requirement to recognise impairment losses.

31. INVESTMENT ASSETS

Contrary to the previous year, the Bank did not own any interest in investment assets.

32. TRUST ASSETS

Trust assets are comprised of the following balance sheet items:

(€ k)	31.12.2015	31.12.2014
Loans and advances to banks	–	–
Loans and advances to customers	6,848	8,706
Total	6,848	8,706

33. OTHER ASSETS

The major components of other assets are:

(€ k)	31.12.2015	31.12.2014
Initial and variation margins from OTC derivatives (cf. Note 11)	2,007,366	–
Adjustment item for currency translation	126,702	23,452
Receivables on fiscal authorities	65,197	85,176
Tenant loans	29,522	26,277
Premiums paid from options trading and from interest limitation agreements	18,436	15,319
Receivables from profit and loss transfer agreements and from dividends	8,331	7,471

34. PREPAID EXPENSES

The major items disclosed here are:

(€ k)	31.12.2015	31.12.2014
Discount accruals from issuing business	83,841	99,891
Premium accruals from claims	38,466	16,557
Prepaid expenses from interest rate swaps, swaptions and options	32,409	41,498
Accrual of the one-off payment to HSH Finanzfonds AöR for the replenishment of the guarantee (cf. Note 2)	22,034	90,889
Discount accruals from liabilities	5,518	7,524

35. DEFERRED TAX ASSETS

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

(€ k)	31.12.2015	31.12.2014
Assets		
Loans and advances to customers	344,312	1,347,090
Debentures and other fixed-interest securities	41,363	42,879
Equity holdings in non-affiliated companies	4,891	5,186
Interests in affiliated companies	186	33
Intangible fixed assets	115	180
Tangible fixed assets	10,676	12,258
Other assets	2,267	6,036
Deferred income	1,611	2,130
Liabilities		
Other liabilities	491	383
Deferred income	718	8,127
Provisions	181,446	188,359
Losses carried forward	91,367	73,142
Total	679,443	1,685,803

Deferred tax assets on losses carried forward in the amount of approximately € 91 million are attributable exclusively to losses carried forward for federal, New York City & state tax of the New York branch for taxation purposes. Deferred tax assets on losses carried forward for New York are offset by deferred tax liabilities on measurement differences in the same amount.

Impairment testing of deferred tax assets results in a reversal in the amount of € 22 million.

36. GENUINE REPURCHASE AGREEMENTS

As a borrower under genuine repurchase agreements, we have sold assets with a carrying amount of € 2,358 million (previous year: € 2,302 million) and simultaneously contracted to repurchase the same assets. The assets continue to be carried on our balance sheet; the consideration received in return for the assets is disclosed under the corresponding liability items.

37. ASSETS TRANSFERRED AS COLLATERAL

In addition to assets sold under repurchase agreements (cf. Note 36) and the receivables serving as the cover pool for bonds issued (cf. Note 71), we have transferred further assets as collateral. These are mainly securities lodged with central banks and Eurex as collateral for participation in stock exchanges and clearing organisations and for funding as well as loan notes and loan receivables assigned as collateral for borrowings at central banks and other banks.

(€ k)	31.12.2015	31.12.2014
Assets transferred as collateral	12,077,041	9,558,719
thereof for Liabilities to banks	9,606,424	4,380,329
Liabilities to customers	463,251	341,258
Trading portfolio (liabilities)	2,007,366	4,728,369
Contingent liabilities	–	108,763

38. STATEMENT OF CHANGES IN FIXED ASSETS

(€ k)	01.01.2015	2015			31.12.2015	2015	31.12.2015	31.12.2014
	Historical cost of acquisition	Additions ¹⁾	Disposals ¹⁾	Transfers	Accumulated depreciation ¹⁾	Writeups/Depreciation	Carrying amount	Carrying amount
Securities	6,971,601	871,254	3,436,743	–	200,239	–24.131	4,205,873	6,693,135
Equity holdings in non-affiliated companies	247,390	10,375	31,894	–	138,115	43,847	87,756	125,033
Interests in affiliated companies	1,301,974	65,453	6,924	–	673,721	–	686,782	622,826
Land and buildings	84,204	143	–	–	6,908	1,643	77,439	78,937
Plant and equipment	67,646	4,652	16,133	2,220	45,601	4,669	12,784	12,684
Assets under construction	2,503	1,009	154	–2.220	–	–	1,138	2,503
Leasing assets	11,260	1,297	12,557	–	–	–	–	–
Intangible fixed assets	168,273	2,198	2,048	–	158,086	7,834	10,337	16,270
Total	8,854,851	956,381	3,506,453	–	1,222,670	33,862	5,082,109	7,551,388

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

Real estate includes land and buildings used for the Bank's own business activities at a carrying amount of € 77 million (previous year: € 78 million).

NOTES ON BALANCE SHEET LIABILITIES

39. LIABILITIES TO ASSOCIATED SAVINGS BANKS

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

(€ k)	31.12.2015	31.12.2014
Liabilities to associated savings banks	269,303	394,988

40. AFFILIATED COMPANIES

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

(€ k)	31.12.2015	31.12.2014
Liabilities to banks	802,755	750,195
Liabilities to customers	2,096,009	2,981,194

41. NON-AFFILIATED COMPANIES

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

(€ k)	31.12.2015	31.12.2014
Liabilities to banks	117	501
Liabilities to customers	137,333	174,147

42. RESIDUAL MATURITIES

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

(€ k)	31.12.2015	31.12.2014
Liabilities to banks		
With an agreed maturity or notice period		
Up to 3 months	7,204,754	2,931,535
Between 3 months and 1 year	1,307,199	5,616,367
Between 1 year and 5 years	3,775,719	3,651,355
More than 5 years	1,982,393	1,613,647
Liabilities to customers		
Savings deposits with agreed notice period of more than 3 months		
Between 3 months and 1 year	–	143
Between 1 year and 5 years	–	27
Other liabilities with an agreed maturity or notice period		
Up to 3 months	12,088,743	11,175,870
Between 3 months and 1 year	4,315,316	7,053,278
Between 1 year and 5 years	6,185,062	6,529,026
More than 5 years	6,673,677	7,567,443
Securitised liabilities		
Debentures issued		
Due in the following year	4,263,726	11,655,688
Other securitised liabilities		
Up to 3 months	19,536	28,725
Between 3 months and 1 year	–	13,936

43. TRADING PORTFOLIO (LIABILITIES)

The trading portfolio is comprised of the following:

(€ k)	31.12.2015	31.12.2014
Derivative financial instruments	2,011,355	8,884,185
Liabilities	114	335
Total	2,011,469	8,884,520

44. TRUST LIABILITIES

Trust liabilities are reported under the following balance sheet items:

(€ k)	31.12.2015	31.12.2014
Liabilities to banks	132	166
Liabilities to customers	6,716	8,540
Total	6,848	8,706

45. OTHER LIABILITIES

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

(€ k)	31.12.2015	31.12.2014
Security deposits for assumption of debt	720,187	763,360
Variation margin OTC derivatives	352,781	0
Tax liabilities	152,179	13,441
Adjustment item for currency valuation	105,781	269,537
Outstanding payments for the second loss guarantee	102,222	102,222
Pro rata interest on subordinated debt, profit participation rights and silent participations	56,099	50,419
Premiums received from options trading and from interest limitation agreements	10,653	13,272
Liabilities from profit and loss transfer agreements and from dividends	3,135	4,689

46. DEFERRED INCOME

The major components of deferred income are the following:

(€ k)	31.12.2015	31.12.2014
Deferrals from advance loan fees	83,553	89,381
Deferred income from interest rate swaps, swaptions and options	46,763	61,412
Discount deferrals from receivables	8,606	7,701
Premium deferrals from issuing business	5,708	7,387

47. DEFERRED TAX LIABILITIES

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

(€ k)	31.12.2015	31.12.2014
Assets		
Loans and advances to customers	60,094	968,508
Interests in affiliated companies	1,041	-
Intangible fixed assets	829	1,122
Tangible fixed assets	46,755	61,692
Other assets	-	772
Liabilities		
Other liabilities	13	-
Provisions	71,420	-
Total	180,152	1,032,094

48. OTHER PROVISIONS

Other provisions primarily relate to the following items:

(€k)	31.12.2015	31.12.2014
Credit business	110,570	102,611
Restructuring measures	90,070	156,301
Securities transactions and financial derivatives	82,693	116,146
Personnel expenses	47,901	46,667
Outstanding invoices	44,640	25,807
Litigation risks and costs	34,756	47,550
Interest on corporate tax and trade tax	21,395	49,422
Assumption of costs of associated companies and discretionary benefits in the customer business	15,060	16,564
Archiving costs	5,500	5,500
Reimbursement of loan processing fees	3,000	33,000

€ 50 million (previous year: € 108 million) of the provisions for restructuring measures relate to personnel expenses and € 40 million (previous year: € 48 million) to operating expenses.

49. SUBORDINATED DEBT

Subordinated debt was issued in the form of promissory notes, registered or bearer bonds and is denominated in EUR, JPY and USD. The original maturities range from under three years to 40 years and the interest rates payable are between 0.25 % p.a. and 6.51 % p.a.

Individual items exceeding 10 % of total subordinated debt:

(€ m)	Currency	Interest rate	Maturity	Cancellation possibilities
430	EUR	3M Euribor 0.84 %	14.02.2017	Issuer cancellation right ¹⁾
498	EUR	3M Euribor 0.8 %	14.02.2017	Issuer cancellation right ¹⁾

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

In principle subordinated debt meets the requirements of Article 63 of the Capital Requirements Regulation (CRR) for recognition as Tier 2 capital. Subordinated debt in the amount of € 1,020 million (previous year: € 2,043 million) will mature in less than two years.

For the 2015 financial year, interest expense on subordinated debt amounted to € 82 million (previous year: € 90 million).

50. PROFIT PARTICIPATION CAPITAL

The terms and conditions of the profit participation capital also fulfil the requirements of Article 63 CRR for recognition as Tier 2 capital. This includes in particular, that the claims of profit participation certificate holders to repayment of capital are subordinate to other claims. Profit participation capital in the amount of € 14 million (previous year: € 15 million) will mature in less than two years.

Registered profit participation certificates with a total nominal value of € 26 million have original maturities between 15 and 17 years and bear interest between 6.68% p.a. and 7.35% p.a. Payment of interest on the profit participation capital is tied to the distributable profits of HSH Nordbank AG. No current interest was payable for the 2015 financial year due to the net loss.

The profit participation rights bear a loss of € 0.4 million for the 2015 financial year.

51. FUND FOR GENERAL BANKING RISKS

Neither amounts from the trading portfolio (previous year: € 0 million) nor any other amounts were allocated in the reporting period to

the fund for general banking risks in accordance with Section 340g HGB (previous year: € 673 million).

52. EQUITY CAPITAL

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

The share capital of HSH Nordbank AG amounts to € 3,018 million and is divided into 301,822,453 registered shares with a notional par value of € 10.00 per share. All the issued shares have been fully paid up.

As at the reporting date, HSH Finanzfonds AöR, Hamburg, was the largest shareholder with 65.00% of the voting rights. The voting rights held by the Free and Hanseatic City of Hamburg including the indirect shareholding held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH amounted to 10.80%. The Federal State of Schleswig-Holstein holds voting rights of 9.58%. The share of voting rights held by the Sparkassen- und Giroverband für Schleswig-Holstein (Savings Bank Association for Schleswig-Holstein) equals 5.31%. As at 31 December 2015, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31% of the voting rights. The ownership structure has not changed compared to the previous year.

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

Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG.

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

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

If a net loss is incurred for the current financial year, no distributions related to the silent participations can be made. In addition, these equity instruments must participate in the net loss for the year. For the 2015 financial year, the Silent participations shared in the Bank's loss to the amount of € 39 million (previous year: € 118 million). The Silent participations have been placed on the international capital markets (€ 908 million) as well as with the Bank's domestic institutional investors (€ 321 million).

NOTES ON THE INCOME STATEMENT

53. BREAKDOWN OF INCOME ITEMS BY GEOGRAPHICAL MARKETS

(€ k)	2015				2014			
	Germany	Rest of Europe	Asia	America	Germany	Rest of Europe	Asia	America
Interest income	4,513,148	177,501	62,551	17,752	4,941,864	208,940	61,707	54,891
Current income from shares and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	63,864	9,879	–	–	83,234	8,286	–	–
Commission income	143,308	4,663	1,697	1,136	166,172	8,069	3,472	2,389
Net income from the trading portfolio	–40,391	–	1,153	1,836	–235,524	–	1,803	3,986
Other operating income	208,421	21,902	1,664	787	126,091	21,295	457	7,920

54. NET INTEREST INCOME

Net interest income includes one-time expenses from the disposal of receivables in the amount of € 9 million (previous year: € 70 million).

55. NET COMMISSION INCOME

Net commission income is comprised of the following:

(€ k)	2015	2014
Lending business	69,391	90,541
Payment transactions and foreign business, documentary business	19,396	17,983
Securities business	585	176
Guarantee business	–459,382	–509,568
Other	7,602	8,051
Total	–362,408	–392,817

Net commission income for the year ended 31 December 2015 includes expenses for the guarantee from HSH Finanzfonds AöR in the amount of € 475 million (previous year: € 521 million).

€ 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).

56. OTHER OPERATING INCOME

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

(€ k)	2015	2014
Income on exchange from transactions not specifically hedged	74,410	-
Cost allocations and reimbursement of expenses	32,911	31,321
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 13)	29,871	17,669
Income from the reversal of other provisions	29,667	33,376
Income from the reversal of provisions for processing fees in the lending business	28,600	-
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	15,015	11,245
Income from legal disputes	7,950	15,212
Interest income from claims against tax authorities	17	25,129
Income from the disposal of leasing assets	-	4,682

57. OTHER OPERATING EXPENSES

Other operating expenses primarily include the following items:

(€ k)	2015	2014
Loss on the sale of receivables	106,465	–
Expenses for the compounding of provisions outside the lending business	34,199	–
Expenses for tax risks	22,500	–
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	17,413	7,479
Expenses from additions to other provisions	10,557	24,461
Loss on exchange from transactions not specifically hedged	3,864	91,310
Expenses from the creation of provisions for litigation risks	2,181	7,181
Expenses from the creation of provisions for contingent losses from valuation units (cf. Note 13)	403	38,211
Interest expenses pursuant to Section 233 AO	–	33,856
Expenses from the creation of provisions for processing fees in the lending business	–	33,000

In the previous year € 35 million from the compounding of loan loss provisions were disclosed in Net interest income.

58. EXTRAORDINARY RESULT

The Extraordinary result includes restructuring expenses connected to the strategic realignment of the Bank in the amount of € 37 million (previous year: € 125 million). These were offset by income arising from the reversal of provisions from previous restructuring programmes. Please refer to Note 22 for information concerning the accounting treatment applied to the restructuring.

Expenses arising from the reversal of deferred tax assets of € 1 million is attributable to the reversal of restructuring provisions recorded in Extraordinary expenses in the reporting year and the related reduction in the assessment basis for deferred tax assets.

59. INCOME TAXES

Income tax expense comprises the following:

(€ k)	2015	2014
Deferred income taxes	154,418	213,163
on temporary differences	172,642	286,305
on loss carryforwards	– 18,224	– 73,142
Current income taxes	27,107	– 29,114
Total	181,525	184,049

Total tax expense in the reporting year is marked by the reduction in temporary differences due to the effects of the informal agreement reached with the EU Commission on the annual financial statements. In principle, the informal agreement was confirmed by the formal decision of the EU Commission on 2 May 2016 and set out in more detail. In addition, provisions were created for tax expense of previous years.

60. INCOME FROM THE ASSUMPTION OF LOSSES

Income from the assumption of losses resulted from participation in losses attributable to profit participation capital (€ 0 million, previous year: € 3 million) as well as from participation in losses attributable to Silent participations (€ 39 million, previous year: € 118 million).

61. FEES FOR WORK BY THE STATUTORY AUDITORS

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

62. NON-DISTRIBUTABLE AMOUNTS

A total of € 502 million (previous year: € 657 million) of the reserves available for distribution are barred from being distributed. Of this amount, € 2 million (previous year: € 2 million) relates to the recognition of internally generated intangible fixed assets less the Deferred tax liabilities created in relation thereto. € 500 million (previous year: € 655 million) represents the amount by which the Deferred tax assets recognised on the balance sheet exceed the other Deferred tax liabilities.

OTHER DISCLOSURES

63. LEASING BUSINESS

Assets related to the leasing business include € 106 million (previous year: € 111 million) shown under Loans and advances to customers. Liabilities from the leasing business amount to € 32 million (previous year: € 42 million) and are disclosed under Liabilities to customers.

64. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

Contractually agreed obligations the realisation of which is unlikely as at the reporting date constitute contingent liabilities. This item mainly contains financial guarantees provided in the course of our lending business which contain a legally possible call right and it is unlikely that they will be drawn upon. Irrevocable loan commitments are reported under Other commitments. Credit guarantees and irrevocable loan commitments are subject to the Bank's loan loss provisions process (cf. Note 6). As part of this process, the relevant commitments are continually monitored on the basis of certain criteria with respect to exposure to any acute default risk. In the event there are indications that the borrower's financial situation makes the full repayment of the loan unlikely and there is a threat of a call on the guarantee, the default risk is covered by the recognition of a provision. Provisions are additionally recognised for irrevocable credit commitments where a drawdown is likely and the borrower is not expected to repay the agreed loan amount, in full or in part, due to financial difficulties. Provisions are disclosed on the liability side of the balance sheet.

Contingent liabilities or other commitments are reduced accordingly. To this extent, there is no acute credit risk for the Bank with regard to the contingent liabilities and other commitments disclosed on the balance sheet as at the reporting date.

Contingent liabilities include a material liability to a foreign bank in the amount of € 589 million.

Irrevocable credit commitments mainly relate to domestic clients in the amount of € 4,459 million (previous year: € 5,494 million) and to foreign clients in the amount of € 1,947 million (previous year: € 1,762 million).

As was the case in the previous year, there were no placement or underwriting commitments as at 31 December 2015.

Please refer to Note 2 for more details.

65. LETTERS OF COMFORT

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

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

66. OTHER FINANCIAL OBLIGATIONS

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

There are shareholder liabilities of less than € 1 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 2 million). These liabilities are due to affiliated companies.

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 payments are not provided for.

Further obligations in the amount of € 42 million (previous year: € 66 million) result from long-term leases for land and buildings used for business purposes. 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).

In the course of the restructuring of a HSH Nordbank AG undertook 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 are no material other financial obligations apart from those listed above.

67. OTHER TRANSACTIONS NECESSARY FOR AN ASSESSMENT OF THE BANK'S FINANCIAL SITUATION

As a supplemental measure to provide protection against risks, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee in the amount of €

10 billion via HSH Finanzfonds AöR. The guarantee takes effect as soon as risks in defined portfolios exceed the Bank's agreed first loss piece of € 3.2 billion (cf. Note 2).

68. NOTES ON SHAREHOLDINGS

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

AFFILIATED COMPANIES – FOREIGN BANKS

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	190,972,608.02	13,447,359.34

AFFILIATED COMPANIES – OTHER DOMESTIC COMPANIES

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
2	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	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 ¹⁾	100.00	100.00	EUR	1,923.68	-1,766.27
5	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg ¹⁾	100.00	100.00	EUR	2,455,560.30	-51,730.27
6	CAPCELLENCE Holding GmbH & Co. KG, Hamburg ¹⁾	100.00	100.00	EUR	116,788,455.69	489,552.21
7	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.91	EUR	1,274,037.67	13,262.77
8	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.99	EUR	1,861,415.59	12,946.51
9	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.90	EUR	215,982.29	-8,743.19
10	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.90	EUR	2,210,670.47	-8,746.96
11	CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.99	EUR	14,607,796.39	343,459.40
12	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH, Hamburg ¹⁾	100.00	100.00	EUR	13,966.97	-1,850.45
13	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.95	EUR	1,623,394.90	-10,265.41
14	CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.47	EUR	273,592.35	-8,390.06
15	CAPCELLENCE Vintage Year 14 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.00	EUR	3,419,060.23	-9,064.43
16	CAPCELLENCE Vintage Year 15 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	83.33	99.00	EUR	⁵⁾	⁵⁾
17	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg ¹⁾	100.00	100.00	EUR	8,307,898.50	-42,027.46
18	CHIOS GmbH, Hamburg	100.00	100.00	EUR	2,263.51	-11,360.73
19	GmbH Altstadt Grundstücksgesellschaft, Mainz ^{1) 14)}	50.00	50.00	EUR	-172,896.36	88,325.36
20	GODAN GmbH, Hamburg	100.00	100.00	EUR	-946,471.51	-9,960.27
21	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	-2,019,683.80	-399.31
22	HGA New Office Campus-Kronberg GmbH & Co. KG, Hamburg	56.44	56.44	EUR	21,223,560.22	-853,667.70
23	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	36,562,283.25	12,133,118.53
24	HSH Care+Clean GmbH, Hamburg ^{1) 3)}	51.00	51.00	EUR	25,000.00	68,719.08
25	HSH Facility Management GmbH, Hamburg ²⁾	100.00	100.00	EUR	205,600.00	3,544,355.87
26	HSH Gastro+Event GmbH, Hamburg ^{1) 3)}	100.00	100.00	EUR	25,000.00	583,367.18
27	HSH Move+More GmbH, Kiel ^{1) 3)}	51.00	51.00	EUR	25,000.00	86,220.29
28	HSH Private Equity GmbH, Hamburg ²⁾	100.00	100.00	EUR	550,000.00	526,528.17
29	Ilex Integra GmbH, Hamburg ¹⁾	100.00	100.00	EUR	-20,846,990.04	-3,426,011.99
30	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart ^{1) 8)}	80.00	0.00	EUR	-192,138.73	198,186.39
31	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	23,048.70	4,238.45
32	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung i. L., Hamburg	100.00	100.00	EUR	25,564.59	0.00

AFFILIATED COMPANIES – OTHER FOREIGN COMPANIES

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
33	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	43,609,872.00	9,323,657.00
34	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong ¹⁾	51.00	51.00	USD	115.00	0.00
35	Avia Management S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-33,910.72	248.50
36	Aviation Leasing OpCo France III, Paris, France ¹⁾	100.00	100.00	EUR	-113,703.00	-47,213.00
37	Aviation Leasing OpCo France IV, Paris, France ¹⁾	100.00	100.00	EUR	-21,273.00	-12,719.00
38	DEERS Green Power Development Company, S.L., Madrid, Spain ¹⁾	100.00	100.00	EUR	-30,475,546.00	603,010.00
39	European Capital Investment Opportunities Limited, St. Helier, Jersey ¹⁾	51.00	51.00	EUR	95.00	5.00
40	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	519,882.00	93,951.00
41	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	654,305,988.00	36,276,800.00
42	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	3,686,501.00	-105,772.00
43	HSH N Structured Situations Limited, St. Helier, Jersey ⁷⁾	100.00	100.00	USD	351,241.00	10,805.00
44	ISM Agency, LLC, New York, USA ¹⁾	100.00	100.00	USD	⁶⁾	⁶⁾
45	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg ¹⁰⁾	100.00	100.00	USD	1,853,181.83	1,839,870.00
46	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	0.00
47	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	0.00
48	Neptune Ship Finance (Luxembourg) S.à.r.l. & CIE, S.e.c.s., Luxembourg, Luxembourg ⁴⁾	100.00	100.00	USD	755,457.47	217,317,449.36
49	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg ¹⁾	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 ¹⁾	49.00	49.00	EUR	-8,229,734.00	-3,038,580.00
51	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00		⁶⁾	⁶⁾
52	Solar Holdings S.à r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-21,941,115.13	-1,630,006.15

SHARE OF 20 % OR MORE

Serial no.	Name/place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
53	4Wheels Management GmbH, Düsseldorf ¹⁾ 9)	68.75	40.00	EUR	13,840,156.18	-126,079.26
54	AGV Irish Equipment Leasing No. 4 Limited, Dublin, Ireland ¹²⁾	100.00	100.00	USD	17,882.00	106,977,824.00
55	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland ¹⁾	49.00	49.00	USD	-4,736,784.00	-192,366.00
56	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland ¹⁾	49.00	49.00	USD	-13,970,316.00	-2,883,749.00
57	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland ¹⁾	49.00	49.00	USD	2,544,513.00	1,131,440.00
58	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland ¹⁾	49.00	49.00	USD	-10,737,019.00	-56,943.00
59	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland ¹⁾	49.00	49.00	USD	-6,521,915.00	-2,858,784.00
60	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland ¹⁾	49.00	49.00	USD	-13,871,522.00	-185,017.00
61	BRINKHOF Holding Deutschland GmbH, Erfurt ¹⁾	100.00	0.00		¹¹⁾	¹¹⁾
62	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg ¹⁾	33.33	33.33	EUR	-8,372.72	-8,745.16
63	Fosse Way Shipping Limited, London, Great Britain ^{8) 13)}	58.85	58.85	EUR	-20,030,801.00	-135,705.00
64	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,520,936.97	9,886.26
65	KAIACA LLC, New York, USA ¹³⁾	55.30	55.30	USD	100,000.00	0.00
66	Kontora Family Office GmbH, Hamburg ¹³⁾	51.00	51.00	EUR	926,096.98	141,837.21
67	Lagan Viking Limited, Hong Kong, Hong Kong ^{8) 13)}	58.85	58.85	EUR	-16,009,776.00	-96,400.00
68	Mersey Viking Limited, Hong Kong, Hong Kong ^{8) 13)}	58.85	58.85	EUR	-15,470,737.00	-150,774.00
69	Relacom Management AB, Stockholm, Sweden	21.17	21.17	SEK	301,651,000.00	-1,194,715,000.00
70	SITUS NORDIC SERVICES ApS, Copenhagen, Denmark	40.00	40.00	DKK	8,178,086.00	3,604,830.00
71	Watling Street Shipping Limited, London, Great Britain ^{8) 13)}	58.85	58.85	EUR	-36,449,309.00	-169,085.00

¹⁾ Indirect holding.

²⁾ A profit transfer agreement with the company is in place.

³⁾ There is a profit transfer agreement with HSH Facility Management GmbH.

⁴⁾ Both direct and indirect holdings.

⁵⁾ No information available due to newly established company.

⁶⁾ No data available.

⁷⁾ Only data as at 31 December 2010 is available..

⁸⁾ Only data as at 31 December 2013 is available..

⁹⁾ Only data as at 31 July 2014 is available..

¹⁰⁾ Only data as at 09 December 2014 is available..

¹¹⁾ No information available due to insolvency of the company.

¹²⁾ Based on the contractual arrangement this is not an affiliated company, although HSH Nordbank AG holds 100% of the voting rights.

¹³⁾ This is not an affiliated company due to the requirement for a qualified majority of voting rights for important decisions.

¹⁴⁾ Based on the contractual arrangement this is an affiliated company, although HSH Nordbank AG does not hold the majority of the voting rights.

FOREIGN EXCHANGE RATES FOR € 1 AS AT

31 DECEMBER 2015

Denmark	DKK	7.4626
Sweden	SEK	9.1895
USA	USD	1.0887

HSH Nordbank AG is the general partner of GLB GmbH & Co. OHG, Frankfurt am Main.

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

69. NOTES ON FOREIGN CURRENCIES

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

(€ k)	31.12.2015	31.12.2014
Assets	32,880,808	41,292,664
Liabilities	11,699,702	17,167,204

70. INFORMATION ON THE NET BALANCE SHEET PRESENTATION

The netting of the fair values of trading portfolio derivatives traded over the counter against the cash collateral provided and received that was applied for the first time in the reporting period had the following impact with regard to the transactions included in the netting process:

(€ k)	31.12.2015		
	Value before netting	Netting	Value after netting
Trading portfolio (assets)			
of which: derivative financial instruments	3,245,006	3,228,042	16,964
Other assets	3,551,482	1,707,420	1,844,062
Total assets	6,796,488	4,935,462	1,861,026
Trading portfolio (liabilities)	–	–	
of which: derivative financial instruments	4,817,545	4,757,469	60,076
Other liabilities	444,560,624	177,993	444,382,631
Total equity and liabilities	449,378,169	4,935,462	444,442,707

71. DERIVATIVES BUSINESS

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

Transactions held in the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following overview of the non-trading portfolio does not include derivatives that are a component of accounting valuation units (the nominal volume of these derivatives amounted to € 5,790 million as at 31 December 2015).

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

I. Presentation of volumes and market values

TRADING PORTFOLIO

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Interest rate swaps	180,967	199,489	5,063	6,677	4,468	5,835
FRA	–	2,059	–	–	–	–
Interest rate options	–	–	–	–	–	–
Swaptions						
Long positions	3,381	3,953	131	168	31	34
Short positions	4,305	4,939	4	2	222	328
Caps, floors	7,653	7,515	54	64	36	47
Exchange-traded contracts	1,115	1,130	–	–	–	–
Other forward interest rate transactions	326	563	15	20	32	37
Interest rate risks	197,747	219,648	5,267	6,931	4,789	6,281
Interest rate/currency swaps	19,992	24,904	209	182	247	529
Interest rate and foreign exchange risks	19,992	24,904	209	182	247	529
Forward exchange transactions	2,068	2,309	45	72	50	72
Currency options						
Long positions	633	396	30	25	–	–
Short positions	905	622	–	–	50	38
Foreign exchange risks	3,606	3,327	75	97	100	110
Equity options						
Long positions	88	88	23	55	–	–
Short positions	91	91	–	–	23	56
Forward equity transactions	–	–	–	–	–	–
Exchange-traded contracts	5	1	–	–	–	–
Equity/index-based swaps	–	–	–	–	–	–
Commodity-based transactions	10	789	36	84	36	41
Equity and other price risks	194	969	59	139	59	97
Collateral provider	23	23	–	–	–	–
Collateral taker	186	146	30	27	–	–
Credit derivatives	209	169	30	27	–	–
Structured products	2,504	3,216	163	207	155	166
Total	224,252	252,233	5,803	7,583	5,350	7,183

NON-TRADING PORTFOLIO

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Interest rate swaps	5,401	7,165	247	362	925	1,142
FRA	-	-	-	-	-	-
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	-	-	-	-	-	-
Short positions	-	-	-	-	-	-
Caps, floors	142	146	-	2	-	-
Exchange-traded contracts	1,121	-	-	-	-	-
Other forward interest rate transactions	42	26	-	-	-	-
Interest rate risks	6,706	7,337	247	364	925	1,142
Interest rate/currency swaps	254	1,355	-	1	151	135
Interest rate and foreign exchange risks	254	1,355	-	1	151	135
Forward exchange transactions	10,369	9,108	132	22	24	137
Currency options						
Long positions	73	75	29	20	-	-
Short positions	100	101	-	-	40	27
Foreign exchange risks	10,542	9,284	161	42	64	164
Equity options						
Long positions	19	22	3	1	-	-
Short positions	-	-	-	-	-	-
Equity/index-based swaps	-	-	-	-	-	-
Commodity-based transactions	-	-	-	-	-	-
Equity and other price risks	19	22	3	1	-	-
Collateral provider	65	64	-	-	-	-
Collateral taker	-	530	-	3	-	-
Credit derivatives	65	594	-	3	-	-
Structured products	1,260	1,256	40	47	233	261
Total	18,846	19,848	451	458	1,373	1,702

II. Breakdown by counterparty

TRADING AND NON-TRADING PORTFOLIO

(€ m)	Nominal values		Positive market values		Negative market values	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
OECD banks	150,064	173,899	3,179	4,080	5,246	7,060
Non-OECD banks	215	120	4	4	–	–
Non-banks (incl. stock exchanges)	87,008	90,431	2,838	3,665	1,187	1,454
Public authorities	5,811	7,631	233	292	290	371
Total	243,098	272,081	6,254	8,041	6,723	8,885

III. Breakdown by maturity

TRADING AND NON-TRADING PORTFOLIO

(€ m)	Interest rate risks		Credit risks		Foreign exchange risks		Equity and other price risks		Structured products	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Residual maturity										
Up to 3 months	19,076	21,289	–	–	11,726	10,320	8	251	123	2
Up to 1 year	29,795	45,826	50	300	1,547	1,399	66	449	305	643
Up to 5 years	122,849	132,615	90	109	875	819	132	285	1,468	1,841
Over 5 years	52,979	53,514	134	354	–	73	7	6	1,868	1,986
Total	224,699	253,244	274	763	14,148	12,611	213	991	3,764	4,472

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

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where HSH Nordbank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the recognition of provisions for contingent losses may be

necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As of 31 December 2015, the net amount of reconciliation items shown under Other assets amounted to € 127 million (previous year: € 23 million) and the reconciliation items shown under Other liabilities amounted to € 106 million (previous year: € 270 million).

(€ m)	Option premiums paid		Option premiums received	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Interest rate contracts	–	3	–	2
Currency contracts	10	10	11	11
Equity and other contracts	9	3	–	–
Total	19	16	11	13

We have created provisions for contingent losses in the amount of € 29 million (previous year: € 29 million) for derivative financial instru-

ments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown.

72. INFORMATION IN ACCORDANCE WITH SECTION 28 OF THE MORTGAGE BOND ACT (PFANDBRIEFGESETZ)

The total amount of mortgage bonds, public-sector bonds and ship mortgage bonds in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV¹⁾ are as follows:

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Mortgage bonds	5,048	4,580	5,303	4,880	5,358	4,940
Cover funds	5,443	5,057	5,845	5,446	5,855	5,432
thereof derivatives	-	-	-	-	-	-
Surplus coverage	395	477	542	566	497	492

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Public-sector mortgage bonds	4,397	5,401	5,322	6,853	4,912	6,382
Cover funds	4,752	6,108	5,976	7,664	5,287	7,030
thereof derivatives	-	-	-	-	-	-
Surplus coverage	355	707	654	811	375	648

(€ m)	Nominal value		Net present value		Risk-adjusted net present value incl. currency stress	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Ship mortgage bonds	2,730	1,981	2,778	2,016	2,749	2,016
Cover funds	3,157	2,743	3,330	2,900	2,883	2,678
thereof derivatives	-	-	-	-	-	-
Surplus coverage	427	762	552	884	134	662

COMPOSITION OF THE ADDITIONAL COVER ASSETS

(€ m)	Equalisation claims	Receivables within the meaning of Section 19 (1) No. 2 PfandBG		Receivables within the meaning of Section 19 (1) No. 3 PfandBG	Mortgage bonds Total
		Total	thereof covered debentures		
Registered receivables 2015					
Germany	-	108	-	750	858
Total	-	108	-	750	858

As in the previous year, there were no receivables that exceeded the limits set out in Section 19 (1) of the German Mortgage Bonds Act (Pfandbriefgesetz - PfandBG).

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

(€ m)	Receivables within the meaning of Section 19 (1) No. 2 PfandBG				Mortgage bonds
	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 19 (1) No. 3 PfandBG	Total
Registered receivables 2014					
Germany	-	20	-	445	465
Total	-	20	-	445	465

(€ m)	Receivables within the meaning of Section 20 (2) No. 2 PfandBG			Public-sector mortgage bonds
	Equalisation claims	Total	thereof covered debentures	Total
Registered receivables 2015				
Germany	-	9	-	9
Total	-	9	-	9

As in the previous year, there were no receivables that exceeded the limits set out in Section 20 (2) PfandBG.

(€ m)	Receivables within the meaning of Section 20 (2) No. 2 PfandBG			Public-sector mortgage bonds
	Equalisation claims	Total	thereof covered debentures	Total
Registered receivables 2014				
Germany	-	22	-	22
Total	-	22	-	22

(€ m)	Receivables within the meaning of Section 26 (1) No. 3 PfandBG				Ship mortgage bonds
	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) No. 4 PfandBG	Total
Registered receivables 2015					
Germany	-	-	-	130	130
Austria	-	-	-	-	-
Total	-	-	-	130	130

As in the previous year, there were no receivables that exceeded the limits set out in Section 26 (1) PfandBG.

(€ m)	Receivables within the meaning of Section 26 (1) No. 3 PfandBG				Ship mortgage bonds
	Equalisation claims	Total	thereof covered debentures	Receivables within the meaning of Section 26 (1) No. 4 PfandBG	Total
Registered receivables 2014					
Germany	-	-	-	105	105
Austria	-	-	-	10	10
Total	-	-	-	115	115

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

(€ m)	Mortgage bonds		Cover funds	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Nominal value				
Up to 6 months	644	320	198	447
Between 6 and 12 months	186	204	432	654
Between 12 and 18 months	545	644	407	127
Between 18 months and 2 years	143	186	513	443
Between 2 years and 3 years	594	687	832	899
Between 3 years and 4 years	898	602	599	565
Between 4 years and 5 years	716	898	746	475
Between 5 years and 10 years	1,322	1,039	1,591	1,367
Over 10 years	-	-	125	80
Total	5,048	4,580	5,443	5,057

(€ m)	Public-sector mortgage bonds		Cover funds	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Nominal value				
Up to 6 months	873	321	261	423
Between 6 and 12 months	131	240	348	362
Between 12 and 18 months	266	823	130	274
Between 18 months and 2 years	149	131	138	378
Between 2 years and 3 years	733	419	326	568
Between 3 years and 4 years	320	732	285	356
Between 4 years and 5 years	218	297	164	152
Between 5 years and 10 years	756	793	626	977
Over 10 years	951	1,645	2,474	2,618
Total	4,397	5,401	4,752	6,108

(€ m)	Ship mortgage bonds		Cover funds	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Nominal value				
Up to 6 months	300	505	675	695
Between 6 and 12 months	200	255	411	277
Between 12 and 18 months	239	300	346	248
Between 18 months and 2 years	393	200	321	264
Between 2 years and 3 years	1,255	403	530	387
Between 3 years and 4 years	235	245	388	332
Between 4 years and 5 years	15	35	289	244
Between 5 years and 10 years	93	38	184	277
Over 10 years	-	-	13	19
Total	2,730	1,981	3,157	2,743

The proportion of fixed-interest-bearing cover assets in the corresponding cover funds and the ratios of fixed-interest-bearing bonds to the liabilities to be covered are as follows:

(in %)	Mortgage bonds	
	31.12.2015	31.12.2014
Proportion of fixed interest-bearing cover funds	37	37
Ratio of fixed interest-bearing bonds	93	88

(in %)	Public-sector mortgage bonds	
	31.12.2015	31.12.2014
Proportion of fixed interest-bearing cover funds	84	80
Ratio of fixed interest-bearing bonds	96	93

(in %)	Ship mortgage bonds	
	31.12.2015	31.12.2014
Proportion of fixed interest-bearing cover funds	2	5
Ratio of fixed interest-bearing bonds	33	8

The following tables show the net present value for each foreign currency:

(€ m)	Mortgage bonds	
	31.12.2015	31.12.2014
Foreign currency		
CHF	17	55
GBP	100	95
JPY	7	8
SEK	22	50
USD	103	312

(€ m)	Public-sector mortgage bonds	
	31.12.2015	31.12.2014
Foreign currency		
CHF	45	-
JPY	152	134
USD	-	36

(€ m)	Ship mortgage bonds	
	31.12.2015	31.12.2014
Foreign currency		
CHF	26	30
JPY	3	35
USD	2,705	2,474

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

(A) MORTGAGE BOND REGISTER

(€ m)	Covering mortgages	
	31.12.2015	31.12.2014
Nominal value		
Up to € 300,000	25	30
Between € 300,000 and € 1 million	122	142
Between € 1 million and € 10 million	1,491	1,550
Over € 10 million	2,947	2,869
Total	4,585	4,591

(B) SHIP REGISTER

(€ m)	Covering mortgages	
	31.12.2015	31.12.2014
Nominal value		
Up to € 500,000	3	4
Between € 500,000 and € 5 million	353	430
Over € 5 million	2,671	2,194
Total	3,027	2,628

(C) PUBLIC-SECTOR MORTGAGE BOND

(€ m)	Covering mortgages	
	31.12.2015	31.12.2014
Nominal value		
Up to € 10 million	179	n.a.
Between € 10 million and € 100 million	627	n.a.
Over € 100 million	3,937	n.a.
Total	4,743	n.a.

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

(€ m)	31.12.2015	31.12.2014
Used for residential purposes	884	1,079
Used for commercial purposes	3,701	3,512

(€ m)	Apart- ments	Single and semi- detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new- buildings	Building plots	Total
2015										
Germany	-	4	880	1,250	958	2	622	99	-	3,815
Finland	-	-	-	8	-	-	-	-	-	8
France	-	-	-	373	-	-	-	-	-	373
Great Britain / Northern Ireland / Brit. Channel Islands	-	-	-	97	-	-	-	-	-	97
Netherlands	-	-	1	148	12	-	1	-	-	162
Austria	-	-	-	11	-	-	-	-	-	11
Sweden	-	-	-	-	18	-	-	-	-	18
USA	-	-	-	101	-	-	-	-	-	101
Total	-	4	881	1,988	988	2	623	99	-	4,585

(€ m)	Apart- ments	Single and semi- detached dwellings	Multiple dwellings	Office buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new- buildings	Building plots	Total
2014										
Germany	1	7	1,055	937	607	2	601	7	10	3,227
Finland	-	-	-	14	-	-	15	-	-	29
France	-	-	-	580	5	-	-	-	-	585
Great Britain / Northern Ireland / Brit. Channel Islands	-	-	-	91	-	-	-	-	-	91
Netherlands	-	-	14	185	57	-	45	-	-	301
Austria	-	-	-	11	-	-	-	-	-	11
Sweden	-	-	3	-	32	4	6	-	-	45
USA	-	-	-	302	-	-	-	-	-	302
Total	1	7	1,072	2,120	701	6	667	7	10	4,591

(€ m)	31.12.2015	31.12.2014
Total of payments at least 90 days in arrears	-	-
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	-	-

Other key figures relating to the regular cover assets of the mortgage bonds:

		31.12.2015	31.12.2014
Total amount of receivables that exceed the limits set out in Section 13 (1) PfandBG	€ m	–	–
Volume-weighted average age of the receivable	in years	5	6
Average weighted loan-to-value ratio	in %	55	52

The following tables show the breakdown of the total amount of loans and advances used to cover public sector mortgage bonds based on borrowers and the countries in which the borrowers are domiciled.

(€ m)					
2015	Country	Regional public authority	Local public authority	Other	Total
Germany	50	2,297	283	1,061	3,691
of which: ECA financings	—	—	—	—	151
Belgium	250	13	–	–	263
Great Britain / Northern Ireland / Brit. Channel Islands	10	–	–	–	10
Italy	–	18	–	–	18
Luxembourg	13	–	–	–	13
Poland	23	–	–	–	23
Switzerland	–	236	–	–	236
Slovenia	40	–	–	–	40
Austria	449	–	–	–	449
Total	835	2,564	283	1,061	4,743

(€ m)					
2014	Country	Regional public authority	Local public authority	Other	Total
Germany	366	2,836	209	1,288	4,699
of which: ECA financings	—	—	—	—	–
Belgium	250	14	–	–	264
Great Britain / Northern Ireland / Brit. Channel Islands	–	–	–	10	10
Italy	–	23	–	–	23
Japan	–	–	50	–	50
Luxembourg	–	–	–	13	13
Poland	21	–	–	–	21
Switzerland	–	212	–	–	212
Slovenia	90	–	–	–	90
Austria	449	–	–	277	726
Total	1,176	3,085	259	1,588	6,108

The following amounts are in arrears concerning these loans and advances:

(€ m)					
2015	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	-	-	-	-	-
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	-	-	-	-	-

(€ m)					
2014	Country	Regional public authority	Local public authority	Other	Total
Total of payments at least 90 days in arrears	-	-	-	-	-
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	-	-	-	-	-

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

(€ m)	31.12.2015		31.12.2014	
	Ocean-going vessels	Inland water vessels	Ocean-going vessels	Inland water vessels
Bahamas	72	-	30	-
Germany	1,021	-	1,176	-
Greece	139	-	58	-
Hong Kong	126	-	114	-
Liberia	491	-	369	-
Malta	257	-	246	-
Marshall Islands	600	-	335	-
Norway	4	-	9	-
Panama	130	-	90	-
Singapore	79	-	97	-
Cyprus	108	-	104	-
Total	3,027	-	2,628	-

(€ m)	31.12.2015	31.12.2014
Total of payments at least 90 days in arrears	-	-
Total amount of these receivables provided that the amount in arrears accounts for at least 5 % of the receivable	-	-

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

Number 2015	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

Number 2014	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Pending foreclosures and judicially enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

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

(€ m) 2015	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	-	-	-	-	-

(€ m) 2014	Commercial	Residential	Ocean-going vessels	Inland water vessels	Total
Total amount of arrears on interest to be paid	-	-	-	-	-

Of loans and advances to banks, the amount of € 447 million (previous year: € 559 million), and € 15,793 million of loans and advances to

customers (previous year: € 16,460 million) are used to cover debentures issued.

73. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED STATES

The following overviews show our exposures to states for which an increased economic risk is assumed. They present the risk directly attributable to the listed European countries. The income statement

effects are only shown for the original positions, i.e. without taking the measurement results of the hedging derivatives into account.

(€ m)	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	Fair value of assets
31.12.2015				
Portugal	261	6	255	262
Country	231	–	231	241
Banks	5	–	5	4
Corporates/Other	25	6	19	17
Italy	909	93	816	954
Country	298	–	298	446
Banks	8	–	8	8
Corporates/Other	603	93	510	500
Greece	1,114	99	1.015	1.016
Corporates/Other	1,114	99	1.015	1.016
Russia	95	17	78	78
Corporates/Other	95	17	78	78
Spain	1,469	102	1.367	1.351
Country	163	–	163	165
Banks	17	–	17	17
Corporates/Other	1,289	102	1.187	1.169
Cyprus	1,393	447	946	944
Corporates/Other	1,393	447	946	944
Croatia	106	–	106	104
Corporates/Other	106	–	106	104
Turkey	482	133	349	347
Banks	10	–	10	10
Corporates/Other	472	133	339	337
Total	5,829	897	4.932	5.056

(€ m)	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	Fair value of assets
31.12.2014				
Portugal	324	6	318	319
Country	280	-	280	283
Banks	5	-	5	3
Corporates/Other	39	6	33	33
Italy	1,127	25	1,102	1,204
Country	485	-	485	639
Banks	1	-	1	1
Corporates/Other	641	25	616	564
Greece	1,126	206	920	941
Country	6	-	6	6
Corporates/Other	1,120	206	914	935
Russia	125	6	119	118
Corporates/Other	125	6	119	118
Spain	1,818	97	1,721	1,760
Country	168	-	168	170
Banks	102	-	102	104
Corporates/Other	1,548	97	1,451	1,486
Cyprus	1,699	506	1,193	1,195
Banks	21	-	21	22
Corporates/Other	1,678	506	1,172	1,173
Croatia	118	-	118	119
Corporates/Other	118	-	118	119
Turkey	486	53	433	429
Banks	31	-	31	31
Corporates/Other	455	53	402	398
Total	6,823	899	5,924	6,085

74. AVERAGE NUMBER OF EMPLOYEES

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

	2015			2014		
	Male	Female	Total	Male	Female	Total
Full-time employees	1,265	486	1,751	1,339	545	1,884
Part-time employees	116	491	607	120	502	622
Total	1,381	977	2,358	1,459	1,047	2,506
Apprentices/trainees	24	12	36	29	9	38

75. CORPORATE GOVERNANCE

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have given a declaration of con-

formity pursuant to Section 161 AktG and have made it available to the shareholders. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2015 Annual Report.

76. REMUNERATION PAID TO MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

In accordance with the decision of the EU Commission of 20 September 2011 concerning state aid the remuneration of the members of the Management Board of HSH Nordbank AG is limited for each board member to a maximum of € 500,000 per annum (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 active and former members of executive bodies. Total remuneration for members of the Management Board includes short-term benefits as well as payments to pension schemes.

REMUNERATION OF EXECUTIVE BODIES

(€k)	2015	2014
Total remuneration of active members of executive bodies		
Management Board	3,420	3,309
Supervisory Board	467	462
Total	3,887	3,771
Total remuneration of former members of executive bodies and their surviving dependants		
Management Board	2,751	2,734

As at 31 December 2015, a total of €k 43,979 (previous year: €k 42,151) 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. Advances, loans and other liabilities to members of the Supervisory Board 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 amount to €k 30 in total in 2015 (previous year: €k 28).

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 value-added tax: €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
Members of the Supervisory Board						
Dr Thomas Mirow, 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 ¹⁾	–	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 ²⁾	7,540	–	1,500	–	9,040	–
Hans-Werner Blöcker ³⁾	–	3,918	–	500	–	4,418
Berthold Bose ³⁾	–	3,918	–	250	–	4,168
Oliver Dircks ³⁾	–	6,464	–	750	–	7,214
Simone Graf ⁴⁾	30,000	18,247	6,000	3,500	36,000	21,747
Silke Grimm ⁴⁾	16,000	9,732	2,500	1,500	18,500	11,232
Torsten Heick ⁵⁾	8,926	17,412	1,750	2,750	10,676	20,162
Oke Heuer ³⁾	–	9,011	–	1,500	–	10,511
Stefan Jütte	26,000	25,021	3,000	2,000	29,000	27,021
Sabine Kittner-Schürmann ²⁾	–	6,464	–	750	–	7,214
Dr Rainer Klemmt-Nissen	30,000	27,258	6,000	5,250	36,000	32,508
Lutz Koopmann ³⁾	–	3,918	–	500	–	4,418
Dr Joachim Lemppenau ³⁾	–	9,207	–	750	–	9,957
Manfred Lener ³⁾	–	6,464	–	1,000	–	7,464
Thomas Losse-Müller ⁶⁾	–	24,463	–	4,000	–	28,463
Rieka Meetz-Schawaller	18,000	22,505	3,000	4,000	21,000	26,505
Dr David Morgan ¹¹⁾	25,000	24,216	4,500	4,250	29,500	28,466
Dr Philipp Nimmermann ⁷⁾	30,000	2,066	5,250	250	35,250	2,316
Dieter Randau ⁸⁾	–	4,792	–	750	–	5,542
Edda Redeker ³⁾	–	3,918	–	500	–	4,418
Stefan Schlatermund ⁴⁾	18,000	10,948	3,250	2,000	21,250	12,948
Klaus-Dieter Schwettscher ²⁾	10,699	–	2,000	–	12,699	–
Elke Weber-Braun ⁴⁾	26,000	15,814	3,250	2,000	29,250	17,814
Bernd Wrede ³⁾	–	6,464	–	–	–	6,464
Jörg Wohlers ¹⁰⁾	24,118	–	4,750	–	28,868	–
Total	402,283	399,826	65,250	57,500	467,533	457,326

¹⁾ 23 May until 31 December 2014

²⁾ from 14 July 2015

³⁾ until 23 May 2014

⁴⁾ from 23 May 2014

⁵⁾ until 30 June 2015

⁶⁾ until 27 November 2014

⁷⁾ from 27 November 2014

⁸⁾ 23 May until 29 October 2014

⁹⁾ from 10 January 2015

¹⁰⁾ from 01 January 2015

¹¹⁾ Amounts before deduction of Supervisory Council tax and solidarity surcharge

The members of the Supervisory Board have 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.

77. SEATS ON SUPERVISORY BODIES

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

(a) Members of the Management Board

No seats were held as at the reporting date.

(b) Employees

Peter Axmann

Sprinkenhof AG, Hamburg
Member of the Supervisory Board

Dr Dirk Lammerskötter

HSH Nordbank Securities S.A., Luxembourg
Member of the Administrative Board

Boris Matuszcak

GEWOBAG Wohnungsbau-AG, Berlin
Member of the Supervisory Board

Dr David Mbonimana

HSH Nordbank Securities S.A., Luxembourg
Member of the Administrative Board

Thomas Rabehl

HSH Nordbank Securities S.A., Luxembourg
Member of the Administrative Board

Wolfgang Topp

HSH Nordbank Securities S.A., Luxembourg
Chairman of the Administrative Board

Katrin Wächter

Technosis AG, Hamburg
Member of the Supervisory Board

78. THE SUPERVISORY BOARD OF HSH NORDBANK AG

Dr Thomas Mirow, Hamburg

Chair
Former President of the European Bank for Reconstruction and Development, London

Olaf Behm, Hamburg

Deputy Chair
Employee of HSH Nordbank AG

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

(a) 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****(b) 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)

(c) Members of the Executive/Nominating 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)

(d) Members of the Remuneration Monitoring Committee

Dr Thomas Mirow
Chair

Olaf Behm

Simone Graf

Silke Grimm

Dr Rainer Klemmt-Nissen

Dr Philipp Nimmermann

(e) Members of the Mediation Committee

Dr Thomas Mirow
Chair

Olaf Behm

Dr Rainer Klemmt-Nissen

Rieka Meetz-Schawaller

79. THE MANAGEMENT BOARD OF HSH NORDBANK AG

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

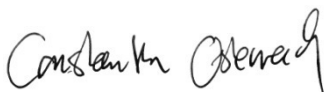
Edwin Wartenweiler

(until 31 May 2015)

Born in 1959

Chief Risk Officer

Hamburg/Kiel, 31 May 2016



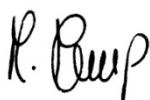
Constantin von Oesterreich



Stefan Ermisch



Ulrik Lackschewitz



Torsten Temp



Matthias Wittenburg

AUDITOR'S REPORT

We have audited the annual financial statements - comprising the balance sheet, the income statement and the notes to the financial statements - together with the bookkeeping system, and the management report of HSH Nordbank AG for the business year from 1 January to 31 December 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we wish to point out to the comments in the management report in the section "Opportunities and risks related to the formal decision in the EU state aid proceedings". It is stated there that the going concern assumption for accounting and

measurement purposes is based in particular on the 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.

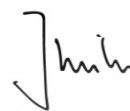
It is further required that acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's business model and the requirements under the formal decision of the EU Commission is maintained or gained and that the expected recovery of the shipping markets materialises.

Hamburg, 31 May 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft



Leitz
Wirtschaftsprüfer

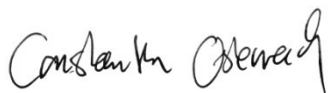


Thiede Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

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

Hamburg/Kiel, 31 May 2016



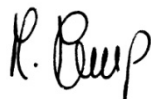
Constantin von Oesterreich



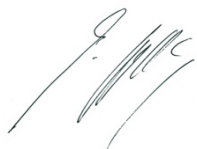
Stefan Ermisch



Ulrik Lackschewitz



Torsten Temp



Matthias Wittenburg

HSH NORDBANK AG

HAMBURG: Gerhart-Hauptmann-Platz 50, 20095 Hamburg, Germany

Phone +49 40 3333-0, Fax +49 40 3333-34001

KIEL: Martensdamm 6, 24103 Kiel, Germany

Phone +49 431 900-01, Fax +49 431 900-34002

HSH-NORDBANK.COM