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INTERIM REPORT AS AT 30 JUNE 2018

KEY FIGURES

INCOME STATEMENT

(€ m)	January – June 2018	January – June 2017
Net income before restructuring and privatisation	188	278
Net income before taxes	- 1	173
Group net result	- 77	158

BALANCE SHEET

(€ bn)	30.06.2018	31.12.2017
Equity	4,3	4,4
Total assets	64,5	70,4
Business volume	75,5	78,6

CAPITAL RATIOS¹⁾ & RWA

	30.06.2018	31.12.2017
CET1 capital ratio (%)	16,0	15,4
Overall capital ratio (%)	26,7	25,8
Risk weighted assets (RWA) (€ bn)	24,8	26,2

EMPLOYEES

(computed on full-time equivalent basis)	30.06.2018	31.12.2017
Total	1.762	1.926
Domestic	1.690	1.838
Foreign	72	88

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities ²⁾	Public-sector Pfandbriefe	Mortgage-Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3 RWP ³⁾	Aa1 stable	Aa2 RWP ³⁾	Aa3 RWP ³⁾	Baa2 RWP ³⁾
Fitch	BBB- RWN ⁴⁾	AAA stable	-	-	-

¹⁾ According to the same period calculation under the Capital Requirements Regulation (CRR).

²⁾ Liabilities covered by guarantor's liability (Gewährträgerhaftung).

³⁾ Rating watch positive (under observation for a possible rating upgrade).

⁴⁾ Rating watch negative (under observation for a possible rating downgrade).

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



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ECONOMIC REPORT

UNDERLYING ECONOMIC AND INDUSTRY CONDITIONS

GLOBAL ECONOMIC RECOVERY LOSES MOMENTUM, NERVOUS MOOD ON THE FINANCIAL MARKETS

After strong growth of 3.7% in 2017, the global economy lost momentum in the first half of 2018. The slowdown in growth is particularly noticeable in the emerging markets. However, the fast pace of expansion witnessed in the previous year could not be maintained in the eurozone either. In the US, on the other hand, there are signs of an acceleration in growth.

The mood on the financial markets is a nervous one in light of the new Eurosceptic government in Italy, renewed increased uncertainty in connection with the Brexit negotiations and the escalation of global trade conflicts. These developments have left their mark on the financial markets, particularly in the form of a weaker euro, lower yields on German government bonds and falling share prices. At the same time, these developments have significantly curbed the upswing in yields on US government bonds.

Economic cycle reaches its zenith in some economies

A high rate of expansion was observed in the US in the first half of the year. Although economic growth in the first quarter came to only 2.2% (as against the previous quarter, annualised), initial estimates suggest that the economy grew at a much faster rate in the months from April to June, with growth of 4.1%. This trend is likely to have been supported by the extremely positive development on the labour market. Although the low unemployment rate, which temporarily touched on 3.8%, has not yet been reflected in greater pressure on wages, the rise in inflation to 2.9% is an indication of the sharp increase in the utilisation rate of the US economy.

China's growth rate, which was able to maintain a high pace in 2017, has recently slowed down. Economic growth came to 6.7% in the second quarter. The falling stock markets and the weaker Yuan reflect the weakening of the real economy. The emerging markets, in particular, are feeling the impact of the stronger US dollar, rising US dollar interest rates and fears of a trade war, with Argentina, Turkey and Brazil, among others, appearing particularly vulnerable due to high current account deficits and/or political instability.

After eurozone GDP had showed considerable momentum in 2017, rising by an average of 0.7% quarter-on-quarter and leading to economic growth of 2.6% for the year as a whole, the pace of expansion slowed noticeably in the first half of 2018. At the same time, inflation has risen to 2.1%, due both to higher energy prices and increased production capacity utilisation.

The biggest uncertainties in Europe can be traced back to the tough Brexit negotiations, the Eurosceptic Italian government and the trade dispute with the US. In Germany, the substantial economic growth seen in recent years (2017: 2.5%, adjusted for working days) has resulted in the over-utilisation of production capacities. This is particularly evident from the shortage of skilled workers – the unemployment rate has now fallen to 5.2% – which is likely to have been another factor contributing to the slowdown in growth in the first half of the year. Given the uncertainties, the Ifo business climate index has been on a steady downward trajectory in the first six months, even though the level still points to further expansion. Wage development has remained moderate to date, although future bottlenecks in the labour market point towards rising wages.

Weak euro, cautious tightening signals from the ECB and mixed development in government bonds

The US Federal Reserve has continued to systematically implement its policy of rate hikes and raised its key interest rate twice, in each case by 0.25 percentage points, in the first half of the year, meaning that the Fed funds rate was within the target range of 1.75% to 2.00% at the end of June 2018. At the same time, the Federal Reserve is taking small steps to steadily reduce its total assets by reinvesting only part of the maturing bonds on its balance sheet. In view of the uncertainty caused by the trade conflict, yields on long-term US government bonds have risen to a lesser extent than short-term yields, meaning that the yield curve has flattened considerably. The difference between the yields on ten-year and two-year T-notes was only 33 bp at the end of June.

In principle, the ECB maintained its exceptionally expansive monetary policy in the first half of the year, but took the first communicative steps towards tightening it. Although the ECB announced that the QE programme – bonds worth €30 billion a month are currently being purchased – would expire at the end of 2018, the key interest rate is expected to remain at the current level of 0.0% even beyond the summer of 2019.

As the economic environment was characterised by uncertainty, there was no upward trend in German government bond yields. Rather, yields fluctuated between 26 bp and 77 bp with a downward trend. The German stock market (Dax) fluctuated between 11,787 and 13,559 points in the first half of the year. It fell by 4.7% between the end of 2017 and the end of June 2018, closing at 12,306 points. By contrast, the S&P 500 showed annual performance of 18%, with the Dow Jones climbing by as much as 24%. On the currency market, the euro lost 2.9% against the US dollar over the course of the year and fluctuated in a wide range between 1.15 and 1.25. Italy's bumpy road towards the formation of a government and the widening interest rate differential between the US and the eurozone are likely to have contributed to this development.

ENCOURAGING DEVELOPMENT IN RELEVANT MARKETS OVERALL

On the **shipping markets**, the trends witnessed last year continued in the first half of 2018. The market for container vessels and bulkers continued on an upward trajectory despite the threat of trade conflicts. The recovery in charter rates continued and was also reflected in rising ship values. By contrast, charter rates in the oil tanker market remained on a downward trend.

On the market for **container vessels**, charter rates and ship values continued the recovery that began last year in the course of 2018. Demand for container transport was dynamic in line with the stable macroeconomic environment. The recent entry into force of import duties in the context of the US trade disputes has not had any significant impact so far. On the supply side, fleet growth has accelerated. Despite consolidation, shipping lines are still fighting hard for market shares. As a result, the number of laid-up vessels remained at a low level.

As far as **bulkers** are concerned, the upward trend continued in the first half of 2018. Second-hand prices rose slowly but steadily. Time-charter rates stabilised in the spring after a significant increase in the first quarter and have recently increased again. Rates in all sub-segments were at an adequate level. The main reason for this development was the fluctuating Chinese import demand for coal, iron ore and grain. Iron ore exports from Brazil also suffered due to production losses. By contrast, the demand for iron ore and coal in Asia showed positive development overall. All in all, the trade restrictions with the US have barely been noticeable to date. Bulker fleet growth has slowed compared to the previous year.

After a weak first quarter of 2018, charter rates for **oil tankers** stabilised at a low level. On the demand side, the lower production of OPEC+ had a negative impact. In addition to the self-imposed production cutbacks, this was mainly due to interruptions in Venezuela's oil production. The ongoing expansion of shale oil production in the US brought some relief. On the supply side, high fleet growth had a negative impact. Signs of an imminent turnaround are, however, starting to emerge. New orders were limited and, in view of the low rates and the increased scrap price, more tonnage was scrapped in the first half of the year than has been witnessed in more than 30 years. In anticipation of a market recovery, second-hand tanker prices showed robust development in the first half of the year.

The majority of Germany's **real estate markets** continued to show positive development in the first half of 2018. Particularly on **housing markets** in the cities, the considerable increase in rent and property prices continued, with the latter rising at a faster rate.

Construction activity remained rather brisk and building permits also made a recent recovery, especially in the multi-storey residential construction segment. This means that in the country's large cities, the supply of housing is moving in line with demand, which remains high. The large urban markets, however, remained characterised by excess demand. On the **office real estate markets**, net demand for space continued to rise thanks to the ongoing zest for expansion among tenant companies. Office completions were unable to keep up with demand, meaning that vacancy rates continued to fall noticeably. This pushed prime rents up in several major cities, in some cases significantly. On the **retail property markets**, on the other hand, even top rents in prime inner-city locations in major cities stagnated. Rental revenues declined and the ongoing structural change in the stationary retail sector in favour of online retailing continues to have a negative impact. Despite the lack of rental growth, the market values of prime properties increased.

There was no common trend in the **European office real estate** markets. Although vacancies fell in a large number of markets thanks to what were often solid economic conditions, rents rose sharply in some cases. In the meantime, ongoing high vacancy rates continued to pose an obstacle on more than just a few markets. While the demand for space on the office real estate market in London increased despite Brexit being on the horizon, and vacancy rates fell slightly, rents and market values nevertheless stagnated.

The German economy grew considerably at the turn of the year 2017/2018, although the economic momentum has weakened of late. In the **manufacturing sector**, production growth was up considerably in a year-on-year comparison. While all industries showed positive development, the extent of the upswing varied.

After a record year in 2017, **wholesalers** continued to post strong year-on-year revenue growth at the beginning of 2018. The **retail sector** is still reaping the benefits of consumer-driven economic growth in Germany and also recorded a positive revenue trend at the beginning of the year, although growth momentum has slowed significantly.

The **health market**, including the hospital market, is growing constantly as a result of demographic trends and medical advances. The financial situation of many hospitals remains strained despite increasing revenues. The profitability of hospitals is, however, expected to increase in the medium term thanks to the entry into force of the Hospital Structure Act (*Krankenhausstrukturgesetz*) at the beginning of 2016.

In the **logistics sector**, revenues have continued to show strong development (in real terms) in 2018, but at a slightly slower pace than in the same period of the previous year. The measured economic climate remains above the long-term average and is still in expansive territory overall.

The global **project financing volume** fell significantly in the first quarter of 2018 and was down by 30.8% on the volume seen in the prior-year period according to Thomson Reuters. This makes the first quarter of 2018 the weakest first quarter since 2012. Within Europe, only Germany, Ireland, Italy, the Netherlands and Turkey were able to buck the trend and report higher project financing volumes than in the same period of last year.

Investments in **transport infrastructure** remained relatively stable, accounting for 45.7% of the project financing volume in the EMEA region in the first quarter of 2018 (full year 2017: 23.9%). The major institutional investors include pension funds and insurance companies, which consider infrastructure investments to be a supplementary investment alternative in the low interest rate environment.

The expansion of **renewable energies** made further progress in both Europe as a whole and Germany at the beginning of 2018. The conversion to bidding procedures passed in the amendment to the Renewable Energies Act (EEG) had resulted in an increase in demand for the transitional year of 2017 in Germany, in particular. The slowdown expected for 2018 is already clearly evident from the first half of the year: gross onshore capacity growth in the wind energy sector was 29% lower than in the same period of last year.

The expansion in the solar segment continued in Europe. In Germany alone, new installations in the photovoltaics segment came to around 1,000 megawatts in the first five months of 2018, up by 44.1% on the prior-year period. The political target corridor of 2,500 megawatts of new photovoltaic output a year, which new installations have clearly fallen short in recent years, not least due to the cuts under the Renewable Energies Act (EEG), could well be achieved if the brisk expansion activity continues in the current year.

BANKING MARKET CAUGHT BETWEEN PRESSURE ON PROFITABILITY AND STRATEGIC REALIGNMENT

In view of an environment that is shifting back and forth between an economic recovery and geopolitical uncertainties, German banks in particular, which are at the bottom of the league in Europe with regard to profitability, see themselves faced with the task of reviewing their strategic orientation. This is because the intense pressure on earnings, which also imposes narrow limits internal capital generation, increasingly entails the risk of loan financing not being priced in a manner that is commensurate with the risk involved – especially in view of a possible economic downturn. What is more, the expansion of non-banks, mainly fintechs, is creating additional competitive pressure.

At the same time, expenses for the necessary investments in the future viability of institutions are leaving their mark on the cost side in the form of high project and IT costs. Against this backdrop, many banks initiated comprehensive cost and efficiency programmes in order to be able to generate adequate returns on a sustained basis. Within this context, it is evident that conventional cost-cutting measures alone are not sufficient in order to achieve a sustained improvement in profitability. Rather, measures should aim to strike the best possible balance between the business model and client profiles, the exploitation of the potential offered by digital technologies and a forward-looking corporate culture.

At the same time, financial investors, in particular, are expressing more of an interest in playing an active role in the consolidation process, which is currently under way in Germany in particular. After all, from an investor perspective, the challenging market environment resulting from the low interest rates, weak earnings and intense competition creates not only risks, but also opportunities that can be exploited by ongoing consolidation. This applies both to the purchase of problem loan portfolios, as well as to takeovers of smaller and medium-sized institutions. All in all, these solutions have the potential to strengthen the German banking market in the future.

New impetus for banks' future financing conditions has come from the legislator and the rating agencies. While a decision had already been made in November 2017 to harmonise the European regulations regarding the structure of the national liability cascades within the context of the BRRD for MREL-eligible liabilities (Minimum Requirements for Eligible Liabilities), these regulations were transposed into German law at the end of July 2018. The arrangement provides for the introduction of a new class of instruments, non-preferred senior unsecured liabilities, which can count towards the requirements for bank MREL ratios, meaning that they contribute to the liability buffers in the event of insolvency. In Germany, the new regulations resulted in an extensive rating operation performed by Moody's with regard to the existing German senior unsecured liabilities, which, if they have non-structured components, are to be transferred to the liability category of senior non-preferred liabilities.

HSH NORDBANK'S BUSINESS IMPACTED BY UNDERLYING CONDITIONS

The highly competitive environment, which remains challenging for banks, was also reflected in HSH Nordbank's business performance. Trends in the markets relevant for the Bank were encouraging in the first half of the year. The real estate environment in Germany, for example, was largely positive, and the situation in the shipping markets also showed signs of improvement. In the Corporate Clients division, however, the solid liquidity base of clients and the low level of interest rates had a tangible impact in an environment that remained competitive. In the context of these market developments, the Bank was able to maintain its good position in its target markets while taking account of the strict risk requirements. Nonetheless, the volume of new business concluded was restrained. Margins remain under pressure in the face of intense competition, despite a recent moderate increase in new business margins. The encouraging development on the relevant markets overall was reflected not least in loan loss provisions, which were reversed to a significant extent.

The initial introduction of the new IFRS 9 accounting standard on 1 January 2018 had only a minor impact on HSH Nordbank's capital position, as it did for most German banks. The Bank responded to the ongoing challenge of achieving a cost base that is commensurate with the market environment by continuing to rigorously implement cost-saving measures. This is also the Bank's response to the cost increases caused by a large number of new regulatory requirements and its way of laying the foundation for a streamlined and efficient privatised bank.

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

BUSINESS DEVELOPMENT – SIGNIFICANT DEVELOPMENTS AND EVENTS IN THE FIRST HALF OF 2018

SATISFACTORY BUSINESS DEVELOPMENT IN THE RUN-UP TO THE CLOSING

After the federal state owners sold their shares to renowned private investors timely on 28 February 2018, the key prerequisite for the successful conclusion of the ongoing privatisation process has been met. Since then, individual conditions leading up to the closing of the share purchase agreement have been fulfilled step by step. From the Bank's point of view, the transition of the Bank from the guarantee scheme of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe) to the guarantee scheme of private banks will result in delays, meaning that it will not be possible to close the transaction in the middle of the year, as the Bank had originally hoped. Instead, the Bank does not expect the closing of the transaction until the fourth quarter. This will also delay the implementation of the transformation process. In this complex process, the Bank is supporting all of the stakeholders involved to the best of its ability in order to bring the agreed change of ownership to a successful conclusion as quickly as possible and, in doing so, lay the necessary foundation for the upcoming optimisation of the business model.

The following developments are particularly worthy of mention as at 30 June 2018:

- **Fulfilment of the closing conditions is progressing:** Following approval by the responsible competition authorities and the federal state parliaments in Schleswig-Holstein and Hamburg, the Deutsche Sparkassen- und Giroverband (DSGV) amended its articles of association in June 2018, opening up the fundamental option of extending membership in the guarantee scheme of the German Savings Banks Finance Group for an additional third year after the closing. At the same time, the Bank has applied for admission to the guarantee schemes of private banks. From today's perspective, the Bank is confident that the outstanding approvals will be granted. Nevertheless, the Bank expects that it will be possible to finalise the completion of the privatisation process, including all approvals issued by the banking supervisory authorities, in the fourth quarter in view of the delays that have occurred.
- **Transformation focusing on earnings and cost initiatives:** The bank-wide transformation project Reset & Go bundles all activities associated with the Bank's realignment. In the period leading up to the closing, the Bank will be focusing on developing and implementing profitable and risk-oriented growth strategies. Within this context, measures are being taken to improve the interrelationship between client wishes and banking products, as well as the associated processes. This includes internal improvements and the reorganisation of existing processes,

as well as investments in new products, services and digitalisation topics. In addition, key topics identified with a view to optimising cost structures are being intensively prepared and developed further in order to enable implementation as quickly as possible after closing.

- **Satisfactory business development overall:** Key earnings and cost ratios are in line with expectations, key management indicators relating to capital and liquidity exceed defined ambition levels. The positive development of the risk ratios is consistent with the strategic realignment. New business activities are characterised by slightly improved new business margins and new business profitability that is developing as planned. While the volume of new business, in an environment that is competitive overall, with real estate customers is growing in line with expectations, the development is restrained in the corporate customer segment in particular.

Privatisation process on the home stretch

The federal state owners and Sparkassen- und Giroverband für Schleswig-Holstein concluded a share purchase agreement for all of their indirectly held HSH shares (a total of 94.9%) on 28 February 2018, and therefore agreed the first successful privatisation of a Landesbank in Germany. At the same time, an agreement was reached within the context of the privatisation to relieve HSH Nordbank of large parts of the non-performing legacy loans, as well as to cancel the second loss guarantee prematurely. The closing of the share purchase agreement, the portfolio transaction and the cancellation agreement for the second loss guarantee are still subject to the following conditions, taking the approval that has already been granted into account:

- the European Commission's viability review of the future bank,
- the approval of the banking supervisory authorities (ECB, BaFin and CSSF in Luxembourg),
- confirmation of the extension of HSH Nordbank AG's membership in the guarantee scheme of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe, SFG) beyond the two years stipulated in the articles of association, namely for an additional third year following the closing of the share purchase agreement.

The Bank currently assumes that the privatisation process will be completed as quickly as possible and, in particular, that the coordination between the guarantee schemes (DSGV and BdB), which is naturally a highly complex matter due to this transition being the first of its kind, meaning that there are no corresponding regulations in place, can be finalised as soon as possible. Due to the ongoing privatisation of HSH Nordbank AG, the Bank has to move from the guarantee scheme of the German Savings Banks Finance Group to the guarantee scheme of private banks, consisting of the Compensation

Scheme of German Banks (EdB) and the voluntary deposit guarantee fund (ESF), collectively referred to as BdB; the aim is to achieve a seamless transition between these guarantee schemes. The Deutsche Sparkassen- und Giroverband (DSGV) has taken the first step in this direction by laying the necessary foundation in its articles of association.

Closing in the near future would support the ongoing and necessary restructuring process within the Bank and, as a result, the successful and sustainable realignment of the business model. To this end, the Bank is supporting all of the stakeholders involved to the best of its ability, doing everything in its power to contribute to the successful conclusion of the privatisation process.

Further details on the privatisation process, the portfolio transaction, the cancellation agreement for the second loss guarantee and the related opportunities and risks can be found in the Group Management Report for the 2017 financial year, in particular in the “Forecast, opportunities and risks report” in the section entitled “Forecast report including opportunities and risks”.

Focused realignment as part of earnings and cost initiatives

As part of the Bank’s sustainable, competitive realignment, activities during the reporting period focused on topics relating to customer relations. In detail, the aim was to take concrete measures to underpin the ambitious strategic target vision, which is reflected in a return on equity (RoE) of 8% with regard to the Bank’s targeted profitability. Within this context, the Bank is working on the issues of attracting new clients, stepping up existing client relationships and exploiting earnings potential. These three areas are bundled, for example, in the development of novel products. For example, an innovative capital market product has been brought to market maturity as part of the Reset & Go project. The “cash flow swap” offers new and existing clients flexibility and security to plan, while at the same time reflecting the Bank’s valuable structuring expertise.

Digitalisation will also play a central role in the area of customer relations in the future. Within this context, the Bank developed a digitalisation strategy in the period under review and passed a resolution on its implementation. Adopting the client’s perspective, the Bank will, in the future, position itself in strategically important areas (e.g. client onboarding, collaboration) by adopting the very latest state of development, allowing it to take advantage of digitalisation opportunities in order to substantially improve its competitive standing. With regard to the selected fields of action, the Bank is focusing on a manageable number of key topics whose implementation is being driven forward across divisions and in an agile manner. In addition, the Bank

has defined search fields in which its strategic focus is still being defined depending on the overall realignment of the Bank; these areas include securing the client interface and digital client acquisition. The considerable importance of digitalisation for the sustainable realignment of the Bank is reflected not least in the organisational anchoring of this topic at the level of the Management Board, which will make regular decisions on the progress of the digital roadmap as part of a Digital Steering Board.

In parallel with the earnings initiatives, the Bank continued to optimise its business model and cost structures in the period under review in order to achieve the appropriate cost/income ratio of around 40% that it aims to achieve in the long term during the planning period. This includes, in particular, measures relating to reducing complexity within a medium-sized private bank that will, in future, be relieved of legacy burdens and the guarantee structure. The issues arising in these areas will continue to be dealt with according to plan, systematically and thoroughly, with the optimisation of cost structures, in particular, subject to the prerequisite of successful closing.

Equity holdings and scope of consolidation

HSH Nordbank has sharply reduced its equity holding portfolio over the past few years. As at 30 June 2018, the scope of consolidation for the Group financial statements included, in addition to the parent company, HSH Nordbank AG, 51 fully consolidated subsidiaries compared to 53 fully consolidated subsidiaries as at 31 December 2017.

In addition to an insignificant addition to the scope of consolidation (Capellence Vintage Year 18 Beteiligungen GmbH & Co. KG), the reduction is due to the disposal of the FSL Group.

The disposal of the FSL Group is due to the sale of the shares held by GODAN GmbH in FSL Holdings Pte. Ltd., Singapore, in the first quarter of 2018 as part of the winding-down of legacy burdens. This sale also leads to the deconsolidation of FSL Asset Management Pte. Ltd. and FSL Trust Management Pte. Ltd., both based in Singapore.

The impact of these changes to the scope of consolidation on the income statement is addressed, to the extent that the impact is material, in the “Earnings” section of this Group management report. More details on the scope of consolidation can be found in Note 4 (Scope of consolidation) in the notes to the Group financial statements.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

GROUP DEVELOPMENT IN LINE WITH EXPECTATIONS OVERALL

The Group net result before taxes, which comprises the results of the Core Bank, Non-Core Bank, as well as segments not subject to reporting requirements and reconciliation and consolidation effects, amounted to € -1 million as at 30 June 2018 (same period of the previous year: € 173 million). Despite the substantial provision for the compensation payment due to the agreed premature termination of the second loss guarantee (€ -100 million) and the annual contributions for the bank levy and deposit protection, it was moderately above expectations due to positive effects within loan loss provisions. In the previous year, significant effects resulting from the realisation of unrealised gains had a positive impact on the Group net result.

The Group's operating performance was shaped by positive results in the strategic divisions of the Core Bank on the whole, as well as by further savings successes on the cost side. In addition, the reversal of general loan loss provisions (levels 1 and 2) and specific loan loss provisions (level 3) had a significant positive impact on the net result. These resulted from successfully implemented restructuring measures in the Shipping area of the Core Bank. In addition, the encouraging development on the relevant markets overall is reflected in loan loss provisions.

By contrast, the costs associated with the above-average supply of liquidity during the privatisation period and the funding structure, which has to be optimised further during the transformation period as a result of the reduction in total assets, had a marked negative impact. Furthermore, refinancing costs in connection with the portfolio transaction that will be temporarily borne by the Bank had a noticeable negative effect on earnings.

The return on equity for the Group calculated on the basis of net income before taxes is negative, at a level that is consistent with expectations, at -0.0% (31 December 2017: -9.7%). Due to the negative impact on earnings expected in 2018 from the compensation payment to the guarantors and the privatisation and restructuring expenses planned for 2018 as a whole, the Bank's forecast assumes a loss in the current financial year and, as a result, a negative return on equity.

The cost-income ratio comes to 61.3% on the reporting date (31 December 2017: 32.3%). This development is in line with expectations insofar as the ratio as at 31 December 2017 was positively overstated by significant special effects resulting from the realisation of unrealised gains (around € 356 million) and the reassessment of interest and principal cash flows from hybrid instruments (around € 413 million). In operational terms, the Bank expects to see the cost-income ratio develop as planned in the year under review on the basis of administrative expenses that are already down considerably in the reporting period. In this context, the Bank will continue to implement

the current cost programme rigorously. In addition, the measures developed as part of the "Reset & Go" transformation project will allow the Bank to leverage additional cost potential following the completion of the privatisation process in order to achieve a cost-income ratio of around 40% that is appropriate for the Bank in the long term.

KEY GROUP MANAGEMENT INDICATORS

	30.06.2018	31.12.2017 (30.06.2017)
Net income before taxes (€ m)	-1	-453 (173)
CIR	61.3%	32.3% (30.5%)
RoE	-0.0%	-9.7% (6.9%)
NPE ratio	4.7%	10.4%
NPE coverage ratio AC ¹⁾	63.3%	63.8%
CET1 capital ratio ^{2), 3)}	16.0%	15.4%
LCR	162.0%	169.0%
NSFR	114.0%	114.0%

¹⁾ Pro forma adjusted figure as at 31 December 2017 for comparison purposes.

²⁾ From March 2018, the capital ratios will no longer be shown taking into account the regulatory relief effect of the federal state guarantee. To enable a comparison with the key capital figures as at June 2018, pro forma ratios are shown as at 31 December 2018. "Pro forma" means that, for the items included in the reference portfolio for the second loss guarantee, the RWA are recognised in line with the credit risk rules and not in line with the rules regarding securitisation. Within this context, valuation allowances that have been set up are still recognised in a manner that reduces the capital requirements in line with the regulatory requirements.

³⁾ In-period: ceteris paribus calculation taking full account of the balance sheet amounts as at the reporting date.

The development of the NPE ratio has been influenced significantly by the introduction of the IFRS 9 accounting standard and the associated fair value measurement. As at the reporting date, the NPE ratio came to 4.7% (31 December 2017: 10.4%). The significant decrease compared to the end of the previous year is mainly due to the fair value measurement of the portfolio transaction as a result of the introduction of IFRS 9. A pro forma NPE ratio as at 31 December 2017 calculated in accordance with the IFRS 9 accounting standard for comparison purposes would have amounted to 5.6%. In addition to the original winding-down, the ongoing fair value measurement is the main reason for the further decline in the reporting period. The completion of the portfolio transaction which was agreed as part of the privatisation process is dependent on the closing of the share purchase agreement and will therefore only be possible when the privatisation process is completed. Consequently, the predicted significant reduction in the NPE ratio to around 2% is not expected to be achieved until the time of closing.

The NPE coverage ratio AC (which was redefined due to the introduction of IFRS 9, for details see the following section on “Key management indicators”) for the NPE volume measured at amortised cost was 63.3% (31 December 2017: 63.8%). This means that, as at the reporting date, the Bank continues to have very solid coverage of the NPE portfolio remaining with the Bank following the completion of the portfolio transaction.

The **CET1 ratio** amounted to **16.0%** on the reporting date, putting it **at a good level** taking into account the reduced RWA and the loss incurred in the reporting period after taxes.

The liquidity ratios (LCR: 162.0% and NSFR: 114.0%) are consistent with the Bank’s plans and are much higher than the ECB’s minimum requirements at this very good level.

Further details on the reasons underlying the business performance are set out in the following “Earnings”, “Net assets and financial position” and “Segment results” sections. The earnings performance of the Core Bank, the Non-Core Bank and Other and Consolidation is presented in the “Segment results” section.

Management system and defined management indicators of the IFRS Group

The Bank’s integrated management system is aimed at the targeted management of key value drivers – income, efficiency/costs and profitability, risk, capital and liquidity. The Bank uses a risk-adjusted key indicator and ratio system for this purpose that ensures that the Overall Bank, Core Bank and Non-Core Bank are managed in a uniform and effective manner. The HSH Nordbank Group is managed mainly on the basis of figures for the Group prepared in accordance with the International Financial Reporting Standards (IFRS) and the relevant prudential rules, respectively.

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 compared to the same period of the previous year and, on the other, on their expected change over the remainder of 2018.

From the first quarter of 2018, the calculation of the coverage ratio as a key management indicator has changed. This is due to the level system associated with the introduction of IFRS 9, according to which significant deteriorations in the creditworthiness of non-defaulted loans (known as level 2 loans) require impairment losses to be recognised through profit or loss, and lending business is increasingly also measured at fair value. In line with the previous approach, the coverage ratio has therefore been calculated, since the first quarter of 2018, as the ratio of specific loan loss provisions on defaulted loans measured at amortised cost (AC) to the exposure at default (EaD) for these defaulted loans (NPE). In the future, this ratio will be referred to as the NPE Coverage Ratio AC in order to clarify matters. In the Group management report as at 31 December 2017, the Bank reported a coverage ratio of 63.6% prior to the application of the IFRS 9 accounting standard.

Further information on the management system and defined management indicators of the HSH Nordbank Group, the Core Bank and the Non-Core Bank, as well as information on the development expected for 2018 as a whole, is set out in HSH Nordbank’s Group Management Report for the 2017 financial year in the “Management System” subsection in the “Basis of the Group” section, and in the “Forecast, opportunities and risks report” section.

EARNINGS

Since 1 January 2018, HSH Nordbank has been applying the provisions set out in IFRS 9 – Financial Instruments in full when preparing the Group financial statements. As a result, the current Group statement of income contains changes compared to the structure as at 30 June 2017. Some of the figures for the comparative period have

been adjusted accordingly. Further information on the changes in accordance with IAS 8.14 can be found in the section “Adjustments to the prior-year figures” in the “Balance sheet item reconciliation from IAS 39 to IFRS 9” in the Notes to the Group financial statements.

STATEMENT OF INCOME

(€ m)	January – June 2018	January – June 2017	Change in %
Interest income from financial assets categorised as AC and FVOCI	462	603	-23
Interest income from other financial instruments	815	885	-8
Negative interest on investments categorised as AC and FVOCI	-10	-9	11
Negative interest on other cash investments and derivatives	-120	-138	-13
Interest expenses	-935	-1,175	-20
Positive interest on borrowings and derivatives	119	149	-20
Net income from hybrid financial instruments	-45	-56	20
Net interest income²⁾	286	259	10
Net commission income	23	32	-28
Result from hedging	-2	-9	78
Result from financial instruments categorised as FVPL ¹⁾	-41	151	> -100
Net income from financial investments ²⁾	78	11	> 100
Result from the disposal of financial assets classified as AC ²⁾	-3	298	> -100
Net income from financial investments accounted for under the equity method	-	2	-100
Total income	341	744	-54
Loan loss provisions	131	-152	> 100
Hedging effect of credit derivative second loss guarantee	-50	-89	44
Total income after loan loss provisions	422	503	-16
Administrative expenses	-223	-246	-9
Other operating result ²⁾	23	62	-63
Expenses for bank levy and deposit guarantee fund	-34	-41	-17
Net income before restructuring and privatisation	188	278	-32
Net income from restructuring and privatisation	-31	-25	-24
Expenses for government guarantees	-158	-80	98
Net income before taxes	-1	173	> -100
Income tax expenses	-76	-15	> 100
Group net result	-77	158	> -100
Comprehensive income attributable to non-controlling interests	1	-	-
Group net income attributable to HSH Nordbank shareholders	-78	158	> -100

¹⁾ In the previous year, under IAS 39, the item Net trading income.

²⁾ Reclassifications of previous year's figures due to amendments to IAS 1 resulting from IFRS 9 (IAS 1.82(aa)) [see chapter Applying accounting policies IFRS 9 - Financial Instruments - Changes in previous year's figures in the Group financial statements].

Total income down as expected

As expected, total income in the first half of 2018 fell to € 341 million compared with € 744 million in the same period of the previous year. This development is due to special effects in the previous year which arose in the context of the realisation of unrealised gains and had a significant positive impact on total income. In the last financial year, the Bank had realised unrealised gains in order to partially compensate for the considerable burdens associated with non-performing legacy loans. By contrast, the following developments in the main income items were significant in the reporting period:

Total income was largely driven by net interest income, which amounted to € 286 million (same period of previous year: € 259 million). Within this context, operating net interest income, which developed according to plan in the reporting period, made a significant contribution to net interest income. Rising new business margins and the stable interest-bearing receivables volume are counteracting a trend in new business transactions that is subdued overall. Net interest income also includes positive valuation effects. These result, in particular, from the fair value measurement of the portfolio transaction and from the hedging of the liquidity position. In terms of negative influencing factors, net interest income was hit by increased costs for the liquidity supplies and funding structure required in the context of the Bank's transformation incurred in the privatisation period and during the transformation phase. Furthermore, refinancing costs in connection with the portfolio transaction agreed in connection with the Bank's privatisation also had a temporary negative impact.

Net commission income came to € 23 million as at 30 June 2018 (same period of the previous year: € 32 million). The decline is mainly due to lower income from loan commission.

The result from financial instruments categorised as FVPL had a marked negative impact on total income at € -41 million (same period of the previous year: € 151 million). On the one hand, this development is attributable to subsequent valuation effects, most of which are related to the portfolio transaction and had a significant negative impact on net income. These are offset by interest income in the same amount resulting from the recognition of interest on defaulted portfolios measured at FV in accordance with IFRS 9, which has to be reported accordingly under net interest income. On the other hand, last year's net result benefited significantly from net income from foreign currency and increases in value in the credit investment portfolio. Operating net trading income from cross-selling activities and the management of central liquidity and market price risks developed according to plan.

Net income from financial investments including other income items amounted to € 75 million (same period of the previous year: € 311 million, including a net result of € 298 million from the disposal of financial assets categorised as AC) and mainly includes realisation gains from the sale of securities.

Loan loss provisions clearly positive

Loan loss provisions came to € 162 million as at the reporting date (same period of the previous year: € -379 million). This development is attributable to reversals within loan loss provisions. These were mainly due to successful restructuring measures, particularly in the Shipping area of the Core Bank, and to developments in the relevant markets that were encouraging overall. In the previous year, considerable amounts allocated for legacy loan exposures, especially in the ship portfolio of the Non-Core Bank, had a considerable negative impact on the Group net result. After currency effects and compensation, and taking into account the hedging effect from the credit derivative, the total loan loss provisions come to € 81 million (same period of the previous year: € -241 million).

Further reduction in administrative expenses as planned

Administrative expenses came to € -223 million as at 30 June 2018 (same period of the previous year: € -246 million). The Bank continued to implement its ongoing cost-cutting programme, which counteracts the increasing pressure on earnings and margins in the highly competitive banking market and the increasing expenses for regulatory requirements, stringently and in line with its plans. The Bank continued to make the progress it planned to make in implementing measures for controllable operating expenses in the reporting period. The potential for cost savings expected based on the optimisation of the organisation and processes that has been implemented was largely realised accordingly and, in some cases, actually exceeded slightly. The targeted management of operating expenses has resulted in a reduction in project costs, building costs and other personnel-related operating expenses in particular. Operating expenses came to € -111 million (same period of the previous year: € -124 million). Depreciation of property, plant and equipment and amortisation of intangible assets came to € -13 million (same period of the previous year: € -9 million).

As far as personnel expenses are concerned, 90% of the planned reduction has already been contractually agreed with employees as part of the 2018Plus programme, and the Bank continued to implement its ambitious targets for personnel expenses in a systematic manner. The ongoing planned reduction in the number of employees is reflected in the corresponding reduction in personnel expenses from € -113 million to € -99 million. Compared to the end of 2017, the number of employees within the Group continued to drop considerably, namely by 164 to 1,762 (computed on a full-time equivalent (FTE) basis).

Other income line items

Other operating income amounted to € 23 million (same period of the previous year: € 62 million) and largely includes income from cost reimbursements and reversals of provisions.

The expenses for the annual contributions to the bank levy and the deposit guarantee fund amounted to € – 34 million based on the final notices issued (same period of the previous year: € – 41 million).

Restructuring and privatisation expenses

Earnings were adversely impacted further by restructuring and privatisation expenses in the amount of € – 31 million incurred in connection with the burdens associated with the privatisation process (e.g. costs associated with advisory services). € – 25 million was incurred in the same period of the previous year.

Guarantee premium: substantial special charge for early termination of the second loss guarantee

The expenses for the guarantee premium came to € – 158 million as at 30 June 2018 (same period of the previous year: € – 80 million) and put considerable pressure on the Bank's net result. In addition to the base premium, provisions of € – 100 million for the compensation payment due to the premature termination of the second loss guarantee were incurred in the reporting period. The compensation payment is an integral component of the cancellation agreement concluded between HSH Finanzfonds AöR, HSH Beteiligungs Management GmbH and HSH Nordbank AG in connection with the privatisation.

Group net result as at 30 June 2018 moderately ahead of expectations

Overall, HSH Nordbank achieved net income before taxes of € – 1 million as at the reporting date (same period of the previous year: € 173 million). The expected loss is due, in particular, to burdens resulting from the early termination of the second loss guarantee and privatisation-related costs for the supply of liquidity. The net result as at 30 June 2018 is moderately higher than expected because the burdens planned in connection with the restructuring and privatisation of the Bank are expected to be disproportionately high in the second half of 2018. The deviation from the same period of the previous year is due, on the one hand, to the realisation of unrealised gains in the previous year, which had a clearly positive effect on the net result. On the other hand, the change in the result from financial instruments categorised as FVPL had a noticeable effect.

After taxes, the Group net result comes to € – 77 million (same period of the previous year: € 158 million). Income tax expense includes tax expenses from deferred taxes in the amount of € – 76 million. The deferred tax expense results from the elimination of deferred tax assets in accordance with tax planning for 2018.

NET ASSETS AND FINANCIAL POSITION

Since 1 January 2018, HSH Nordbank has been applying the provisions set out in IFRS 9 – Financial Instruments in full when preparing the Group financial statements. As a result, the current Group statement of financial position contains changes compared to

the structure as at 31 December 2017. Further information can be found in the section “Adjustments to the prior-year figures” in the “Balance sheet item reconciliation from IAS 39 to IFRS 9” in the notes to the Group financial statements.

MATERIAL ITEMS ON THE STATEMENT OF FINANCIAL POSITION

(€ m)	30.06.2018	31.12.2017	Change in %
Assets			
Cash reserve	2,698	6,625	-59
Loans and advances to banks	3,411	3,838	-11
Loans and advances to customers	35,247	39,174	-10
Loan loss provisions	480	687	-30
Compensation item for financial instruments categorised as FVPL under the second loss guarantee	3,530	n.r.	n.r.
Credit derivative under the second loss guarantee	969	1,014	-4
Trading assets	3,910	3,641	7
Financial investments	12,553	13,647	-8
Non-current assets held for sale and disposal groups	70	139	-50
Other assets	1,601	1,617	-1
Total assets	64,469	70,382	-8
Liabilities			
Liabilities to banks	7,339	8,271	-11
Liabilities to customers	33,175	36,205	-8
Securitised liabilities	10,986	12,444	-12
Trading liabilities	3,132	3,875	-19
Liabilities relating to disposal groups	32	47	-32
Subordinated capital	2,291	2,252	2
Equity	4,305	4,373	-2
Other liabilities	3,209	2,915	10
Total equity and liabilities	64,469	70,382	-8

Further decrease in total assets

Consolidated total assets fell again significantly in the first half of 2018 to € 64,469 million (31 December 2017: € 70,382 million). The following developments played a decisive role in the drop in total assets in the first half of the year:

The cash reserve fell significantly as against the end of 2017 to € 2,698 million (31 December 2017: € 6,625 million). Loans and advances to banks fell slightly to € 3,411 million (31 December 2017: € 3,838 million). The Bank's active liquidity management, which aim, among other things, to gradually reduce the excess liquidity built up during the privatisation period, led in particular to a decline in balances at central banks.

Loans and advances to customers also declined to € 35,247 million (31 December 2017: € 39,174 million). The main reason for the decline is the switch to IFRS 9 accounting and the associated measurement of some of the receivables at fair value. The transition to IFRS 9 also changed the mechanism of the second loss guarantee: the compensation from the second loss guarantee for the portfolios measured at fair value is now shown under the new "Compensation item for financial instruments categorised as FVPL under the second loss guarantee". In order to facilitate a comparison with the previous year's figure, the two items Loans and advances to customers (€ 35,247 million) and Compensation item for financial instruments categorised as FVPL under the second loss guarantee (€ 3,530 million) have to be offset against each other.

The loan loss provisions disclosed on the balance sheet, net of all compensation effects, amount to € 480 million (31 December 2017: € 687 million).

The fair value of the credit derivative, which represents the hedging effect of partial guarantee Two, amounted to € 969 million as of the reporting date (31 December 2017: € 1,014 million).

Trading assets increased to € 3,910 million (31 December 2017: € 3,641 million). This was due to an increase in the securities position held for trading, while the positive fair values of derivatives in trading assets declined. Financial investments dropped slightly to € 12,553 million (31 December 2017: € 13,647 million). This was due, in particular, to the winding down of securities portfolios in the context of liquidity management.

On the liabilities side, liabilities to banks decreased to € 7,339 million (31 December 2017: € 8,271 million). In particular, repurchase agreements, but also and term deposits, declined. Liabilities to customers also dropped to € 33,175 million in line with the gradual reduction in excess liquidity (31 December 2017: € 36,205 million). Both savings and demand deposits of institutional clients declined.

Securitised liabilities were also down on the previous year-end to € 10,986 million (31 December 2017: € 12,444 million). Trading liabilities comprising negative market values of derivatives (€ 3,132 million, 31 December 2017: € 3,875 million) were down in line with the positive fair values of trading assets. Subordinated capital remained at the level seen at the end of the previous year at € 2,291 million (31 December 2017: € 2,252 million). Reported equity was also essentially unchanged and amounted to € 4,305 million (31 December 2017: € 4,373 million).

Business volume also reduced

Business volume decreased slightly to € 75,515 million (31 December 2017: € 78,611 million). While total assets decreased, off-balance-sheet business increased slightly: sureties and guarantees remained more or less constant at € 1,849 million (31 December 2017: € 1,862 million); irrevocable loan commitments increased significantly to € 9,197 million (31 December 2017: € 6,367 million). This significant increase is due exclusively to the first-time application of IFRS 9. Further explanations can be found in the section entitled "Accounting and measurement principles" in the chapter entitled "Application of accounting methods IFRS 9 – Financial instruments", sub-section "IV. Loan loss provision and impairment of financial instruments" in the notes to the Group financial statements.

STRUCTURE OF LIABILITIES BY FINANCIAL INSTRUMENTS

(€ m)	30.06.2018		31.12.2017	
	Total	of which > 1 year	Total	of which > 1 year
Secured: Pfandbriefe and asset-based funding	14,547	10,919	15,485	11,008
Covered bonds	8,325	6,452	9,014	7,096
Other secured funding	6,222	4,467	6,471	3,912
Unsecured liabilities	26,794	2,997	29,881	4,095
Unsecured (senior unsecured)	9,627	7,581	11,046	8,446
Profit participation certificates and other subordinated liabilities	1,065	1,065	1,060	1,060
Silent participations	1,758	1,758	1,700	1,700
Total	53,791	24,320	59,172	26,309

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

One focal point within the context of long-term refinancing relates to securitised debt instruments (covered bonds, asset-based funding). These mainly include debt instruments issued under Pfandbrief programmes (mortgage, public sector and ship Pfandbrief programmes) as well as other asset-based funding issues, repo transactions and deposits from development banks. The total amount of secured debt instruments outstanding was € 14,547 million as at 30 June 2018 (31 December 2017: € 15,485 million).

Unsecured liabilities include call and time deposits comprising mainly client deposits and other unsecured financing instruments. They amounted to € 26,794 million as at the reporting date (31 December 2017: € 29,881 million). Call and time deposits account for most of the client deposits. The volume of bearer and registered bonds (senior unsecured) amounted to € 9,627 million as at 30 June 2018 (31 December 2017: € 11,046 million).

The two line items Profit participation certificates and other subordinated liabilities (€ 1,065 million, 31 December 2017: € 1,060 million), as well as the silent participations (€ 1,758 million, 31 December 2017: € 1,700 million) in total represent subordinated capital. Of the silent participations (Resparc I and Resparc II) € 532 million (31 December 2017: € 508 million) is reported under Securitised liabilities in the balance sheet.

Capital and funding

RWA, REGULATORY CAPITAL AND CAPITAL RATIOS

(IN-PERIOD)¹⁾

	30.06.2018	31.12.2017
Risk assets (RWA) (€ bn)	24.8	26.2
Regulatory capital (€ bn)	6.6	6.7
of which: CET1 capital (€ bn)	4.0	4.0
Overall capital ratio	26.7%	25.8%
Tier 1 capital ratio	19.6%	19.7%
CET1 ratio	16.0%	15.4%

¹⁾ In-period: ceteris paribus calculation taking full account of the balance sheet amounts as at the reporting date.

²⁾ From March 2018, the capital ratios will no longer be shown taking into account the regulatory relief effect of the federal state guarantee. To enable a comparison with the key capital figures as at June 2018, pro forma ratios are shown as at 31 December 2017. "Pro forma" means that, for the items included in the reference portfolio for the second loss guarantee, the RWA are recognised in line with the credit risk rules and not in line with the rules regarding securitisation. Within this context, valuation allowances that have been set up are still recognised in a manner that reduces the capital requirements in line with the regulatory requirements.

CET1 ratio at a solid level

As part of the privatisation of HSH Nordbank, the second loss guarantee provided by the federal state owners is to be settled in full and terminated in 2018. A corresponding cancellation agreement for the second loss guarantee was signed on 28 February 2018. It is subject, among other things, to the condition precedent of the successful closing of the share purchase agreement. Within this context, the regulatory capital ratios will no longer be shown as a securitisation structure as of March 2018, taking into account the regulatory relief effect of the second loss guarantee. In June 2018, presentation is comparable with the pro forma CET1 capital ratio reported as an additional ratio in the annual financial statements for 2017.

Taking into account the changed regulatory presentation and based on underlying RWA of € 24.8 billion (31 December 2017: € 26.2 billion pro forma), the CET1 ratio comes to 16.0%. (31 December 2017: pro forma 15.4%). This by far exceeds the ambition level of around 15% planned at the end of 2018.

The main reason for the development in the capital ratios in the first half of 2018 is a reduction in RWA of around € 1.4 billion compared with 31 December 2017 (pro forma), which is mainly attributable to the decline in market risks and to the sale of securities.

SREP requirements met

As part of the supervisory process in the Banking Union, HSH Nordbank was assigned individual minimum capital ratios by the ECB that are reviewed annually as part of the SREP process. These capital ratios were adhered to at all times during the reporting period. The regulatory disclosure pursuant to the CRR is on a "not in-period" basis, i.e. balance sheet amounts as at the reporting date only included in part. Since 1 January 2018, a CET1 SREP requirement of around 10.2% and a total SREP capital requirement of 13.7% (Pillar 2 Requirement "P2R" incl. the combined capital buffer requirements) have applied to HSH Nordbank.

As at 30 June 2018, the CET1 capital ratio of HSH Nordbank pursuant to the CRR comes to 16.0% (31 December 2017: 18.7%). The overall capital ratio pursuant to the CRR comes to 26.6% (31 December 2017: 31.4%). The decline in the capital ratios compared with 31 December 2017 is mainly due to the fact that the relief effect resulting from the presentation of the federal state guarantee as a securitisation structure no longer applies as of March 2018. This is due to the full settlement of the guarantee in 2018 agreed as part of the privatisation process.

The **financial holding group**, which arose in 2016 as a result of the establishment of HSH Beteiligungs Management GmbH as a holding company in connection with the measures set out in the EU catalogue of conditions and commitments, has also been assigned a minimum capital ratio by the ECB as part of the supervisory process in the Banking Union which is in line with the statutory regulations and is reviewed annually as part of the SREP process. Since 1 January 2018, a CET1 SREP requirement of 6.4% and a total SREP capital requirement of 9.9% (Pillar 2 Requirement "P2R" incl. the combined capital buffer requirements) have applied to the financial holding group within this context. As at 30 June 2018, the CET1 capital ratio pursuant to the CRR comes to 7.4% (31 December 2017: 10.2%). The overall capital ratio pursuant to the CRR comes to 11.9% (31 December 2017: 12.1%). The decline in the capital ratios is mainly due to the fact that the relief effect resulting from the presentation of the federal state guarantee as a securitisation structure will no longer apply as of March 2018. This is due to the planned settlement of the guarantee in 2018.

HSH Nordbank's CRR leverage ratio was a very solid 8.0% as at 30 June 2018 (31 December 2017: 7.7%). This development is supported by the decline in leverage exposure to € 60.9 billion in the reporting period. A statutory binding minimum leverage ratio value has not yet been defined. With the amendment of the CRR, the leverage ratio, based on the tier 1 capital, is likely to be set at a binding level of 3% as a minimum requirement.

Detailed information regarding HSH Nordbank's capital and RWA forecast is set out in the "Forecast, opportunities and risk report" of the Group Management Report for the 2017 financial year, in particular in the section entitled "Forecast report including opportunities and risks".

Funding activities expanded further

Fundraising is significantly higher than the pro rata planned value. In the first half of 2018, just over € 1 billion in long-term funds were raised. The SILO Funding ABF transaction raised approximately GBP 245 million. Real estate loans serve as collateral for the three-year refinancing.

Since the end of 2017, the Bank has been offering fixed-term deposit investments to retail customers via the "Deposit Solutions" platform. Holdings in this additional funding channel are increasing steadily and amounted to € 2.1 billion as of the reporting date.

Besides the issuing activities, the level of deposits also contributed to the implementation of the funding strategy. The volume of deposits was reduced as planned.

KEY LIQUIDITY RATIOS

	30.06.2018	31.12.2017
Total deposits (€ bn)	21.9	25.0
LCR	162 %	169 %
NSFR	114 %	114 %

The regulatory requirements for the liquidity ratios were exceeded by far during the reporting period.

In addition to the successful implementation of fundraising, there were further inflows from the settlement of losses under the second loss guarantee in the first half of 2018.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO JUNE 2018 ¹⁾

(€ m)		Corporate Clients	Real Estate	Shipping	Treasury & Markets	Core Bank ³⁾	Non-Core Bank	Other and Consolidation ⁴⁾⁵⁾	Group
Total income	2018	106	95	52	182	435	-15	-79	341
	2017	130	122	54	415	721	50	-27	744
Loan loss provisions (including credit derivative)²⁾	2018	-4	3	140	18	157	5	-81	81
	2017	4	-	4	1	9	-251	1	-241
Administrative expenses	2018	-66	-31	-20	-39	-156	-69	2	-223
	2017	-66	-28	-22	-44	-160	-95	9	-246
Net income before taxes	2018	24	55	149	150	378	-191	-188	-1
	2017	65	88	25	365	543	-332	-38	173
Segment assets (€ bn)	30.06. 2018	12.1	12.5	4.8	18.7	48.1	7.5	8.9	64.5
	31.12. 2017	11.6	10.3	5.1	21.4	48.4	11.7	10.3	70.4

¹⁾ Following the change in the allocation of transformation costs of surplus liquidity; previous year's figures adjusted accordingly.

²⁾ Summary of loan loss provisions and hedging effect of credit derivative under the second loss guarantee line items.

³⁾ Core Bank is the total of the four segments: Real Estate, Shipping, Corporate Clients and Treasury & Markets.

⁴⁾ Net income before taxes including result from restructuring and privatisation.

⁵⁾ Consolidation also includes the effects from differences in accounting.

SATISFACTORY CORE BANK DEVELOPMENT

Overall, the Core Bank showed satisfactory development in the first half of 2018. This was helped along by operational development in the segments that was largely according to plan. With a stable receivables portfolio, new business in the reporting period amounted to € 3.5 billion (same period of previous year: € 4.4 billion). Gross new business, which also includes the volume earmarked for syndication, amounted to € 3.8 billion. The underwriting book and the deals concluded in the period under review showed satisfactory development that was in line with the strategic business objectives. New business activities nevertheless failed to meet expectations overall in a persistently challenging environment, although the Bank selects its business transactions systematically according to stringent internal risk and return requirements, meaning that it focuses primarily on profitability requirements. New business margins are on a positive trend and once again increased considerably compared to the previous quarter. The cross-selling result was in line with expectations, mainly due to investment products.

The amounts associated with the increased costs for the transformation-related liquidity supply and liquidity structure, which were previously reported in the Core Bank's customer segments and will be incurred during the privatisation period and during the course of the Bank's realignment, were reclassified to "Other" in the first quarter of 2018. All prior-year and budgeted comparative figures have

been adjusted accordingly. This is the Bank's way of improving transparency with regard to the expenses associated with the transformation process and at the same time highlights the operating performance of the customer segments more clearly.

As at 30 June 2018, the Core Bank had net income before taxes that was higher than planned at € 378 million (same period of the previous year: € 543 million). The reason for the year-on-year decline, which is reflected in the Core Bank's total income, relates to income from the sale of securities, which amounted to around € 307 million and significantly boosted the net result in the previous year.

First, the fact that earnings and costs developed according to plan during the reporting period contributed to the net income before taxes. Second, reversals in loan loss provisions had a positive effect on the net result. The reversal of loan loss provisions was due both to the successful implementation of restructuring measures in the Shipping segment and to the encouraging overall development on the relevant markets. In addition, the sale of securities and income from the management of liquidity and market price risks had a positive impact on the Core Bank net result.

The annual contributions to the bank levy and the deposit guarantee fund of € -26 million put pressure on the net result (same period of the previous year: € -25 million), as did substantial guarantee expenses, which amounted to € -41 million including the one-off payment for the premature termination of the second loss guarantee (same period of the previous year: € -10 million). Administrative expenses developed according to plan and amounted to € -156 million as of the reporting date (same period of the previous year: € -160 million).

The Core Bank achieved a return on equity of 21.1%, which is higher than planned, on the basis of its positive net result (31 December 2017: 23.4%) and a cost-income ratio that was in line with expectations at 35.1% (31 December 2017: 26.0%). In its strategic target vision for 2022, the Group expects to be able to achieve a return on equity of around 8% before tax, and a cost/income ratio of around 40%, in the long term. The measures associated with the transformation project are geared towards achieving this objective, and some of them have already been implemented.

The total assets of the Core Bank amounted to around € 48.1 billion as at the reporting date (31 December 2017: € 48.4 billion). In preparation for the closing, a total of € 2.5 billion (thereof € 0.4 billion in NPE volume) exposures not included in the portfolio transaction was transferred from the Non-Core Bank to the Core Bank in the reporting period. Most of these loans are healthy portfolios that were previously allocated to the non-strategic business and will remain within the Bank in the future. The transfer does not result in any significant change in the segment results. The portfolio transfer was offset by the planned reduction in the cash reserve. The increase in liquidity reserves during the privatisation period, which is reflected in Treasury & Markets, will be gradually reduced in line with the planning for the transformation period, while maintaining conservative ambition levels.

KEY MANAGEMENT INDICATORS FOR THE CORE BANK

	30.06.2018	31.12.2017 (30.06.2017)
Net income before taxes (€ m)	378	822 (543)
CIR	35.1 %	26.0 % (21.9 %)
RoE	21.1 %	23.4 % (32.6 %)
New business (€ bn)	3.5	8.5 (4.4)

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

Segment results of the Core Bank

The **Corporate Clients** segment is well diversified and is organised on a sector-specific basis. It combines the Energy & Infrastructure, Trade & Food, Healthcare, Industry & Services and Wealth Management business areas. In addition, the business unit offers the consultancy areas of structured financing, leveraged buy-out and mergers & acquisitions from a single source for all clients of the Bank.

In the Corporate Clients segment, net income before taxes in the first half of 2018 amounted to € 24 million (same period of the previous year: € 65 million). This development is due, first of all, to lower total income, which reflects business development in an environment that has been highly competitive for years and shows net commission income that falls short of expectations within this context. Second, positive valuation effects for customer derivatives provided a significant boost to total income in the previous year. Furthermore, loan loss provisions in the amount of € -4 million (same period of the previous year: € 4 million) put slight pressure on the segment result.

New business showed subdued development in line with the competitive market environment, particularly in the corporates business. It came to a total of € 1.2 billion in the Corporate Clients segment (same period of previous year: € 1.6 billion). Nevertheless, thanks to stable client relationships, product distribution was stepped up in the individual business units, increasing the cross-selling result compared with the same period of the previous year. In the Energy & Infrastructure division, the volume of receivables stabilised at a good level. The focus was on financing for wind power plants and data networks. Following the successful market entry in Portugal in the last quarter of 2017, the renewable energy segment managed to consolidate its market position in the Netherlands and strengthen its position again in France in the period under review.

The **Real Estate** segment made a significant contribution of € 55 million to the Bank's earnings (same period of the previous year: € 88 million) in the first six months of 2018, with declining interest margins having a manageable impact on total income and the net result. In addition, total income in the same period of the previous year included positive valuation effects from customer derivatives that boosted the result. New business totalled € 2.0 billion in a competitive environment that remained intense (same period of the previous year: € 2.3 billion), in line with expectations. The positive development in business with international institutional investors continued and the high market penetration in the northern German core region was expanded. The division is also exploiting its good market position in the metropolitan regions of western Germany.

In the **Shipping** segment, net income before taxes amounted to € 149 million (same period of the previous year: € 25 million). The significant increase in earnings is due to loan loss provisions, which include the reversal of specific loan loss provisions. These are mainly attributable to restructuring successes. General loan loss provisions were also reversed.

During the reporting period, the shipping market was characterised by a further stabilisation in the container vessel and bulker sub-segments. In a market environment that remains challenging, new business with national and international shipping companies with good credit ratings was on target and on a par with the previous year at € 0.3 billion.

The **Treasury & Markets** segments generated net income before taxes that exceeded expectations at € 150 million (same period of the previous year: € 365 million). Income from the client business with capital market products, earnings contributions from the portfolios transferred from the Non-Core Bank to the Core Bank in the reporting period and income from the management of liquidity and market price risks contributed to this result. The net result also includes income from the sale of securities.

The reason for the significant decline in the net result compared with the same period of the previous year lies in the special effects from the realisation of unrealised gains in the previous year, a measure taken in order to partially compensate for the considerable burdens from non-performing legacy portfolios in the Non-Core Bank.

SEGMENT RESULTS OF THE NON-CORE BANK

As at 30 June 2018, the Non-Core Bank reported a net loss of € -191 million as was to be expected (same period of the previous year: € -332 million). The high loss is mainly due to guarantee charges (€ -118 million) incurred largely for the premature termination of the second loss guarantee. Total income in the Non-Core Bank came to € -15 million (same period of the previous year: € 50 million) and was hit by refinancing costs in connection with the portfolio transaction. Administrative expenses came to € -69 million (same period of the previous year: € -95 million).

As at 30 June 2018, total assets of the Non-Core Bank amount to € 7.5 billion. The decline compared with the end of 2017 is due to the winding-down of non-performing legacy loans – which are not being sold as part of the portfolio transaction – and the transfer of those portfolios remaining in the Bank after the privatisation transaction has been closed to the Core Bank. As a result, the segment assets of the Non-Core Bank as at the reporting date comprise the loan portfolios sold as part of the portfolio transaction and the compensation item for the second loss guarantee. The compensation item reflects, on the one hand, the hedging effect of the guarantee and, on the other, the Bank's compensation entitlements vis-à-vis the guarantor. Following the closing of the share purchase agreement, the sold loan portfolios will be transferred to the sphere of the buyers. In addition, the second loss

guarantee will be definitively settled and the outstanding receivables will be paid to the Bank by the guarantor, HSH Finanzfonds AöR. In this respect, the closing of the transaction will relieve the Bank of its balance sheet burden resulting from the portfolio transaction, and the compensation item for the second loss guarantee will no longer be reported. The Non-Core Bank will then be dissolved.

KEY MANAGEMENT INDICATORS FOR THE NON-CORE BANK

	30.06.2018	31.12.2017 (30.06.2017)
Net income before taxes (€ m)	-191	-1,583 (-322)
Total assets (€ bn)	7.5	11.7

“OTHER AND CONSOLIDATION” DIVISION

Administrative functions and overall bank positions are disclosed in Other under “Other and Consolidation” as segments not subject to reporting requirements. “Consolidation” also comprises items that reconcile the internal reporting results presented in the segment report to the Group financial statements prepared in accordance with IFRS. In addition to the measurement and disclosure differences, the result from restructuring and privatisation is allocated in full to this division. As of 31 March 2018, the costs associated with the transformation-related liquidity supply and funding structure incurred during the privatisation period and during the Bank's realignment phase are reported under “Other and Consolidation”. The prior-year and budgeted comparative figures have been adjusted accordingly.

Due to the uncertainties that are naturally inherent in the privatisation process, the Bank has switched its liquidity management approach over to an above-average supply of liquidity. In doing so, it is prepared to accept a considerable temporary burden on its Group net result. In order to present the actual operating performance of the customer segments as transparently as possible on the one hand, and to present the temporary privatisation and transformation costs as a whole on the other hand, these costs are combined in “Other and Consolidation”.

Net income before income taxes amounted to € -188 million as at the reporting date (same period of the previous year: € -38 million). The above-mentioned costs of excess liquidity and the funding structure, which are reflected in total income, made a particular contribution to this result. Furthermore, restructuring expenses in the amount of € -31 million (same period of the previous year: € -25 million), as well as burdens resulting from valuation and hedging effects on overall bank positions, had a noticeable negative impact on the net result.

The amount reported under loan loss provisions is the result of settlement-related guarantee effects. Since the introduction of IFRS 9 in 2018, the hedging effect of the second loss guarantee on the balance sheet has resulted in compensation effects relating to the items Result from financial instruments categorised as FVPL and Loan loss provisions. These effects have virtually no impact on income overall and are presented under “Other and Consolidation”. They result from subsequent effects resulting from the ongoing settlement of the guarantee/the guarantee settlement report of 15 June 2018.

The segment assets of “Other and Consolidation” mainly include the liquidity reserve. The segment assets amounted to € 8.9 billion as at 30 June 2018 (31 December 2017: € 10.3 billion).

FINAL ASSESSMENT OF HSH NORDBANK'S POSITION

In the first half of 2018, the Bank's development was in line with expectations in a generally favourable, but partly also highly competitive environment. In the run-up to the closing of the privatisation process, which is expected to have been completed by the fourth quarter of 2018 at the latest, operating business development was characterised by earnings and cost ratios that were in line with the plan, as well as generally satisfactory new business activities. Other key management indicators relating to capital and liquidity are ahead of the defined ambition levels – in some cases considerably so; the development of the risk ratios is consistent with the Bank's risk structure, which has also been optimised as part of the privatisation process.

Fulfilment of the closing conditions as part of the privatisation process is progressing. The outstanding conditions will be fulfilled on a step-by-step basis. The negotiations regarding the Bank's transition from the guarantee scheme of the German Savings Banks Finance Group to the guarantee scheme of private banks, a move that is necessary due to the privatisation process, are naturally intensive due to the complexity of this transition, which is the first of its kind, meaning that there are no corresponding regulations in place. The Bank is supporting all stakeholders involved in the privatisation process to the best of its ability, allowing it to contribute to the fastest possible change of ownership, which is in the interest of all parties involved.

The successful closing of the transaction will fulfil the necessary conditions to enable the full implementation of the current restructuring course and, as a result, the continuation of the transformation process, which has so far been developing according to plan. This means that the combination of the change of ownership and the restructuring measures will contribute to a sustainable business model for the Bank and enable its sustainable realignment.

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

EMPLOYEES OF HSH NORDBANK

The human resource strategy supports the overall bank strategy and provides the framework for operational human resource functions. It attaches great importance to ensuring that quantitative and qualitative staffing levels are in place and to managing and avoiding related personnel risks. This goes hand in hand with the ability to attract and retain motivated employees willing to perform.

The Human Resources division is responsible for its governance function, especially in managing personnel expenses and implementing, complying with and enhancing the legal and regulatory principles and guidelines, e.g. in respect of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV). Modern and reliable operating processes form the basis for all topics relating to human resource functions.

EFFECTIVE RESOURCE MANAGEMENT

The successful implementation of the programmes initiated by the Management Board in 2015/2016 to permanently reduce administrative expenses has continued in 2018. The target for the planned workforce reduction in 2018 was almost reached in a socially responsible manner with the help of the arrangements agreed with the Works Council. The number of employees had decreased to 1,762, based on full-time equivalents (FTE), by 30 June 2018 in the course of the ongoing reduction in staff within the HSH Nordbank Group (31 December 2017: 1,926). Changes to the scope of consolidation also had an impact on the headcount. The number of employees (FTE) at HSH Nordbank AG (single entity) decreased to 1,690 by the end of 30 June 2018 (31 December 2017: 1,838).

EMPLOYEES IN THE GROUP

	30.06.2018	31.12.2017
Full time employees (FTE) in the Group¹⁾	1,762	1,926
of which: women	650	719
of which: men	1,112	1,207
Employees in Germany	1,690	1,838
Employees abroad	72	88
Total number of employees in the Group ("headcount")	2,085	2,295
Key employee figures		
Part-time employees (%)	26.6	26.7
Average age ²⁾ in years	45.7	45.9
Average period of employment (years)	14.9	14.5

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

²⁾ Head offices only; does not include branches or subsidiaries.

FOCUS ON MODERN HR DEVELOPMENT

The development of all employees is the focal point of human resource functions for HSH Nordbank. In 2018, the offering was aimed, in particular, at meeting the requirements of a changing bank in a volatile environment.

Emphasis was placed on the further development of sales skills using targeted training sessions, workshops, meetings, conferences and dialogue at in-house events in all customer departments. The offering is rounded off by online tools to ensure that the legally binding and regulatory expectations regarding employees' behaviour at work are met. There are also programmes for the further development of managers with the focus on change and implementation skills. An interesting range of occupational and health-oriented seminars rounds off the HR development programme of HSH Nordbank.

YOUNG PROFESSIONALS PROGRAMME EXPANDED FURTHER

The recruitment and promotion of our young professionals will once again be further strengthened in 2018. HSH Nordbank offers high-quality education for the Bachelor of Arts/Science degree in business management/information systems and for the office management specialist occupations. A total of 29 students on dual study programs/trainees were employed in the first half of 2018.

This year, ten dual students will complete their dual studies at HSH Nordbank with a very good or good overall score and will receive a permanent job offer. These young professionals now have further promotion possibilities following the training.

For new entrants to the profession, HSH Nordbank offers a 24-month trainee programme covering a wide range of topics. The trainees gain comprehensive and intensive insights into the Bank's various fields of activity. A total of 17 trainees were employed in 13 business units in the first half of 2018.

Due to the exceptional young professionals programme, HSH Nordbank was again honoured this year by Absolventa GmbH as a provider of a career-enhancing and fair trainee programmes and was recognised as a "Fair Company" for the excellent support that it offers trainees and university graduates.

FURTHER EXPANSION OF EXEMPLARY HEALTH CARE AND SOCIAL MANAGEMENT SERVICES

Employees are provided with extensive health care and social management services in an integrated approach. Besides in-house seminars, these also include individual counselling for employees, managers and whole teams. HSH Nordbank also supports the work-life balance of its employees by offering comprehensive counselling and information services on such topics as “maternity and parental leave”, “child care” and “caring for relatives”. The services offered are regularly reviewed and flexibly tailored to employee requirements.

CLEAR COMMUNICATION STRATEGY PREREQUISITE FOR A SUCCESSFUL CHANGE OF OWNERSHIP

The wide range of health care and social management services offered as well as the interesting work opportunities make HSH Nordbank an attractive employer in a challenging, competitive environment with a clear objective for the future. Managers at HSH Nordbank have made it their responsibility to enter into open dialogue with all employees on the upcoming privatisation process, but also on the associated uncertainties. After all, a clear communication culture creates trust and is a prerequisite for the success of the Bank.

REMUNERATION PAID TO EMPLOYEES

The specific design of the remuneration systems that apply at HSH Nordbank aims to harmonise the interests of the Management Board, employees and shareholders and to motivate the Management Board and employees to act in the interests of HSH Nordbank and make full use of their individual potential.

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 the employees from taking excessively high risks for the purposes of realising the variable remuneration potential.

Further details on the compensation system can be found in the “Employees” section of the Group management report for the 2017 financial year. Details on the remuneration paid to employees are

published in a separate remuneration report on HSH Nordbank’s website in accordance with the InstitutsVergV. The remuneration report does not form part of the interim report.

MANAGEMENT DECLARATION PURSUANT TO SECTION 289F (2) NOS. 4 AND 6 OF THE GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH – HGB)

Equal opportunities and women in management positions and diversity concept

HSH Nordbank is continuing to actively address the issues of equal opportunity and the promotion of women with the assistance of its equal opportunities officer. The Bank set the following quotas in line with the law, which came into force in May 2015, regarding equal representation of women and men in management positions in the private sector and public services and the resulting introduction of Section 76 (4) of the German Stock Corporation Act (AktG):

At the level of managers reporting directly to the Management Board, HSH Nordbank was aiming to achieve a ratio of 16% women. It has reached this objective, with a current figure of 16%. The female department head ratio also slightly exceeds the target at 16% (target of 15%).

STATISTICS ON EQUAL OPPORTUNITIES AS AT 30.06.2018

	Women	Men	Total	Women	Men
	Number			Ratio	
Managers reporting directly	3	16	19	16 %	84 %
Heads of department	9	46	55	16 %	84 %
Total	12	62	74	16 %	84 %

¹⁾ Head Office excluding employees released from their duties

Further details on equal opportunities can be found in the “Employees” section of the Group management report for the 2017 financial year.

REPORT ON EVENTS AFTER THE REPORTING PERIOD

In calculating pension provisions, the Bank takes into account, among other things, the parameters set out in K. Heubeck's 2005 G mortality tables when making actuarial assumptions. Heubeck AG published new mortality tables on 20 July 2018. The Bank expects the German Federal Ministry of Finance to issue instructions regarding the date of application of the new Heubeck 2018 G mortality tables, which will then be applied by the Bank accordingly. It is not currently possible to reliably quantify the effects of the change to the new tables on the level of pension provisions.

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 available to the Bank at the time this management report was prepared. The statements are based on a series of assumptions that relate to future events and are incorporated in HSH Nordbank AG's corporate planning. The occurrence of future events is subject to uncertainty, risks and other factors, many of which are beyond HSH Nordbank AG's control. Actual events may therefore differ considerably from the following forward-looking statements below.

ANTICIPATED UNDERLYING CONDITIONS

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

Upswing tapers off due to protectionism and over-utilisation of capacities

The Bank anticipates lower growth momentum worldwide in the coming quarters due to what is already a relatively high level of production capacity utilisation in many regions, uncertainty in connection with the trade conflict, which is escalating in some cases, rising US interest rates and a relatively strong US dollar.

The pace of growth is expected to slow in most regions of the world in the coming months. Bottlenecks in the US labour market are gradually becoming apparent. While the tax reform should have a positive impact over the rest of the year, the trade policies and retaliatory tariffs of major trading partners, the relatively strong US dollar and higher interest rates are likely to constrain growth. Overall, the Bank expects to see growth of 2.7% this year. Although this represents a considerable loss in momentum, especially compared to what is likely to have been a strong second quarter, growth will still be stronger overall than in 2017 (GDP growth: 2.3%). In China, the slowdown in growth is likely to continue. In general, in addition to the escalation in the trade conflict, the emerging markets will have to expect tighter financing conditions in view of higher US dollar interest rates and a relatively strong US dollar. Growth in this region is likely to slow down as a result.

In the eurozone, leading indicators point to a slight slowdown in growth. PMI indicators for manufacturing sector, for example, have fallen in the major eurozone countries. While the monetary conditions continue to support growth, the trade conflict, Brexit and the political conflict potential at EU level associated with the populist governments in Italy, Poland and Hungary, among others, are factors that will have a negative impact on growth. In the eurozone, the Bank

expects to see growth of 2.0% for the year as a whole. Germany's pace of expansion is likely to slow, as it is particularly exposed to the risks of a trade conflict due to its extremely open economy. This year is likely to bring GDP growth of 1.9% (previous year: 2.5%). For the global economy as a whole, the Bank expects to see growth of 3.7% in 2018.

Fed with further interest rate moves, ECB to end asset purchases, rise in interest rates remains moderate

The US Federal Reserve is expected to implement at least one further interest rate hike this year. This forecast is supported by the inflation, growth and labour market figures. Overall, the Fed is likely to remain cautious, as it is expected to consider the uncertainty associated with the trade disputes in its decisions. As a result, the Fed funds rate is likely to come in at between 2.00% and 2.25% at the end of the year. According to its announcement, the ECB will reduce its asset purchase programme from € 30 billion to € 15 billion a month in October, before terminating it at the end of the year. Maturing bonds will be reinvested until further notice. The Bank does not expect the ECB to raise interest rates this year. Long-term yields are expected to rise, but only moderately due to the manifold uncertainties.

The euro is likely to weaken somewhat, not least due to the rising interest rate differential between the US and the eurozone. In itself, the trade conflict is unlikely to have any sustained positive effect on the value of the US dollar, as it could undermine confidence in the strength of the US economy in the medium term.

Outlook for relevant markets

Following developments in the first half of 2018, the Bank is confirming the forecasts it made in the Group management report for the 2017 financial year with regard to the development of the relevant markets. In summary, the Bank expects

- the uneven development on the **shipping markets** to continue: Charter rates and ship values in the container vessel segment are likely to continue to recover, while bulkers will stabilise at the improved levels. In the tanker segment, on the other hand, no recovery will materialise as long as the oil supply from OPEC+ is kept artificially low.
- Germany's **real estate markets** to continue to benefit from the favourable underlying economic conditions in 2018 and show positive development on the whole.
- the **other relevant sectors** to show positive development overall, although the expansion of **renewable energies** will paint a mixed picture.

Nevertheless, the general economic environment, which is characterised, among other things, by escalating trade disputes, ongoing Brexit negotiations and generally high capacity utilisation, is expected to lead to mounting uncertainty and, as a result, to increasing risks for the general development of the relevant markets. Further information and details on the sector developments expected by the Bank can be found in the “Forecast, opportunities and risks report” of the Group Management Report for the 2017 financial year in the section entitled “Forecast report including opportunities and risks”.

Ongoing challenging environment for banks

Against the backdrop of mounting geopolitical and economic uncertainty and the possibility of high volatility on the financial markets, the overall economic environment for banks is likely to remain challenging in the second half of the year – even if growth forecasts, particularly in the US and Europe, but also for the global economy, are currently still encouraging overall.

With regard to monetary policy, a turnaround is gradually starting to look increasingly likely in Europe – although this could be delayed further if the economic uncertainties are reinforced. The ECB, for example, is likely to maintain its expansive monetary policy in the first instance, meaning that the pressure on net interest income resulting from the low interest rate environment will continue to increase for the time being. European banks should, however, also be able to benefit from a slightly steeper yield curve in the medium term – with positive effects on the income side. Institutions must, however, continue to attempt to offset the negative effect on profitability resulting from the current low interest rate environment by expanding income sources that are not dependent on interest rates and by reducing costs further.

In a European comparison, the need to adapt is the most pronounced on the German banking market, as German institutions have below-average sources of income that do not rely on interest, low credit margins due to the intense competition and, at the same time, very high cost-income ratios. As a result, while German banks are likely to reap above-average benefits from a steeper yield curve, they are still exposed to considerable pressure on profitability. As a result, the gradually increasing pace of consolidation is likely due on the one hand to the high cost pressure, while on the other, it points towards the potential to be exploited in the German banking market.

Regulators and market participants will focus even more on an increasingly comprehensive view of banks’ capital adequacy and liquidity resources. 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 the new regulatory standards for bail-in eligible liabilities. These relevant capital and liquidity requirements that form part of the resolution mechanism include in particular the

institution-specific minimum requirements for regulatory capital and eligible liabilities (MREL) defined by the national banking supervisory authorities and resolution authorities. This should provide banks with even more of an incentive than before to optimise the increasingly granular liabilities side of their balance sheets, as they seek to strike a balance between regulatory requirements on the one hand and cost aspects on the other.

Other fundamental adjustments can already be identified alongside these capital requirements that are being increasingly defined. The changes summarised under Basel IV, which, amongst other things, will serve to improve the comparability of RWA profiles and the reduction of complexity concerning risk identification, are at the same time aimed at the harmonisation of supervisory practices in the EU and are designed to improve transparency vis-à-vis the markets.

In the context of the Supervisory and Evaluation Process (SREP), the EBA stress test due for publication in November and the resulting potential measures should become more of a focal point in the second half of the year. As well as taking IFRS 9 elements into account, the stress test itself also models, in particular, the impact of the current low interest rate environment, as well as the implications of an interest rate shock. The banks have already sent initial results to the ECB and the EBA in the summer months. HSH Nordbank will not be taking part in the stress test owing to the extensive realignment, which will result in a significantly different risk profile.

EXPECTED BUSINESS DEVELOPMENT OF HSH NORDBANK

2018 – privatisation process expected to be completed successfully

With regard to the share purchase agreement that was signed on 28 February 2018, the Bank currently expects the planned change of ownership to be completed in the fourth quarter of 2018 at the latest once the outstanding approvals have been obtained, meaning that the commitments made in the EU state aid proceedings can be honoured. In addition, the Bank expects that the agreement on the portfolio transaction relating to the planned spin-off of a large part of the non-performing legacy burdens from the Non-Core Bank, and the cancellation agreement reached with regard to the second loss guarantee, can be completed and implemented.

After key conditions for the closing of the share purchase agreement were already fulfilled in the reporting period (parliamentary approval in Hamburg and Schleswig-Holstein, approval by the relevant anti-trust and competition authorities and presentation of the final settlement report of HSH Finanzfonds AöR on the full settlement of the second loss guarantee granted by it), the main approvals still outstanding include the approval of the supervisory authorities and the European Commission, as well as confirmation from Deutscher Sparkassen- und Giroverband (DSGV) on the extension of the Bank's membership of the institutional protection scheme of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe).

Responsibility for the full closing of the share purchase agreement – which is also a prerequisite for both the portfolio transaction and the cancellation agreement – lies with the owners and investors and depends on the outstanding approvals referred to above; the Management Board of HSH Nordbank AG will do everything in its power to support this closing. As it is not possible to objectively predict the course and outcome of the privatisation process with absolute certainty, the privatisation process involving HSH Nordbank AG – as also presented in the Group management report for the 2017 financial year – creates significant uncertainty regarding the implementation of the corporate planning, as well as accounting and measurement.

Based on the generally satisfactory business development witnessed during the reporting period, which went largely according to plan, as well as the transformation process that has been initiated and the closing conditions that have already been fulfilled, the Bank is confident that it will be able to continue on the restructuring course it has embarked upon. In this respect, the Bank is confirming the forecasts for its expected business development published in the Group management report for the 2017 financial year, as well as the most important key management indicators derived from these forecasts. In this respect, the Bank remains cautious in its forecast, in particular due to the considerable uncertainty that will naturally remain up until the closing date of the privatisation process.

For details of the formal decision in the EU state aid proceedings and the related opportunities and risks, as well as the expected development of the key management indicators, including the associated opportunities and risks, please refer to the “Forecast, opportunities and risk report” of the Group Management Report for the 2017 financial year in the section entitled “Forecast report including opportunities and risks”.

Overall appraisal and net income forecast

2018 will be a decisive year of transformation for the Bank. The closing of the transaction, which is expected to have been achieved by the end of 2018 at the latest, is a prerequisite for the comprehensive implementation of the transformation process that the Bank has already embarked upon, which will create a risk-optimised, agile and sustainable corporate structure. In the second half of the year, the Bank will, on the one hand, concentrate on its restructuring course and thus

continue to lay the foundation for its successful privatisation and also for achieving the strategic vision for 2022. On the other hand, the Bank will continue to support the privatisation process to the best of its ability, helping to ensure that the process is completed as quickly as possible.

From today's perspective, the Bank is confident that it will be able to achieve its targets for 2018 as a whole. The 2018 financial year will be characterised by the implementation of the privatisation process. Taking into account the provision set up in the first half of the year for the compensation payment of € – 100 million associated with the premature termination of the second loss guarantee, as well as the projected burdens resulting from the restructuring costs for 2018 as a whole, the Bank still expects to report a pre-tax loss of around € 100 million as at 31 December 2018 despite virtually breaking even as at 30 June 2018. The net income forecast is subject to any unforeseeable effects resulting from the implementation of the closing conditions and the subsequent change of ownership. The delays that have already arisen from the Bank's point of view will lead to additional burdens for the Bank now that the closing of the transaction is currently expected to be achieved in the fourth quarter. These burdens will arise, in particular, as a result of the final settlement of the second loss guarantee, which is also delayed, as well as due to the sold portfolios, which will now remain with the Bank for a longer period of time and give rise to refinancing costs. From today's perspective, these effects can be compensated for by the fact that the half-year net result is higher than planned, meaning that the forecast for the net result remains unchanged. The Bank is also confirming its previous forecast for the CET1 and NPE ratios. As a result, the CET1 ratio is expected to amount to around 15% and the NPE ratio to around 2% at the end of 2018, following the implementation of the portfolio transaction.

The earnings forecast and future development of HSH Nordbank are associated with major challenges which are described in detail in the Group Management Report as at 31 December 2017. In summary, these relate primarily to resulting from adverse developments during the closing process associated with privatisation, as well as general challenges, such as possible macroeconomic setbacks in the sector developments that are relevant to the Bank. Changing assessments of the rating agencies and the steadily increasing requirements imposed by the European banking regulators also pose significant risks for the fulfilment of the earnings forecasts.

The going concern assumption for accounting and measurement purposes, as well as the continued survival of HSH Nordbank AG and key group companies is based, in particular, on the share purchase agreement concluded on 28 February 2018, in which HSH Beteiligungs Management GmbH sold 94.9% of the shares in HSH Nordbank AG to various funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, Golden Tree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG (hereinafter referred to as the “bidders”) being closed and implemented.

After the competition authorities in Germany and Austria have granted their approval, the approval of the federal state parliaments in Hamburg and Schleswig-Holstein has been obtained and HSH Finanzfonds AöR has submitted a final settlement report on the full settlement of the second loss guarantee granted by HSH Finanzfonds AöR, the closing of the share purchase agreement requires that:

- the competent banking supervisory authority (European Central Bank (ECB), German Federal Financial Supervisory Authority (BaFin) and Commission de Surveillance du Secteur Financier (CSSF, Luxembourg)) grants the necessary approvals,
- the European Commission approves the proposed new corporate structure after performing a viability review,
- the extension of HSH Nordbank AG's membership of the guarantee scheme of the German Savings Banks Finance Group (Sparkassen-Finanzgruppe, SFG) beyond the two years stipulated in the articles of association, namely for an additional third year following the closing of the share purchase agreement, is confirmed,
- the bidders pay the portion of the purchase price attributable to them on the closing date.

If any of the conditions set out above for the closing of the share purchase agreement are not met, and if no agreement can be reached between the parties involved in each case, in particular if the EU Commission reaches the conclusion, in the course of its viability review, that the planned new corporate structure will not lead to a business model that is profitable in the long term, then the Bank 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 that the Bank is wound down as a result of the above or for other reasons, or if its rating is downgraded or other adverse developments emerge, then this could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank's funding options. In the case of major unexpected fund outflows, additional measures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

It is further required that the acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's future business model is maintained or gained.

Further details on expectations for the current year and significant opportunities and risks are set out in the detailed Group Management Report of HSH Nordbank as at 31 December 2017.

RISK REPORT

The main risks to which the Bank is exposed include default risks, market risks, liquidity risks, operational risks, business strategy risks and reputation risks. The methods, instruments and processes used to manage these risks are explained in detail in the Risk Report contained in the Group management report for the 2017 financial year. In addition, the “Forecast, Opportunities and Risks Report” contained in this Interim Report provides information on the anticipated business situation, including a current assessment of the main opportunities and risks for HSH Nordbank for the remainder of the year.

SETTING RISK APPETITE AND RISK GUIDELINES

The Strategic Risk Framework (SRF), which serves as the foundation of the risk culture, sets out the focus of the Bank’s risk management activities and defines the objectives of risk management based on the planned development of key business activities and measures taken to achieve these objectives. The focus is on securing and allocating scarce resources taking into account risk tolerance, business strategy objectives, the market environment and both the existing and planned portfolio.

The SRF contains the risk strategy principles as the key guidelines for risk-conscious action and cornerstone of a sustainable risk culture. These form the framework for the formulation of the risk appetite statement (RAS) and risk strategy.

The RAS is broken down into a financial and non-financial RAS on the basis of the risk inventory and is aimed at providing a condensed description of selected risk tolerance areas in order to achieve the objectives of the overall Bank. The financial RAS consists of a catalogue of key figures and ratios, the non-financial RAS of qualitative targets regarding the risk culture. Their implementation is ensured via the risk strategy and limit system whereby the risk strategy describes the management of risks based on the risk inventory in accordance with the business strategy and RAS. It provides the framework for the sub-risk strategies (counterparty default for performing and non-performing exposure respectively, market and liquidity risks, non-financial risk (NFR) along with reputation risk and operational and business strategy risks) and forms the foundation of the business strategy and a key basis for planning within the Bank.

A functioning limit system requires that the risk appetite be derived on a rigorous basis. This is derived separately for the three scarce resources – regulatory and economic capital and liquidity – from the risk capacity. Starting from the risk appetite the Bank has established a system of risk limits and guidelines for all three resources, which serves to avert risks that could jeopardise its continued existence and to achieve the risk strategy objectives.

The SRF is approved by the Management Board (“tone from the top”) and reviewed at least once a year. Adjustments are made where necessary. It is also fully integrated into the Bank’s processes, for example by its embedding in the Bank’s objectives and the definition of guidelines for the strategy process, in risk reporting and the Code of Conduct.

KEY RISK INDICATORS OF THE GROUP

	30.06.2018	Limit	Guideline
Utilisation of gone concern RBC	23 %	< 90 %	–
Economic capital required	€ 1,795 million	≤ € 4,000 million	–
of which for default risks	€ 1,219 million	≤ € 2,000 million	–
for market risks	€ 321 million	< € 1,350 million	–
for liquidity risks	€ 69 million	< € 350 million	–
CET1 ratio (phase-in, same period calculation, including Pillar 2 requirement)	16.0 %	> 10.5 %	–
Liquidity coverage ratio (LCR) – actual	162 %	> 115 %	–
Net stable funding ratio (NSFR)	114 %	–	85 % – 115 %
USD share of overall bank exposure	12 %	–	< 30 %
USD refinancing ratio	90 %	–	> 60 %
NPE ratio	4.7 %	–	< 11 %
NLP ₂ in stress-case (Months 1–3)	Month 1: € 6.2 billion Month 2: € 6.5 billion Month 3: € 10.8 billion).	> € 500 million over the first three monthly maturity bands, i.e. minimum (NLP SC) 1–90 days	–

RISK-BEARING CAPACITY

As part of the monitoring of its risk-bearing capacity, which is a key element of the Internal Capital Adequacy Assessment Process (ICAAP), 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 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 associated hedging transactions (line items) as well as the liabilities.

The risk coverage potential amounted to € 7.7 billion as at 30 June 2018 (31 December 2017: € 7.5 billion).

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 methodologically 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. Risk-reducing correlations are not applied for this.

Overall economic risk increased by € 0.4 billion compared to the 2017 year end and amounted to € 1.8 billion as at the reporting date (31 December 2017: € 1.4 billion).

In line with the risk-bearing capacity concept, market risk (value-at-risk, VaR) is scaled up on the basis of the confidence level chosen by the Bank and a one-day holding period to show the economic capital required for market risk positions for the purpose of managing risk-bearing capacity with a risk horizon of one year. The economic capital required for market risk amounted to € 0.3 billion as at 30 June 2018 (31 December 2017: € 0.4 billion).

HSH Nordbank also uses a VaR approach to quantify the liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs for the subsequent closure of open liquidity positions. The liquidity value-at-risk (LVaR), as a measure of the economic capital required for liquidity risk, was € 69 million as at 30 June 2018 (31 December 2017: € 46 million).

On the other hand, insolvency risk, which is more important for the purposes of managing the liquidity risk in principle, is backed by a buffer of liquid funds. Information on managing insolvency risk is included, among other things, in the section entitled "Liquidity risk".

Operational risks are determined for the most part in accordance with the regulatory standard approach. The corresponding economic capital required amounted to € 0.2 billion as at 30 June 2018 (31 December 2017: € 0.2 billion).

Utilisation of risk coverage potential amounted to 23% as at the reporting date (31 December 2017: 19%). The main reasons for the increase in the risk-coverage potential was the conversion to the new accounting standard (IFRS 9) and non-inclusion of the risk-reducing second loss guarantee as at the first quarter 2018. The risk-bearing capacity was ensured 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 residual risk coverage potential buffer and the utilisation of risk coverage potential.

RISK-BEARING CAPACITY OF THE GROUP¹⁾

(€ bn)	30.06.2018	31.12.2017
Economic risk coverage potential	7.7	7.5
Economic capital required	1.8	1.4
of which for default risks	1.2	0.8
for market risks	0.3	0.4
for liquidity risks	0.1	–
for operational risks	0.2	0.2
Risk coverage potential buffer	5.9	6.1
Utilisation of risk coverage potential (in %)	23	19

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date.

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. Based on observed market developments the Scenario Management Committee approves macro-economic and segment-specific forecasts for the carrying out of forecast-based, dynamic stress tests.

These expected and stress forecasts are incorporated in different simulation scenarios and presented quarterly to the OBM committee and Overall Management Board. The impact of macroeconomic scenarios, such as a severe economic downturn or non-materialisation of the expected recovery in the shipping markets and a historical scenario, on the Pillar I and II capital ratios and leverage ratio is calculated. The results are incorporated in HSH Nordbank's internal reporting system every quarter and analysed on a regular basis by the Management Board in terms 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 is used to discuss the need for options to strengthen the financial stability of HSH Nordbank.

HSH Nordbank's recovery plan drawn up in accordance with the Act on the Recovery and Resolution of Credit Institutions (Sanierungs- und Abwicklungsgesetz, SAG) 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 plan warning indicators and related processes are reviewed and 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 and internal guidelines even under stress conditions. In addition, HSH Nordbank carries out inverse stress tests at least once a year. Scenarios that could endanger HSH Nordbank's ability to survive are identified for these. This information is also used by HSH Nordbank's Management Board as guidance for explaining and deciding upon any action required in the event of developments that threaten the Bank's existence.

In addition to stress tests across all risk types HSH Nordbank has 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

Default risk exposure

The figures in the following tables showing default risk exposure are based on the exposure at default (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). Risk-reducing effects (e.g. offsetting of collateral) are not included in the EaD. Total EaD amounted to €62,070 million as at 30 June 2018.

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) accounted for 71% of the overall exposure at the Group level (31 December 2017: 68%). The Core Bank accounted for 69% of the EaD for investment grade exposures (31 December 2017: 74%) and the Non-Core Bank segment for 0% (31 December 2017: 10%). 15% of the Overall Bank portfolio is covered by the hedging effect of the second loss guarantee (31 December 2017: 20%). 15% of the Core Bank commitments (31 December 2017: 13%) and 68% (31 December 2017: 79%) of Non-Core Bank commitments are covered by the guarantee. This change is primarily attributable to the integration of the residual Non-Core Bank portfolio into the Core Bank. At 68% (31 December 2017: 78%) the share of the guaranteed portfolio is particularly high in the default categories 16 to 18.

DEFAULT RISK STRUCTURE BY RATING CATEGORY¹⁾²⁾

	30.06.2018				
	Core Bank	Non-Core Bank	Other and Consolidation	Total	Of which covered by the guarantee (in %)
1 (AAAA) to 1 (AA+)	12,118	–	4,827	16,945	5
1 (AA) to 1 (A–)	7,768	–	2,575	10,343	10
2 to 5	16,395	–	245	16,640	12
6 to 9	11,604	–	1	11,605	16
10 to 12	1,495	–	–	1,495	41
13 to 15	1,722	1	3	1,726	55
16 to 18 (default categories)	1,069	1,849	–	2,918	68
Other ³⁾	98	–	300	398	–
Total	52,269	1,850	7,951	62,070	15

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date.

²⁾ Mean default probabilities (in %): 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

³⁾ 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.

DEFAULT RISK STRUCTURE BY RATING CATEGORY¹⁾²⁾

	31.12.2017				
	Core Bank	Non-Core Bank	Other and Consolidation	Total	Of which covered by the guarantee (in %)
1 (AAAA) to 1 (AA+)	16,255	79	5,615	21,949	6
1 (AA) to 1 (A–)	7,160	239	2,284	9,683	11
2 to 5	16,158	680	444	17,282	11
6 to 9	10,732	1,009	1	11,742	21
10 to 12	1,425	228	–	1,653	54
13 to 15	1,151	845	3	1,999	59
16 to 18 (default categories)	840	6,649	–	7,489	78
Other ²⁾	4	88	331	423	–
Total	53,725	9,818	8,678	72,220	20

¹⁾ Mean default probabilities (in %): 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.

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

DEFAULT RISK STRUCTURE BY SECTOR¹⁾

(€ m)	30.06.2018			Total
	Core Bank	Non-Core Bank	Other and Consolidation	
Industry	8,009	180	–	8,190
Shipping	4,905	975	–	5,880
Trade and transportation	3,249	43	–	3,292
Credit institutions	5,672	–	4,348	10,021
Other financial institutions	2,297	45	18	2,359
Land and buildings	11,506	519	–	12,025
Other services	4,767	75	431	5,274
Public sector	11,436	–	3,142	14,578
Private households	428	12	11	450
Other	–	–	–	–
Total	52,269	1,850	7,951	62,070

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date.

DEFAULT RISK STRUCTURE BY SECTOR

(€ m)	31.12.2017			Total
	Core Bank	Non-Core Bank	Other and consolidation	
Industry	7,692	977	–	8,669
Shipping	5,056	4,170	–	9,226
Trade and transportation	3,123	322	–	3,445
Credit institutions	6,340	209	4,340	10,889
Other financial institutions	1,904	825	24	2,753
Land and buildings	9,595	2,262	–	11,857
Other services	4,686	392	542	5,620
Public sector	15,042	373	3,757	19,172
Private households	289	286	14	589
Other	–	–	–	–
Total	53,725	9,818	8,678	72,220

The following table shows EaD broken down by residual maturities:

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES¹⁾

(€ m)	30.06.2018			
	Core Bank	Non-Core Bank	Other and Consolidation	Total
Up to 3 months	8,061	700	244	9,005
> 3 months to 6 months	2,458	117	283	2,857
> 6 months to 1 year	3,931	45	926	4,902
> 1 year to 5 years	21,360	586	4,157	26,103
> 5 years to 10 years	10,914	254	1,998	13,166
> 10 years	5,545	149	343	6,036
Other	-	-	-	-
Total	52,269	1,850	7,951	62,070

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date.

DEFAULT RISK STRUCTURE BY RESIDUAL MATURITIES

(€ m)	31.12.2017			
	Core Bank	Non-Core Bank	Other and Consolidation	Total
Up to 3 months	12,813	2,054	525	15,393
> 3 months to 6 months	1,528	403	354	2,285
> 6 months to 1 year	3,322	955	516	4,793
> 1 year to 5 years	20,440	3,096	4,776	28,312
> 5 years to 10 years	10,399	1,773	2,132	14,304
> 10 years	5,223	1,535	374	7,132
Other	-	-	-	-
Total	53,725	9,818	8,678	72,220

The following table provides an overview of the foreign exposure by region, which reached € 20,497 million as at 30 June 2018 (31 December 2017: € 23,286 million).

FOREIGN EXPOSURE BY REGION¹⁾

(€ m)	30.06.2018			Total
	Core Bank	Non-Core Bank	Other and Consolidation	
Eurozone	8,890	547	1,155	10,592
Western Europe	4,204	259	1,212	5,675
Eastern Europe	289	108	–	397
Africa	513	108	–	621
North America	575	23	–	598
Latin America	398	53	–	451
Middle East	46	45	–	91
Asia-Pacific region	1,055	219	–	1,274
International organisations	212	–	585	797
Total	16,182	1,362	2,952	20,497

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date.

FOREIGN EXPOSURE BY REGION

(€ m)	31.12.2017			Total
	Core Bank	Non-Core Bank	Other and Consolidation	
Eurozone	7,515	2,648	1,226	11,389
Western Europe	3,232	1,557	1,190	5,979
Eastern Europe	296	446	–	742
Africa	543	263	–	806
North America	413	385	–	798
Latin America	262	191	–	453
Middle East	38	334	–	372
Asia-Pacific region	1,210	804	–	2,014
International organisations	129	–	604	733
Total	13,638	6,628	3,020	23,286

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 clearly assigned based on the customer, the place of business where management is exercised is applied.

A number of European countries are subject to increased monitoring due to their unfavourable fiscal and economic data. These include in particular Croatia, Cyprus, Greece, Italy, Portugal and Spain. As a result of economic developments and the EU sanctions, the exposure to Russia is also being monitored more closely as is the exposure to Turkey due to internal and geopolitical developments.

The following table shows the EaD of the exposures to the European countries shown. HSH Nordbank's total exposure to these countries has decreased by 29% compared to the previous year end and totalled € 2,553 million as at 30 June 2018 (31 December 2017: € 3,605 million).

The previously low direct country exposure to the countries shown above was further reduced in the first half of 2018. Commitments shown under Corporates/Other sector for Greece, Turkey and Cyprus relate primarily to ship financing arrangements, which do not entail the transfer of risk due to the existing collateral.

EXPOSURE AT DEFAULT IN SELECTED EUROPEAN COUNTRIES¹⁾

(€ m)	Country		Banks		Corporates/Other		Total	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Greece	-	-	-	-	428	940	428	940
Italy	20	19	-	-	514	574	534	593
Croatia	-	-	1	-	90	94	91	94
Portugal	59	180	-	-	45	52	103	232
Russia	-	-	-	1	40	47	40	48
Spain	95	79	31	36	672	918	798	1,033
Turkey	-	-	59	59	69	173	127	232
Cyprus	-	-	-	-	432	434	432	434
Total	174	278	91	96	2,290	3,232	2,553	3,605

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Ownership interests under ECA transactions are included from 30 June 2018. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date

Note 45 in the notes to the Group financial statements includes more information on the selected European countries.

The non-performing exposure ratio as the sum of all risk positions of borrowers in default to total risk positions serves as an important management indicator that has also been defined as a risk guideline in the SRF. The NPE ratio trend is significantly impacted by the introduction of the IFRS 9 accounting standard and associated fair value accounting. The NPE ratio was 4.7% as at the reporting date (31 December 2017: 10.4%). The significant decrease in the NPE ratio compared to the previous year end is mainly attributable to the fair value accounting applied to the portfolio transaction as a result of the introduction of the IFRS 9 accounting standard. On applying the IFRS 9 accounting standard pro forma to 31 December 2017 for comparative purposes, the NPE ratio would have been 5.6%.

In addition to the original decrease the ongoing fair value measurement is the reason for the further reduction in the reporting period. The execution of the portfolio transaction, which was agreed as part of the privatisation, is dependent on the closing of the share purchase agreement and will therefore also only be able to be implemented on the completion of the privatisation process. Consequently, the forecast significant reduction in the NPE ratio to around 2% is only expected to occur at the closing date.

The NPE coverage ratio AC (which was redefined because of the introduction of IFRS 9, see following section on key management indicators for details) of the NPE volume accounted for at amortised cost amounted to 63.3% (31 December 2017: 63.8%). The Bank continues to maintain extremely solid coverage of the Bank's residual NPE portfolio after execution of the portfolio transaction.

Loan loss provisions

There was a tangible improvement in loan loss provision expense which amounted to income of € 162 million (same period in the previous year: expense of € -379 million). The improvement is attributable to reversals of loan loss provisions. These have been recognised due to successful restructuring measures undertaken – particularly in the Core Banks Shipping division – as well as to the overall satisfactory developments in the relevant markets and the reduction in volume. In the previous year, Group net income was a high level of additions for legacy commitments which had a significant adverse impact on Group net income. After foreign exchange effects and taking account of the hedging effect under the credit derivative loan loss provision expense amounted in total to income of € 81 million (same period in the previous year: expense of € -241 million).

The amount disclosed under loan loss provisions in “Other and Consolidation” is due to technical effects relating to the settlement of the guarantee. Since the introduction of IFRS 9 in 2018 compensation effects affecting the “net income from financial instruments classified as FVPL” and “loan loss provisions including hedging effect of the credit derivative under the second loss guarantee” line items have arisen under the balance sheet hedging effect of the second loss guarantee. These effects have almost no income effect on the total of the P&L line items and are disclosed under “Consolidation”. They arise from delayed effects from the progressive settlement of the guarantee and the final guarantee settlement report of 15 June 2018.

The following table provides an overview broken down by segment.

CHANGES IN LOAN LOSS PROVISIONS IN THE LENDING BUSINESS¹⁾

	January – June 2018								
	Specific loan loss provisions/provisions	General loan loss provisions	Loss provisions recognised for financial investments	Loan loss provisions (LLP) before currency translation income and compensation	Currency translation income on loan loss provisions	Compensation item	Total	Hedging effect of credit derivative second loss guarantee	LLP including hedging effect of credit derivative
Corporate Clients	-3	-1	-	-4	-	-	-4	-	-4
Shipping	27	113	-	140	-	-	140	-	140
Real Estate Clients	7	-4	-	3	-	-	3	-	3
Treasury & Markets	1	15	2	18	-	-	18	-	18
Total Core Bank	32	123	2	157	-	-	157	-	157
Non-Core Bank	5	-	-	5	-	-	5	-	5
Other and Consolidation	-1	1	-	-	-1	-30	-31	-50	-81
Group	36	124	2	162	-1	-30	131	-50	81

¹⁾ The information disclosed as at 30 June 2018 has been prepared in accordance with IFRS 9. Information and explanations regarding the comparative period have not been adjusted and are the amounts determined under IAS 39 as at the described reporting date.

CHANGES IN LOAN LOSS PROVISIONS IN THE LENDING BUSINESS

(€ m)	January – June 2017								
	Specific loan loss provisions/provisions	General loan loss provisions	Loss provisions recognised for financial investments	Loan loss provisions (LLP) before currency translation income and compensation	Currency translation income on loan loss provisions	Compensation item	Total	Hedging effect of credit derivative second loss guarantee	LLP including hedging effect of credit derivative
Corporate Clients	11	3	-	14	-	-10	4	-	4
Shipping	-21	6	-	-15	5	14	4	-	4
Real Estate Clients	2	-1	-	1	-	-1	-	-	-
Treasury & Markets	-	1	-	1	-	-	1	-	1
Total Core Bank	-8	9	-	1	5	3	9	-	9
Non-Core Bank	-400	19	0	-381	44	175	-162	-89	-251
Other and Consolidation	2	-1	0	1	-	-	1	-	1
Group	-406	27	-	-379	49	178	-152	-89	-241

Detailed information on the change in loan loss provisions in the individual divisions is set out in the “Segment” section. Details regarding the total loan loss provisions are presented in Notes 12 and 22 in the notes to the Group financial statements.

MARKET RISK

For the purposes of the same day measurement and management of market risk, HSH Nordbank applies a VaR approach (99.0% confidence level, holding period of one day and historical observation period of 250 days), the results of which cannot be directly compared with the development in economic capital required for market risk positions within the risk-bearing capacity approach for methodological reasons. The daily market risk of the trading book positions was € 0.7 million and that of the banking book positions € 15.2 million as at 30 June 2018. The overall market risk, which cannot be derived

from adding the VaR of the trading and banking book positions due to risk-mitigating correlation effects, amounted to € 15.0 million. € 14.2 million of this amount was attributable to the Core Bank and € 0.2 million to the Non-Core Bank segment. Due to risk-mitigating correlation effects, the VaR for the Core Bank and the Non-Core Bank cannot be also added up to produce the aggregated market risk. Furthermore, in addition to the risk determined by the system, the Value at Risk of the HSH Nordbank Group includes a VaR add-on of € +0.8 million for residual risk concerning corporate bonds, Pfandbriefe and government bonds (only included at the HSH Nordbank Group level).

Developments with respect to the individual market risk types during the first six months of 2018 are presented in the table set out below.

DAILY VALUE-AT-RISK OF THE GROUP

(€ m)	Interest rate risk ¹⁾		Credit-spread-risk ¹⁾		Foreign exchange risk		Equity risk		Commodity risk		Total ²⁾	
	Jan. – June 2018	Jan. – Dec. 2017	Jan. – June 2018	Jan. – Dec. 2017	Jan. – June 2018	Jan. – Dec. 2017	Jan. – June 2018	Jan. – Dec. 2017	Jan. – June 2018	Jan. – Dec. 2017	Jan. – June 2018	Jan. – Dec. 2017
Average	5.3	5.2	7.9	15.6	9.6	11.1	1.4	1.2	–	–	14.6	20.0
Maximum	7.0	9.7	9.3	26.7	14.9	20.8	1.9	1.6	–	–	17.2	33.7
Minimum	3.8	2.9	7.1	8.1	7.7	0.8	1.0	0.8	–	–	13.2	9.9
Period end value	6.9	5.3	7.4	9.1	9.3	14.5	1.3	1.5	–	–	15.0	16.7

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

²⁾ Due to correlations the VaR does not result from adding up individual values.

Compared to the 2017 year end, the overall VaR has decreased as at the reporting date from € 16,7 million to € 15.0 million primarily as a result of the narrowing of USD and credit spread sensitivities.

LIQUIDITY RISK

Liquidity risk, which is a core element of the Internal Liquidity Adequacy Assessment Process (ILAAP), is broken down into insolvency risk and liquidity transformation risk within HSH Nordbank's liquidity risk management. Liquidity maturity transformation risk is also a component of the risk-bearing capacity concept and is explained in the "Risk-bearing capacity" section. Insolvency risk refers to the risk that present or future payment obligations cannot be met or not met in full.

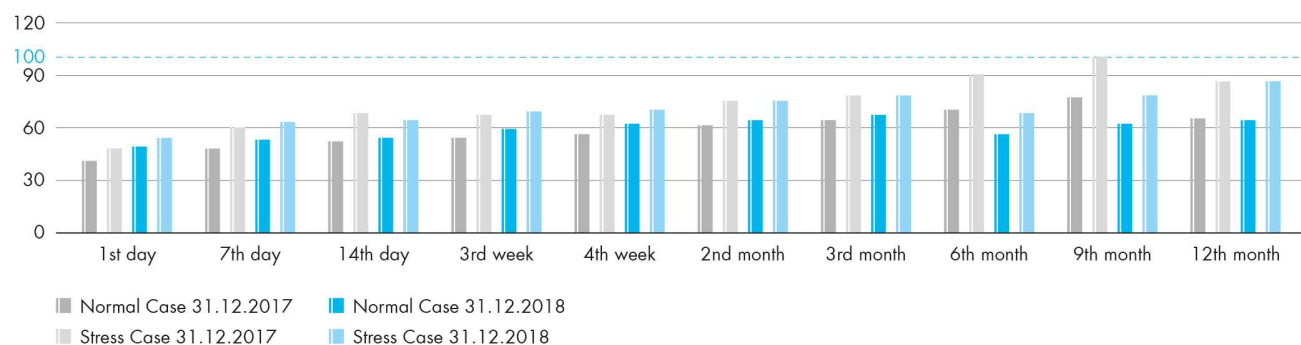
The transactions in the Group impacting liquidity are presented as cash flows and the resultant inflows and outflows allocated to maturity bands (liquidity development report) for the purposes of measuring insolvency risk or funding requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant maturity bands.

The gaps are shown on a cumulative basis 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 maturity bands and consequently represents the respective limit for insolvency risk. Utilisation of this limit is monitored daily.

The following chart shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case liquidity development reports as at 30 June 2018 and as at 31 December 2017. Utilisation represents the ratio of the cumulative gap to the total liquidity potential, which also includes the liquidity buffer required under supervisory law.

LIMIT ON CUMULATIVE LIQUIDITY GAPS ¹⁾

(Utilisation of liquidity potential in %)



¹⁾ Utilisation levels as at 31 December 2017 have changed compared to those stated in the Annual Report 2017. The reason for this is the retroactive recognition of the current bank planning for 2018.

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

As at the reporting date the liquidity potential had a peak utilisation of 67% in month three in the normal case assessment based on the assumption of business development in an ordinary market environment. A survival period of twelve months is thereby adhered to. There is a limit in the form of a survival period of three months for the stress case liquidity development report (combined scenario – economic downturn and rating downgrade). This was adhered to at all times in 2018. The survival period was even over 12 months as at the reporting date. Compared to the 2017 year end, utilisation levels have decreased in the normal case and stress case from months four to nine. There were mainly moderate burdens in the other maturity bands. The improvements are primarily due to the planned inflows under the second loss guarantee, burdens mainly due to the planned reduction in deposits. Critical limit utilisation levels were not reported in the normal case nor in the stress case liquidity development report in the course of the period under review.

Under Basel III and the CRR Delegated Regulation (EU) 2015/61 the liquidity coverage ratio (LCR) was specified as a liquidity 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 October 2015 upon the entry into force of the Delegated Regulation (EU) 2015/61, whereby the compliance rate increases from an initial 60% to 100% in 2018. Under the SREP requirements for 2018 an LCR ratio of 110% is to be maintained at the sub-consolidated level. As at the reporting date, the LCR was 162% determined at the sub-

consolidation level (previous year end: 169%) and was therefore above the future minimum threshold.

The net stable funding ratio (NSFR), which must be adhered to from 2020 at the earliest, is calculated as the ratio of available stable funding resources across all maturities to the funding required and also must be at least 100% after full implementation. As at 30 June 2018, the NSFR amounted to 114% under the QIS (31 December 2017: 114%).

Pursuant to Article 100 CRR in conjunction with Implementing Regulation (EU) 2015/79 of the European Commission HSH Nordbank is required to report information on encumbered assets (asset encumbrance). An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. The ratio of encumbered assets to the total amount of encumbered and unencumbered assets at HSH Nordbank came to 39% as at 30 June 2018 (31 December 2017: 34%).

HSH Nordbank successfully forged ahead with its funding strategy in the first half of 2018 and thereby strengthened its liquidity profile. Besides issuing activities, the institutional deposit base also contributed to the refinancing of the business. However, this was reduced as part of the planned winding down of the surplus liquidity. The regulatory requirements for the liquidity ratios were met at all times during the reporting period. However, there is still no unrestricted access to the capital markets. In addition, institutional deposits have a comparatively low average duration, and there is a significant level of counterparty concentration.

Future funding and HSH Nordbank's rating therefore continue to be key challenges despite this positive development.

2017 financial year, no material changes have arisen in the course of this year to date.

Further information on HSH Nordbank's refinancing situation is set out in the "Earnings, net assets and financial position" section. Details on the funding forecast can be found in the "Forecast, opportunities and risks report" section.

OTHER MATERIAL RISKS

The management of non-financial risks, which are included under operational risk, was further refined in the first half of 2018. This also includes model risk, which may arise in connection with the use of inappropriate models for decision-making purposes.

HSH Nordbank recognised provisions within the legal risk category, which is another component of operational risk, of € 95 million for litigation risks and costs as at the reporting date (31 December 2017: € 98 million). In addition, contingent liabilities of € 25 million arising from legal disputes are disclosed (31 December 2017: € 32 million). A major portion of the provisions for litigation risks relates to the 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 USD 54 million in the year 2013 due to decisions made by Turkish courts. The plaintiffs have filed new claims under which damages are asserted based on the same facts.

In addition, HSH Nordbank AG has been sued by a borrower for payment of total amount of € 197 million plus interest. The plaintiff is asserting various claims, particularly claims for payment of compensation and for unjustified enrichment in connection with measures taken by the Bank in connection with a non-performing loan.

Furthermore, claims have also been filed in actions brought against the Bank in connection with different legal opinions regarding certain financial instruments on the liability side.

As a component of legal risk, tax risks mainly result from the fact that the binding interpretation of rules that can be interpreted in specific cases may only be known after several years due to the long period between tax audits. The tax audits have been finalised for the years 2003–2007. The additional payments due resulting from the tax assessments subsequently issued are in line with the existing provisions. Tax audits are currently being conducted for the years 2008 – 2011 and 2012 – 2015. Appropriate provisions have been recognised for the effects of the tax audits.

Further information on tax risks as well as on other operational risks, reputational risks and the business strategy risk can be found in the Group management report for the 2017 financial year. Regarding the other risks set out in detail in the Group management report for the

Hamburg/Kiel, 17 August 2018

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GROUP STATEMENT OF INCOME FOR THE PERIOD 1 JANUARY TO 30 JUNE 2018

(€ m)	Note	January – June 2018	January – June 2017	Change in %
Interest income from financial assets categorised as AC and FVOCI		462	603	-23
Interest income from other financial instruments		815	885	-8
Negative interest on investments categorised as AC and FVOCI		-10	-9	11
Negative interest on other cash investments and derivatives		-120	-138	-13
Interest expenses		-935	-1,175	-20
Positive interest on borrowings and derivatives		119	149	-20
Net income/loss from hybrid financial instruments		-45	-56	20
Net interest income	(5)	286	259	10
Net commission income	(6)	23	32	-28
Result from hedging	(7)	-2	-9	78
Result from financial instruments categorised as FVPL ¹⁾	(8)	-41	151	> -100
Net income from financial investments	(9)	78	11	> 100
Result from the disposal of financial assets classified as AC	(10)	-3	298	> -100
Net income from financial investments accounted for under the equity method	(11)	-	2	-100
Total income		341	744	-54
Loan loss provisions	(12)	131	-152	> -100
Hedging effect of credit derivative second loss guarantee	(3)	-50	-89	44
Total income after loan loss provisions		422	503	-16
Administrative expenses	(13)	-223	-246	-9
Other operating income	(14)	23	62	-63
Expenses for bank levy and deposit guarantee fund	(15)	-34	-41	-17
Net income before restructuring and privatisation		188	278	-32
Net income from restructuring and privatisation	(16)	-31	-25	-24
Expenses for government guarantees	(17)	-158	-80	98
Net income before taxes		-1	173	> -100
Income tax expenses		-76	-15	> 100
Group net result		-77	158	> -100
Group net result attributable to non-controlling interests		1	-	-
Group net result attributable to HSH Nordbank shareholders		-78	158	> -100

¹⁾ In the previous year, under IAS 39, the item Net trading income.

EARNINGS PER SHARE

(€)	Note	January – June 2018	January – June 2017
Undiluted	(18)	-0.26	0.52
Diluted	(18)	-0.26	0.52
Number of shares (millions)		302	302

GROUP STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY TO 30 JUNE 2018

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME/LOSS

(€ m)	January – June 2018	January – June 2017
Group net result	-77	158
Income and expense that have been reclassified to the statement of income or may be reclassified at a later date		
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement (before taxes)		
Unrealised gains and losses (before taxes)	-59	n.r.
Gains and losses (before taxes) reclassified to the statement of income	-81	n.r.
Income taxes recognised	47	n.r.
	-93	n.r.
Changes in fair value of AFS financial instruments		
Unrealised gains and losses (before taxes)	n.r.	-9
Gains and losses (before taxes) reclassified to the statement of income	n.r.	10
of which from exchange rate effects	n.r.	-10
Income taxes recognised	n.r.	-2
	n.r.	-1
Differences resulting from currency translation	10	-36
	10	-36
Subtotal	-83	-37
Income and expenses that will not be reclassified to the statement of income at a later date		
Credit risk-induced changes in the value of liabilities designated at fair value (before taxes)	-1	3
Income taxes recognised	-	-1
	-1	2
Changes resulting from the revaluation of net defined benefit liabilities (before taxes)	14	55
Income taxes recognised	-	-17
	14	38
Subtotal	13	40
Other comprehensive income for the period	-70	3
Total comprehensive income	-147	161
Total comprehensive income attributable to non-controlling interests	1	1
Total comprehensive income attributable to HSH Nordbank shareholders	-148	160

GROUP STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

ASSETS

(€ m)	Note	30.06.2018	31.12.2017	Change in %
Cash reserve	(19)	2,698	6,625	-59
Loans and advances to banks	(20)	3,411	3,838	-11
Loans and advances to customers	(21)	35,247	39,174	-10
Loan loss provisions	(22)	480	687	-30
Compensation item for financial instruments categorised as FVPL under the second loss guarantee	(3)	3,530	n.r.	n.r.
Credit derivative under the second loss guarantee	(3)	969	1,014	-4
Positive fair values of hedging derivatives	(23)	338	264	28
Positive adjustment item from portfolio fair value hedges	(23)	235	255	-8
Trading assets	(24)	3,910	3,641	7
Financial investments	(25)	12,553	13,647	-8
Intangible assets	(26)	10	10	-
Property, plant and equipment	(27)	200	232	-14
Investment property	(27)	43	13	> 100
Non-current assets held for sale and disposal groups	(28)	70	139	-50
Current tax assets		35	46	-24
Deferred tax assets	(29)	665	723	-8
Other assets	(30)	75	74	1
Total assets		64,469	70,382	-8

LIABILITIES

(€ m)	Note	30.06.2018	31.12.2017	Change in %
Liabilities to banks	(31)	7,339	8,271	- 11
Liabilities to customers	(32)	33,175	36,205	- 8
Securitised liabilities	(33)	10,986	12,444	- 12
Negative fair values of hedging derivatives	(23)	559	163	>100
Negative adjustment item from portfolio fair value hedges	(23)	489	553	- 12
Trading liabilities	(34)	3,132	3,875	- 19
Provisions	(35)	1,442	1,438	-
Liabilities relating to disposal groups	(36)	32	47	- 32
Current tax liabilities		63	103	- 39
Other liabilities	(37)	656	658	-
Subordinated capital	(38)	2,291	2,252	2
Equity	(39)	4,305	4,373	- 2
Share capital		3,018	3,018	-
Capital reserve		75	75	-
Retained earnings		1,005	1,701	- 41
Revaluation reserve		276	117	>100
Currency conversion reserve		13	2	>100
Group net result		- 78	- 535	- 85
Total before non-controlling interests		4,309	4,378	- 2
Non-controlling interests		- 4	- 5	- 20
Total equity and liabilities		64,469	70,382	- 8

GROUP STATEMENT OF CHANGES IN EQUITY

(€ m)

	Note	Share capital	Capital reserve
As at 1 January 2017		3,018	75
Change due to early application of IFRS 9.5.7.7 in conjunction with IAS 1.7 (f)		-	-
Adjusted amount as at 1 January 2017		3,018	75
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Changes in fair value of AFS financial instruments		-	-
Credit risk-induced changes in the value of liabilities designated at fair value ¹⁾		-	-
Exchange rate changes		-	-
thereof resulting from currency translation		-	-
thereof resulting from changes in scope of consolidation		-	-
Other comprehensive income		-	-
Comprehensive income as at 30 June 2017		-	-
Compensation for the Group net result for the previous year		-	-
As at 30 June 2017		3,018	75
As at 1 January 2018		3,018	75
Effects from the first-time application of IFRS 9		-	-
Adjusted amount as at 1 January 2018		3,018	75
Group net result		-	-
Changes resulting from the revaluation of net defined benefit liabilities		-	-
Credit risk-induced changes in the value of liabilities designated at fair value ¹⁾		-	-
Changes in the fair value of financial assets classified as FVOCI as a mandatory requirement		-	-
Exchange rate changes		-	-
thereof resulting from currency translation		-	-
thereof resulting from changes in scope of consolidation		-	-
Other comprehensive income		-	-
Comprehensive income as at 30 June 2018		-	-
Compensation for the Group net result for the previous year		-	-
As at 30 June 2018	(40)	3,018	75

¹⁾ The reclassification of the credit risk-induced changes in the value of liabilities designated at fair value to retained earnings is due to the repurchase of issues/promissory note loans.

	Retained earnings	Currency conversion reserve	Revaluation reserve	Group net result	Total before non-controlling interests	Non-controlling interests	Total
	1,617	60	127	67	4,964	-14	4,950
	-9	-	9	-	-	-	-
	1,608	60	136	67	4,964	-14	4,950
	-	-	-	158	158	-	158
	38	-	-	-	38	-	38
	-	-	-1	-	-1	-	-1
	-1	-	3	-	2	-	2
	-	-38	-	-	-38	1	-37
	-	1	-	-	1	-	1
	37	-37	2	-	2	1	3
	37	-37	2	158	160	1	161
	67	-	-	-67	-	-	-
	1,712	23	138	158	5,124	-13	5,111
	1,701	2	117	-535	4,378	-5	4,373
	-334	1	253	159	79	-	79
	1,367	3	370	-376	4,457	-5	4,452
	-	-	-	-78	-78	1	-77
	14	-	-	-	14	-	14
	-	-	-1	-	-1	-	-1
	-	-	-93	-	-93	-	-93
	-	13	-	-	13	-	13
	-	-3	-	-	-3	-	-3
	14	10	-94	-	-70	-	-70
	14	10	-94	-78	-148	1	-147
	-376	-	-	376	-	-	-
	1,005	13	276	-78	4,309	-4	4,305

GROUP CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT

(€ m)	January – June 2018	January – June 2017
Cash and cash equivalents as at 1 January	6,625	3,491
Cash flow from operating activities	-5,149	4,116
Cash flow from investing activities	1,222	-113
Cash flow from financing activities	-	-950
Cash and cash equivalents as at 30 June	2,698	6,544

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

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

In the reporting period, major new issues with a volume of € 343 million were issued (previous year: € 672 million). The volume of repayments/repurchases in this period amounted to € 166 million (previous year: € 333 million) and the volume of maturing issues came to € 1,717 million (previous year: € 3,285 million).

Further information on the liquidity position of HSH Nordbank is presented in the Group management report under Net assets and financial position and in the Risk Report.

BALANCE SHEET ITEM RECONCILIATION FROM IAS 39 TO IFRS 9

INTRODUCTION

The initial application of IFRS 9 results in changes in the carrying amounts between the closing balance sheet in accordance with IAS 39 as at 31 December 2017 and the opening balance sheet in accordance with IFRS 9 as at 1 January 2018. The differences in carrying amounts will be recognised in equity. The changes relate to financial instruments and are based on the new classification, measurement and impairment provisions set out in IFRS 9 (see the section entitled “Accounting and measurement principles” in the chapter entitled “Application of accounting methods IFRS 9 - Financial instruments”). These provisions are to be applied retrospectively in principle. In accordance with the option provided for in IFRS 9.7.2.15, HSH Nordbank has opted not to adjust the comparative figures in the consolidated statement of financial position and has prepared a reconciliation from the closing balance sheet in accordance with IAS 39 as at 31 December 2017 to the opening balance sheet in accordance with IFRS 9 as at 1 January 2018.

The reconciliation has been prepared in accordance with the requirements set out in IFRS 7.42L to IFRS 7.42O. The balance sheet carrying amounts in the closing balance sheet in accordance with IAS 39 are reconciled to the balance sheet carrying amounts of the opening balance sheet in accordance with IFRS 9. The information is provided using two tables for each balance sheet item containing financial instruments. For the reconciliation of total loan loss provisions in accordance with IAS 39 to total loan loss provisions in accordance with IFRS 9, a further table was also prepared in line with the requirements of IFRS 7.42P.

In the following tables, it is important to note that the reconciliation tables for the balance sheet items “Loans and advances to banks” and “Loans and advances to customers” are shown before deductions for loan loss provisions, as these are shown in a separate reconciliation table in line with the presentation in the consolidated statement of financial position. By contrast, the reconciliation table for financial investments is shown after deductions for impairment (loan loss provisions) in line with the presentation in the consolidated statement of financial position.

In the table “Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39”, the balance sheet carrying amounts in accordance with IFRS 9 are reconciled, per financial instrument category and per measurement category in accordance with IFRS 9, to the balance sheet carrying amounts per measurement category under IAS 39. The categories of financial instruments required under IFRS 7.6 were adjusted as at 1 January 2018 to reflect the new classification and measurement provisions in accordance with IFRS 9 (see the section entitled “Accounting and measurement principles” in the chapter entitled “Application of accounting methods IFRS 9 - Financial instruments”). The total amount in the “IAS 39 carrying amount” column corresponds to the value shown in the consolidated statement of financial position for the balance sheet item in question as at 31 December 2017.

The table entitled “Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 9” shows the balance sheet carrying amounts under IAS 39 for each IAS 39 measurement category (“IAS 39 carrying amount” column). The total amount in the “IAS 39 carrying amount” column corresponds to the value shown in the consolidated statement of financial position for the balance sheet item in question as at 31 December 2017. The rows “from” show the values for each measurement and holding category under IAS 39. The rows “to” show the values for each measurement category and category of financial instruments under IFRS 9. The IAS 39 balance sheet carrying amounts for each measurement category under IFRS 9 are visible in the “Reclassifications” column. The balance sheet carrying amounts in accordance with IFRS 9 as at 1 January 2018 are shown in the “IFRS 9 carrying amount” column. The difference between the columns “Reclassifications” and “IFRS 9 carrying amount” column is displayed in the “Remeasurement” column and represents the measurement difference between IAS 39 and IFRS 9. This value corresponds to change in equity which is directly related to the initial application of IFRS 9 (“Equity effect” column).

The equity effects resulting from the initial application of IFRS 9 as at 1 January 2018 are explained in the section “Explanatory information” below the reconciliation tables. This section shows, for example, how the equity effect is distributed proportionately among retained earnings and the revaluation reserve, and what the main drivers of the equity effects are.

RECONCILIATION OF BALANCE SHEET ITEMS IN ACCORDANCE WITH IFRS 7.42L

Financial assets

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

CASH RESERVE

(€ m)		01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount	
	AC assets		Amortised Cost (AC)	6,625	measured at amortised cost (LaR)
			measured at fair value (AFS)	106	
		6,625		6,625	
Total		6,625		6,625	

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

CASH RESERVE

(€ m)		31.12.2017		01.01.2018			Equity effect
		IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount		
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	6,519				
To	Amortised Cost (AC)	AC assets		6,519	-	6,519	-
			6,519	6,519	-	6,519	-
From	measured at fair value	Available for Sale (AFS)	106				
To	Amortised Cost (AC)	AC assets		106	-	106	-
			106	106	-	106	-
Total			6,625	6,625	-	6,625	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

LOANS AND ADVANCES TO BANKS

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC assets	Amortised Cost (AC)	3,561	measured at amortised cost (LaR)	3,561
		3,561		3,561
FVPL Other	Fair Value through Profit or Loss (FVPL)	79	measured at fair value (AFS)	79
		79		79
Mandatory FVOCI	Fair Value through Other Comprehensive Income (FVOCI)	204	measured at amortised cost (LaR)	197
		204		197
Total		3,845		3,838

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

LOANS AND ADVANCES TO BANKS

(€ m)			31.12.2017	01.01.2018		IFRS 9 carrying amount	Equity effect
			IAS 39 carrying amount	Re-classification	Re-measurement		
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	3,759	-	-	-	-
To	Amortised Cost (AC)	AC assets		3,562	-	3,562	-
	Fair Value through Other Comprehensive Income (FVOCI)	Mandatory FVOCI		197	7	204	7
			3,759	3,759	7	3,766	7
From	measured at fair value	Available for Sale (AFS)	79	-	-	-	-
To	Fair Value through Profit or Loss (FVPL)	FVPL Other		79	-	79	-
			79	79	-	79	-
Total			3,838	3,838	7	3,845	7

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39
LOANS AND ADVANCES TO CUSTOMERS

(€ m)		01.01.2018	31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
	AC assets		Amortised Cost (AC)	
		30,519		30,403
FVPL Other	Fair Value through Profit or Loss (FVPL)	2,681	measured at amortised cost (LaR)	6,230
			measured at fair value (DFV)	85
			measured at fair value (AFS)	45
Designated FVPL		124	measured at amortised cost (LaR)	8
			measured at fair value (DFV)	118
		2,805		6,486
Mandatory FVOCI	Fair Value through Other Comprehensive Income (FVOCI)	2,289	measured at amortised cost (LaR)	1,157
			measured at fair value (DFV)	1,052
		2,289		2,209
No category	Receivables under finance leases	76	Receivables under finance leases	76
Total		35,689		39,174

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

LOANS AND ADVANCES TO CUSTOMERS

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re- classification	Re- measurement	IFRS 9 carrying amount
		Loans and Receivables (LoR)					
From	measured at amortised cost (AC)		37,798				
To	Amortised Cost (AC)	AC assets		30,403	116	30,519	116
	Fair Value through Profit or Loss (FVPL)	FVPL Other		6,230	-3,679	2,551	-3,679
		Designated FVPL		8	-2	6	-2
	Fair Value through Other Comprehensive Income (FVOCI)	Mandatory FVOCI		1,157	80	1,237	80
			37,798	37,798	-3,485	34,313	-3,485
		Designated at Fair Value (DFV)					
From	measured at fair value		1,255	-	-	-	-
To	Fair Value through Profit or Loss (FVPL)	FVPL Other		85	-	85	-
		Designated FVPL		118	-	118	-
	Fair Value through Other Comprehensive Income (FVOCI)	Mandatory FVOCI		1,052	-	1,052	-
			1,255	1,255	-	1,255	-
From	measured at fair value	Available for Sale (AfS)	45	-	-	-	-
To	Fair Value through Profit or Loss (FVPL)	FVPL Other		45	-	45	-
			45	45	-	45	-
From	Receivables under finance leases	No IAS 39 category	76				
To	Receivables under finance leases	No category		76	-	76	-
			76	76	-	76	-
Total			39,174	39,174	-3,485	35,689	-3,485

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

LOAN LOSS PROVISIONS

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC assets	Amortised Cost (AC)	- 978	measured at amortised cost (LaR)	- 751
		- 978		- 751
FVPL Other	Fair Value through Profit or Loss (FVPL)	-	measured at amortised cost (LaR)	- 199
Designated FVPL			measured at amortised cost (LaR)	- 3,544
	¹⁾	-		- 3,743
		- 978		- 4,494
Compensation under the second loss guarantee for financial instruments not assigned to the FVPL category ²⁾		1,697		5,181
Total		719		687

¹⁾ In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.

²⁾ The reclassification of financial assets to fair value measurement leads to transfers from the balance sheet item loan loss provisions to the balance sheet item Compensation item for financial instruments categorised as FVPL under the second loss guarantee in an amount of € 3,484 million.

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

LOAN LOSS PROVISIONS

(€ m)	31.12.2017		01.01.2018			
		IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	- 4,494			
To	Amortised Cost (AC)	AC assets		- 751	- 227	- 978
	Fair Value through Profit or Loss (FVPL) ¹⁾	FVPL Other		- 199	199	-
		Designated FVPL		- 3,544	3,544	-
			- 4,494	- 4,494	3,516	- 978
	Compensation under the second loss guarantee (excl. financial instruments categorised as FVPL) ²⁾					
			5,181	5,181	- 3,484	1,697
Total			687	687	32	719
						32

¹⁾ In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.

²⁾ The reclassification of financial assets to fair value measurement leads to transfers from the balance sheet item loan loss provisions to the balance sheet item Compensation item for financial instruments categorised as FVPL under the second loss guarantee in an amount of € 3,484 million.

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

COMPENSATION ITEM FOR FINANCIAL INSTRUMENTS CATEGORISED AS FVPL UNDER THE SECOND LOSS GUARANTEE

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
	Fair Value through Profit or Loss (FVPL) ¹⁾		measured at amortised cost (LaR)	
FVPL Other		3,484		–

¹⁾ These amounts relate to the transfer of compensation amounts from the balance sheet item Loan loss provisions to the balance sheet item Compensation item for financial instruments categorised as FVPL under the second loss guarantee. This is due to the reclassification of individual financial assets from the LaR/AFS categories to the FVPL measurement category.

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

COMPENSATION ITEM FOR FINANCIAL INSTRUMENTS CATEGORISED AS FVPL UNDER THE SECOND LOSS GUARANTEE

(€ m)	31.12.2017			01.01.2018		
		IAS 39 carrying amount	Reclassification	Remeasurement	IFRS 9 carrying amount	Equity effect
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	–			
To	Fair Value through Profit or Loss (FVPL)	FVPL Other ¹⁾	–	3,484	3,484	3,484
Total			–	3,484	3,484	3,484

¹⁾ These amounts relate to the transfer of compensation amounts from the balance sheet item loan loss provisions to the balance sheet item Compensation item for financial instruments categorised as FVPL under the second loss guarantee. This is due to the reclassification of individual financial assets from the LaR/AFS categories to the FVPL measurement category.

RECONCILIATION OF IMPAIRMENTS IN ACCORDANCE WITH IFRS 7.42P

Financial assets

LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS

		31.12.2017	01.01.2018			IFRS 9 amount
		IAS 39 amount	Reclassification		Remeasurement ¹⁾	
From	measured at amortised cost (LaR)	-1				
To	Amortised Cost (AC)		-1		-	-1
			-1		-	-1
Total		-1	-1		-	-1

¹⁾ The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

		31.12.2017	01.01.2018			IFRS 9 amount
		IAS 39 amount	Reclassification		Remeasurement ²⁾	
From	measured at amortised cost (LaR)	-4,493				0
To	Amortised Cost (AC)		-750		-227	-977
	Fair Value through Profit or Loss (FVPL) ¹⁾		-3,743	Derecognition of IAS 39 amount due to reclassification	3,743	-
		-4,493	-4,493		3,516	-977
Total		-4,493	-4,493		3,516	-977

¹⁾ In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.

²⁾ The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

LOAN LOSS PROVISIONS FOR FINANCIAL INVESTMENTS

		31.12.2017	01.01.2018			IFRS 9 amount
		IAS 39 amount	Re-classification		Re-measurement ²⁾	
From	measured at amortised cost (LaR)	-4				
To	Amortised Cost (AC)		-2		2	-
	Fair Value through Profit or Loss (FVPL) ¹⁾		-2	Derecognition of IAS 39 amount due to reclassification	2	-
	Fair Value through Other Comprehensive Income (FVOCI)		-		-7	-7
		-4	-4		-3	-7
From	measured at fair value (AfS)	-79				
To	Fair Value through Profit or Loss (FVPL) ¹⁾		-79	Derecognition of IAS 39 amount due to reclassification	79	-
		-79	-79		79	-
Total		-83	-83		76	-7
Total			-81	Derecognition of IAS 39 amount due to reclassification		

¹⁾ In the case of these amounts, the reclassification of the financial assets to fair value measurement means that the loan loss provisions are derecognised and implicitly included as a component of the fair value measurement in the balance sheet carrying amount.

²⁾ The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

LOAN LOSS PROVISIONS FOR COMPENSATION UNDER THE SECOND LOSS GUARANTEE (EXCL. FINANCIAL INSTRUMENTS CATEGORISED AS FVPL)

		31.12.2017	01.01.2018			IFRS 9 amount
		IAS 39 amount	Reclassification		Remeasurement ¹⁾	
From	measured at amortised cost (LaR)	5,181				
To	Amortised Cost (AC)		1,697		–	1,697
	Fair Value through Profit or Loss (FVPL)		3,484	Transfer to compensation item for financial instruments categorised as FVPL under the second loss guarantee	–3,484	–
	Fair Value through Other Comprehensive Income (FVOCI)		–		–	–
Total		5,181	5,181		–3,484	1,697
Total		5,181	5,181		–3,484	1,697
Total			–3,484	Transfer to compensation item for financial instruments categorised as FVPL under the second loss guarantee		

¹⁾ The amounts on the remeasurement of the loan loss provisions under IFRS 9 include the effects resulting from the retroactive application of the modification provisions.

RECONCILIATION OF IMPAIRMENTS IN ACCORDANCE WITH IFRS 7.42P**Off-balance-sheet transactions****PROVISIONS IN THE LENDING BUSINESS**

		31.12.2017	01.01.2018		IFRS 9 amount
		IAS 39 amount	Remeasurement		
	Contingent liabilities	11	–1		10
	Irrevocable loan commitments	35	–9		26
	Other credit risks	21	–1		20
Total		67	–11		56

With regard to the calculation of the equity effect resulting from IFRS 9, it is important to note that the IAS 39 amount includes provisions for non-financial instruments in the amount of € 14 million that were set up in accordance with IAS 37. This means that, in connection with the IFRS 9 amount shown above, which does not include any

provisions for non-financial instruments in the reconciliation statement pursuant to IFRS 7.42P, whereas these are, however, included in the “Provisions” balance sheet item, this results in an equity effect from the provisions in the amount of € – 3 million.

RECONCILIATION OF BALANCE SHEET ITEMS IN ACCORDANCE WITH IFRS 7.42L (CONTINUED)

Financial assets

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

CREDIT DERIVATIVE UNDER THE SECOND LOSS GUARANTEE

(€ m)		01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount	
	FVPL Trading	Fair Value through Profit or Loss (FVPL)	1,014	measured at fair value (Hft)	1,014

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

CREDIT DERIVATIVE UNDER THE SECOND LOSS GUARANTEE

(€ m)		31.12.2017		01.01.2018			
From	measured at fair value	Held for Trading (Hft)	IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
To	Fair Value through Profit or Loss (FVPL)	FVPL Trading	1,014	1,014	-	1,014	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

POSITIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)		01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount	
	n.a.	Fair Value through Profit or Loss (FVPL)	264	measured at fair value	264

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**POSITIVE FAIR VALUES OF HEDGING DERIVATIVES**

(€ m)			31.12.2017		01.01.2018		
			IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
From	measured at fair value	n.a.	264				
To	Fair Value through Profit or Loss (FVPL)	n.a.		264	–	264	–

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**POSITIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES**

(€ m)		01.01.2018		31.12.2017	
		IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9					
No category		n.a.	255	n.a.	255

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**POSITIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES**

(€ m)		31.12.2017		01.01.2018		
		IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
From	n.a.	No IAS 39 category	255			
To	n.a.	No category ¹⁾	–	255	–	255

Reconciliation of measurement categories and carrying amounts of financial instruments from IAS 39 to IFRS 9**TRADING ASSETS**

(€ m)		01.01.2018		31.12.2017	
		IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9					
FVPL Trading		Fair Value through Profit or Loss (FVPL)	3,550	measured at fair value (HfT)	3,550
		¹⁾	–		91
Total			3,550		3,641

¹⁾ In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item Trading assets to the balance sheet item Financial investments.

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

TRADING ASSETS

(€ m)		31.12.2017		01.01.2018			
From	measured at fair value	Held for Trading (HfT)	IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
To	Fair Value through Profit or Loss (FVPL)	FVPL Trading	3,641	3,550	–	3,550	–
		FVPL Other (financial investments) ¹⁾		91	–	–	–
			3,641	3,641	–	3,550	0

¹⁾ In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item Trading assets to the balance sheet item Financial investments.

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

FINANCIAL INVESTMENTS

(€ m)		01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount	
AC assets	Amortised Cost (AC)	103	measured at amortised cost (LaR)	101	
		103		101	
FVPL Other	Fair Value through Profit or Loss (FVPL)	645	measured at amortised cost (LaR)	99	
			measured at fair value (DFV)	444	
			measured at fair value (AfS)	102	
		¹⁾ 91		–	
Designated FVPL		168	measured at amortised cost (LaR)	–	
			measured at fair value (DFV)	168	
		904		813	
Mandatory FVOCI	Fair Value through Other Comprehensive Income (FVOCI)	12,804	measured at amortised cost (LaR)	360	
			measured at fair value (AfS)	12,373	
		12,804		12,733	
Total		13,811		13,647	

¹⁾ In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item Trading assets to the balance sheet item Financial investments.

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

FINANCIAL INVESTMENTS

(€ m)			31.12.2017	01.01.2018			
			IAS 39 carrying amount	Re- classification	Re- measurement	IFRS 9 carrying amount	Equity effect
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	560	-	-	-	-
To	Amortised Cost (AC)	AC assets		101	2	103	2
	Fair Value through Profit or Loss (FVPL)	FVPL Other		99	-	99	-
	Fair Value through Other Comprehensive Income (FVOCI)	Mandatory FVOCI		360	77	437	77
			560	560	79	639	79
From	measured at fair value	Designated at Fair Value (DFV)	612	-	-	-	-
To	Fair Value through Profit or Loss (FVPL)	FVPL Other		444	-	444	-
		Designated FVPL		168	-	168	-
			612	612	-	612	-
From	measured at fair value	Available for Sale (AFS)	12,475				
To	Fair Value through Profit or Loss (FVPL)	FVPL Other		102	-	102	-
	Fair Value through Other Comprehensive Income (FVOCI)	Mandatory FVOCI		12,373	-6	12,367	-6
			12,475	12,475	-6	12,469	-6
From	measured at fair value	Held for Trading (HfT)/(trading assets)	-				
To	Fair Value through Profit or Loss (FVPL)	FVPL Other ¹⁾		91	-	91	-
Total			13,647	13,738	73	13,811	73

1) In the case of these amounts, the abandonment of the intent to trade results in a transfer from the balance sheet item "Trading assets" to the balance sheet item "Financial investments".

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC assets	Amortised Cost (AC)	2	measured at amortised cost (LaR)	2
		2		2
FVPL Other		12	measured at amortised cost (LaR)	12
		12		12
No holding category	Shares in associates	12	measured at amortised cost (LaR)	12
Total		26		26

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)			31.12.2017	01.01.2018			
			IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	26				
To	Amortised Cost (AC)	AC assets		2	-	2	-
	Fair Value through Profit or Loss (FVPL)	FVPL Other		12	-	12	-
	Shares in associates	No holding category		12	-	12	-
			26	26	-	26	-
Total			26	26	-	26	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

OTHER ASSETS

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC assets	Amortised Cost (AC)	36	measured at amortised cost (LaR)	35
		36		35
FVPL Other	Fair Value through Profit or Loss (FVPL)	18	measured at amortised cost (LaR)	-
			n.a.	18
		18		18
Total		54		53

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

OTHER ASSETS

(€ m)			31.12.2017	01.01.2018			
			IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
From	measured at amortised cost (AC)	Loans and Receivables (LaR)	35				
To	Amortised Cost (AC)	AC assets		35	1	36	1
			35	35	1	36	1
From	n.a.	Without IAS 39 category	18				
To	Fair Value through profit or loss (FVPL)	FVPL Other		18	-	18	-
			18	18	-	18	-
Total		Total	53	53	1	54	1

RECONCILIATION OF BALANCE SHEET ITEMS IN ACCORDANCE WITH IFRS 7.42L

Financial liabilities

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

LIABILITIES TO BANKS

(€ m)	01.01.2018		31.12.2017	
	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC liabilities	Amortised Cost (AC)	8,153	measured at amortised cost (LIA)	8,153
		8,153		8,153
Designated FVPL	FVPL/FVOCI	118	measured at amortised cost (LIA)	-
			measured at fair value (DFV)	118
		118		118
Total		8,271		8,271

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

LIABILITIES TO BANKS

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	measured at amortised cost (AC)	Other liabilities (LIA)	8,153				
To	Amortised Cost (AC)	AC liabilities		8,153	-	8,153	-
			8,153	8,153	-	8,153	-
From	measured at fair value	Designated at Fair Value (DFV)	118				
To	FVPL/FVOCI	Designated FVPL		118	-	118	-
			118	118	-	118	-
Total			8,271	8,271	-	8,271	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

LIABILITIES TO CUSTOMERS

(€ m)		01.01.2018		31.12.2017	
		IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC liabilities	Amortised Cost (AC)	35,386	35,386	measured at amortised cost (LIA)	35,386
			35,386		35,386
Designated FVPL	FVPL/FVOCI	819	819	measured at amortised cost (LIA)	819
			819		819
Total			36,205		36,205

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

LIABILITIES TO CUSTOMERS

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	measured at amortised cost (AC)	Other liabilities (LIA)	35,386				
To	Amortised Cost (AC)	AC liabilities		35,386	-	35,386	-
			35,386	35,386	-	35,386	-
From	measured at fair value	Designated at Fair Value (DFV)	819				
To	FVPL/FVOCI	Designated FVPL		819	-	819	-
			819	819	-	819	-
Total			36,205	36,205	-	36,205	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

SECURITISED LIABILITIES

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC liabilities	Amortised Cost (AC)	10,817	measured at amortised cost (LIA)	10,817
		10,817		10,817
Designated FVPL	FVPL/FVOCI	1,627	measured at amortised cost (LIA)	-
			measured at fair value (DFV)	1,627
		1,627		1,627
Total		12,444		12,444

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

SECURITISED LIABILITIES

(€ m)		31.12.2017		01.01.2018		IFRS 9 carrying amount	Equity effect
From	measured at amortised cost (AC)	Other liabilities (LIA)	IAS 39 carrying amount	Re-classification	Re-measurement		
To	Amortised Cost (AC)	AC liabilities	10,817	10,817	-	10,817	-
			10,817	10,817	-	10,817	-
From	measured at fair value	Designated at Fair Value (DFV)	1,627				
To	FVPL/FVOCI	Designated FVPL		1,627	-	1,627	-
			1,627	1,627	-	1,627	-
Total			12,444	12,444	-	12,444	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
n.a.	Fair Value through Profit or Loss (FVPL)	163	measured at fair value	163

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	measured at fair value	n.a.	163				
To	Fair Value through Profit or Loss (FVPL)	n.a.		163	–	163	–

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

NEGATIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES

(€ m)		01.01.2018		31.12.2017	
		IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9					
No category	n.a.	553	n.a.	553	

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

NEGATIVE ADJUSTMENT ITEM FROM PORTFOLIO FAIR VALUE HEDGES

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	n.a.	No IAS 39 category	553				
To	n.a.	No category ¹⁾		553	–	553	–

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

TRADING LIABILITIES

(€ m)		01.01.2018		31.12.2017	
		IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
FVPL Trading	Fair Value through Profit or Loss (FVPL)	3,875	measured at fair value (Hft)	3,875	
Total		3,875		3,875	

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**TRADING LIABILITIES**

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	measured at fair value	Held for Trading (HFT)	3,875				
To	Fair Value through Profit or Loss (FVPL)	FVPL Trading		3875	-	3875	-
Total			3,875	3,875	-	3,875	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39**LIABILITIES RELATING TO DISPOSAL GROUPS**

(€ m)		01.01.2018		31.12.2017	
		IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC liabilities	Amortised Cost (AC)	2	2	measured at amortised cost (LIA)	2
Total		2	2		2

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**LIABILITIES RELATING TO DISPOSAL GROUPS**

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	measured at amortised cost (AC)	Other liabilities (LIA)	2				
To	Amortised Cost (AC)	AC liabilities		2	-	2	-
Total			2	2	-	2	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

OTHER LIABILITIES

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC liabilities	Amortised Cost (AC)	638	measured at amortised cost (LIA)	638
Total		638		638

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7

OTHER LIABILITIES

(€ m)			31.12.2017		01.01.2018		
From	measured at amortised cost (AC)	Other liabilities (LIA)	IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount	Equity effect
To	Amortised Cost (AC)	AC liabilities	638	638	-	638	-
Total			638	638	-	638	-

Reconciliation of measurement categories and carrying amounts of financial instruments from IFRS 9 to IAS 39

SUBORDINATED CAPITAL

(€ m)	01.01.2018		31.12.2017	
Categories of financial instruments in accordance with IFRS 7 in conjunction with IFRS 9	IFRS 9 measurement category	IFRS 9 carrying amount	IAS 39 measurement category	IAS 39 carrying amount
AC liabilities	Amortised Cost (AC)	2,252	measured at amortised cost (LIA)	2,252
Total		2,252		2,252

Reconciliation of carrying amounts from IAS 39 to IFRS 9 based on the categories of financial instruments under IFRS 7**SUBORDINATED CAPITAL**

(€ m)				31.12.2017	01.01.2018		
				IAS 39 carrying amount	Re-classification	Re-measurement	IFRS 9 carrying amount
From	measured at amortised cost (AC)	Other liabilities (LIA)	2,252				
To	Amortised Cost (AC)	AC liabilities		2,252	-	2,252	-
			2,252	2,252	-	2,252	-
Total			2,252	2,252	-	2,252	-

EXPLANATORY INFORMATION

The reconciliation statement shows all changes in the carrying amount of financial instruments in the consolidated statement of financial position that are attributable to the initial application of IFRS 9 as at 1 January 2018. This includes explanatory information on significant changes in equity, as shown below.

The reconciliation set out above of the carrying amounts of financial instruments under IAS 39 to the carrying amounts of financial instruments under IFRS 9 for assets results in an “equity effect” in an amount of € +112 million. In addition, IFRS 9 results in a negative equity effect on the “provisions” liabilities item in an amount of € -3 million due to the increased loan loss provisions set up with regard to off-balance sheet transactions. All in all, this results in a total equity effect resulting from the initial application of IFRS 9 in an amount of € +109 million (before taxes).

The total equity effect before taxes from the reconciliation of the carrying amounts of financial instruments under IAS 39 to the carrying amounts of financial instruments under IFRS 9 in the amount of € +109 million comprises € +417 million from the revaluation reserve and € -308 million from retained earnings. This gives rise to the main equity effects of

- € -3,485 million from the balance sheet item “Loans and advances to customers”
- € +3,484 million from the balance sheet item “Compensation item for financial instruments categorised as FVPL under the second loss guarantee”
- € +73 million from the balance sheet item “Financial investments”
- € +32 million from the balance sheet item “Loan loss provisions in the lending business”
- € +7 million from the balance sheet item “Loans and advances to banks”
- € -3 million from the balance sheet item “Provisions” and
- € +1 million from the balance sheet item “Other assets”.

Under the balance sheet item “Loans and advances to customers”, the changes in carrying amount were recognised as follows: € +351 million in the revaluation reserve and € -3,836 million in retained earnings. Under the balance sheet item “Financial investments”, the changes in carrying amount were recognised as follows: € +60 million in the revaluation reserve and € +13 million in retained earnings. The changes in carrying amount in the balance sheet item “Loans and advances to banks” of € +7 million were recognised in full in the revaluation reserve. The other significant equity effects of € +3,514 million were recognised in retained earnings.

The main drivers of the overall effect on equity in an amount of € +109 million (before taxes) are the increase in general loan loss provisions as a result of the new loan loss provisions model (level 1 and 2 in the new loan loss provisions model) and effects from the fair value measurement of certain loans and securities resulting from the new classification provisions.

The increase in general loan loss provisions is attributable to the increase in loan loss provisions on the lifetime expected loss (level 2)/the full 12-month expected loss (level 1). The general loan loss provisions have increased by approximately € 146 million, resulting in a negative equity effect in an amount of € -146 million (before taxes) which is deducted from retained earnings.

With regard to the above-mentioned effects from the fair value measurement of certain loans and securities, reclassifications of financial assets from the measurement category amortised cost (AC or LaR) to the category “Fair Value through Other Comprehensive Income” (FVOCI) are one of the main drivers. These relate to promissory note loans and securities based on the “Hold and sell” business model under IFRS 9. This reclassification results in a positive fair value effect and a corresponding increase in equity in the amount of approximately € 165 million before taxes, which is added to the revaluation reserve. Another main driver of the above-mentioned effects from fair

value measurement relates to reclassifications of financial assets from the amortised cost (AC/LaR) measurement category to the Fair Value through Profit & Loss (FVPL) category. These recategorisations also result in a positive fair value effect at the time of initial application and a corresponding increase in equity in the amount of € 63 million before taxes (net after the reversal of loan loss provisions), which is added to retained earnings. The effect here relates primarily to a portfolio in the lending business of the Non-Core Bank that is allocated to the “Other” business model within the meaning of IFRS 9 and whose sale was agreed on 28 February 2018.

Other effects on transactions that are assigned to the amortised cost (LaR/AC) category under both IAS 39 and IFRS 9 (for example, carrying amount effects due to the modification provisions) lead to a positive equity effect in an amount of approximately € +27 million (before taxes), which is added to retained earnings.

There are also transfers within equity between retained earnings and revaluation reserves that have no equity effect in net terms. First, there is a reclassification that is deducted from retained earnings and added to the revaluation reserve in the amount of € 291 million (before taxes). This is due to reclassifications from the FVPL measurement category (DFV) to FVOCI due to the revocation of the fair value option for certain financial assets. Second, there is a reclassification that is added to retained earnings and is deducted from the revaluation reserve in the amount of € 39 million (before taxes). This is due, first of all, to reclassifications between the measurement categories FVOCI (AfS) and FVPL in an amount of € 50 million, which was added to retained earnings and deducted from the revaluation reserve. Second, the reclassification amount also includes the gains and losses accrued under IAS 39 in the revaluation reserve in the amount of € 11 million, which result from a historical reallocation of financial instruments in the balance sheet item “Financial investments” from the IAS 39 category AfS to the IAS 39 category LaR. These were reclassified within the context of the initial application of IFRS 9, being added to the revaluation reserve and deducted from retained earnings.

Changes in valuation differences result in an overall reduction in deferred tax assets by € 30 million. € 164 million of this amount is deducted from the revaluation reserve and € 134 million is added to the revaluation reserve.

In summary, this results in a total equity effect resulting from the initial application of IFRS 9 in an amount of € +79 million after taxes.

APPLICATION OF ACCOUNTING METHODS IFRS 9 – FINANCIAL INSTRUMENTS

GENERAL INFORMATION

IFRS 9 - Financial instruments, which was published in July 2014, replaces the existing accounting policies set out in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 contains revised guidelines on the classification and measurement of financial instruments, a new model for expected loan defaults for calculating the impairment of financial assets, as well as the new general accounting rules for hedge accounting. IFRS 9 also adopts the guidelines on the recognition and derecognition of financial instruments set out in IAS 39.

For those financial liabilities that HSH Nordbank has designated for measurement at fair value through profit or loss, the option of early application of the measurement of the credit rating-induced part of

the valuation result via Other comprehensive income (OCI) in equity has been applied. As this option was exercised as at 1 January 2017, this is the first time of initial application of IFRS 9. The time of the full initial application of IFRS 9 as at 1 January 2018 therefore represents the second time of initial application.

The introduction of IFRS 9 involved amendments to IFRS 7 Financial Instruments: Disclosures. Pursuant to IFRS 7.44Z, the resulting changes in the disclosure requirements are not to be applied to comparative periods prior to the adoption of IFRS 9. In accordance with this provision, the financial statements of HSH Nordbank do not include any disclosures for the comparative period in such cases, as disclosure is required for the first time with application of IFRS 9.

TRANSITIONAL PROVISIONS

IFRS 9.7.2.2 et seq. include a number of exceptions to retrospective application upon transition to the new accounting regulations. In such cases, the assessment is based on the facts and circumstances prevailing at the time of initial application. This means that, as far as the definition/classification of HSH Nordbank's business models is concerned, the business activity and corresponding assessment of the portfolios of financial instruments as at 1 January 2018 are decisive (see also the section entitled "Accounting and measurement principles"). In addition, the decision on the use of the fair value option for financial assets and liabilities can be exercised again upon transition to the new standard. Within this context, HSH Nordbank has reviewed the requirements relating to the designation of financial instruments using the fair value option based on the circumstances prevailing at the time of initial application and has made corresponding designations.

I. Classification and measurement

With regard to portfolios of financial assets with a carrying amount of € 1,052 million, for which the fair value option through profit or loss was applied under IAS 39 to avoid an accounting mismatch, there was no longer any wish, with regard to IFRS 9.7.2.9 (b), to apply a new

designation under IFRS 9, despite the requirements being met (voluntary revocation of the fair value option). These assets were assigned to the "Hold & sell" business model, meaning that they are measured at fair value directly in equity ("FVOCI" category). At the time of initial application as at 1 January 2018, this results in transfers within equity from retained earnings to the revaluation reserve in the amount of € 291 million.

II. Impairment

The retroactive reliable determination of the default risk at the time of the initial recognition of certain transactions in accordance with IFRS 9.7.2.17 was not possible for all transactions at the time of the first full application of IFRS 9. The affected portfolios are various sub-portfolios with a carrying amount of € 1,355 million for on-balance sheet transactions and a nominal amount of € 1,699 million for off-balance sheet transactions as at 1 January 2018. The lifetime expected credit loss set up in this regard in accordance with IFRS 9.7.2.20 (LECL) amounts to a total of € 45 million as at 1 January 2018. € 15 million of this amount is attributable to level 2 and € 30 million to level 3.

ADJUSTMENTS TO THE PRIOR-YEAR FIGURES

The structure of this consolidated statement of financial position and Group statement of income contains changes as against the structure of the consolidated statement of financial position and Group statement of income as at 31 December 2017. Some of the figures in the consolidated statement of financial position and Group statement of income as at 31 December 2017 have also been adjusted accordingly in the comparison columns of this consolidated statement of financial position and Group statement of income. The adjustments to the consolidated statement of financial position have already been anticipated in the reconciliation statements (see section entitled "Balance sheet item reconciliation from IAS 39 to IFRS 9").

The changes relate to the structure of the statement of financial position and statement of income. The adjustments have to be made under IAS 8.14 because they are either required as a result of the amendments under IFRS 9 or because they allow the financial statements to provide reliable and relevant information about the impact of transactions, other events or conditions on the earnings, net assets and financial position or cash flows of the company. The provisions stipulate that the adjustments also have to be applied to the comparative period.

I. Balance sheet

The following new item has been added to the balance sheet.

Compensation item for financial instruments categorised as FVPL under the second loss guarantee

The holdings of financial instruments measured at fair value through profit or loss ("FVPL" category) has increased significantly due to the new classification model in accordance with IFRS 9 (see also the section entitled "Accounting and measurement principles"). As a result, the first-time application of IFRS 9 means that there are also financial instruments categorised as FVPL that are hedged under the second loss guarantee of HSH Finanzfonds AöR. It is not appropriate to report the compensation effect of the guarantee on financial instruments categorised as FVPL in loan loss provisions, reducing the loan loss provisions accordingly (see Note 3), as no loan loss provisions are set up for financial instruments categorised as FVPL. Consequently, a separate balance sheet item, "Compensation item for financial instruments categorised as FVPL under the second loss guarantee", was introduced on the assets side to reflect the hedging effect of the guarantee on financial instruments categorised as FVPL.

For financial instruments categorised as AC, the hedging effect of the guarantee is still accounted for in loan loss provisions under IFRS 9 in the same way as under IAS 39.

II. Statement of income

The structure of the statement of income was adjusted with regard to the following items with the first-time application of IFRS 9.

Net interest income

Due to the amendments to IAS 1 (IAS 1.82(a)) resulting from IFRS 9, interest income calculated using the effective interest rate method must be shown separately. This means that, with the first-time application of IFRS 9, HSH Nordbank discloses the following items for corresponding interest income within net interest income:

- Interest income from financial assets categorised as AC and FVOCI
- Negative interest on investments categorised as AC and FVOCI.

Other interest income is included in the items:

- Interest income from other financial instruments
- Negative interest on other cash investments and derivatives

The items reported in previous financial statements

- Interest income
- Negative interest on cash investments and derivatives

have been adjusted to reflect the new structure for the prior-year figures. Interest income amounted to € 1,786 million in the prior-year period from January to June 2017. Of this amount, € 603 million was reclassified to the new item Interest income from financial assets categorised as AC and FVOCI and € 885 million was reclassified to the new item Interest income from other financial instruments. The remaining amount of € 298 million was reclassified to the new item Result from the disposal of financial assets classified as AC (see the comments in the following section on the Result from the disposal of financial assets).

The item Negative interest on cash investments and derivatives amounted to € 147 million in the prior-year period from January to June 2017. Of this amount, € 9 million was reclassified to the new item Negative interest on investments categorised as AC and FVOCI and € 138 million was reclassified to the new item Negative interest on cash investments and derivatives.

Result from financial instruments categorised as FVPL

In previous financial statements, Net trading income already included not only results from financial instruments classified as HfT, but also results attributable to financial instruments designated at fair value through profit or loss. Since holdings of financial instruments classified as FVPL that are not held for trading have increased significantly under IFRS 9, the item was renamed Result from financial instruments categorised as FVPL with the first-time application of IFRS 9. The item has only been renamed, meaning that the comparative figures for the previous period (formerly Net trading income) did not have to be adjusted.

The Result from financial instruments categorised as FVPL also includes the compensation effect of the second loss guarantee of HSH Finanzfonds AöR on financial instruments categorised as FVPL (cf. also the comments made under the “Balance sheet” section above).

Result from the disposal of financial assets classified as AC

Due to the amendments to IAS 1 (IAS 1.82(aa)) as a result of IFRS 9, a new item was introduced for the separate presentation of the result from the disposal of financial assets measured at amortised cost (“AC” category). In previous financial statements in accordance with IAS 39, corresponding disposal results for receivables/financial investments categorised as LaR were reported under Net interest income, Other operating result or Net income from financial investments.

The previous year’s figures for the corresponding items for the period from January to June 2017 were adjusted to reflect the changed structure. From

- interest income, € 298 million
- net income from financial investments, € 15 million
- the other operating result, € – 15 million

was reclassified to the Result from the disposal of financial assets.

Loan loss provisions

In previous financial statements in accordance with IAS 39, new provisions and the reversal of impairments on financial investments were still shown under Net income from financial investments. Due to the amendment to IAS 1 (IAS 1.82(ba)) resulting from IFRS 9, all impairment results have to be presented separately with the first-time application of IFRS 9. This means that the above-mentioned impairment results can no longer be shown together with other net income from financial investments in one item. In order to comply with this requirement, HSH Nordbank has decided that, upon the first-time application of IFRS 9, all new provisions and reversals of impairments will be shown in the statement income under a single item, Loan loss provisions, irrespective of the corresponding balance sheet items. This means that the new Loan loss provisions item includes impairment results on financial investments in addition to loan loss provisions in the lending business.

This does not affect the recognition of impairments in the balance sheet. On the assets side, the balance sheet items Loans and advances to banks and Loans and advances to customers are still presented in gross terms, whereas the Financial investments balance sheet item is still presented in net terms. This means that the total loan loss provisions attributable to loans and advances continues to be shown as a separate balance sheet item. The loan loss provisions attributable to financial investments, however, are still offset against the carrying amounts in the balance sheet item Financial investments.

A retrospective adjustment of the previous year’s figures in the statement of income to reflect the changed structure is not relevant. IAS 1.82(ba) explicitly refers to impairment results calculated in accordance with the corresponding IFRS 9 provisions. As HSH Nordbank has not adjusted the previous year’s figures retrospectively to reflect IFRS 9, there are no corresponding results for the comparative period.

In the comparative period from January to June 2017, impairment results of € 18 million calculated in accordance with IAS 39 were recognised in Net income from financial investments.

Adjustment of the previous year's figures to reflect the changed structure

The following table summarises the structural adjustments to the prior-year figures in the statement of income as explained above.

STATEMENT OF INCOME

(€ m)	January - June 2018 after adjustment	January - June 2018 before adjustment
Interest income from financial assets categorised as AC and FVOCI	603	n.r.
Interest income from other financial instruments	885	n.r.
Interest income	n.r.	1,786
Negative interest on investments categorised as AC and FVOCI	-9	n.r.
Negative interest on other cash investments and derivatives	-138	n.r.
Negative interest on cash investments and derivatives	n.r.	-147
Interest expenses	-1,175	-1,175
Positive interest on borrowings and derivatives	149	149
Net income/loss from hybrid financial instruments	-56	-56
Net interest income	259	557
Net commission income	32	32
Result from hedging	-9	-9
Result from financial instruments categorised as FVPL (formerly Net trading income)	151	151
Net income from financial investments	11	11
Result from the disposal of financial assets classified as AC	298	n.r.
Net income from financial investments accounted for under the equity method	2	2
Total income	744	744
Loan loss provisions	-152	n.r.
Loan loss provisions in the lending business	n.r.	-152
Hedging effect of credit derivative second loss guarantee	-89	-89
Total income after loan loss provisions	503	503
Administrative expenses	-246	-246
Other operating income	62	62
Expenses for bank levy and deposit guarantee fund	-41	-41
Net income before restructuring and privatisation	278	278
Net income from restructuring and privatisation	-25	-25
Expenses for government guarantees	-80	-80
Net income before taxes	173	173
Income tax expenses	-15	-15
Group net result	158	158

MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS

Major discretionary decisions in connection with the application of the classification and measurement provisions of IFRS 9 relate to the definition/classification of the Bank's business models and the corresponding allocation of portfolios of financial assets based on the objectives and control activities within the context of the business activity. In particular, the definition of what constitutes harmless sales and materiality thresholds for harmful sales within the "Hold to collect" business model are discretionary decisions. The business models defined at HSH Nordbank and the resulting impact on the classification and measurement of financial instruments are shown in brief in the section entitled "Accounting and measurement principles".

The analysis of the contractual cash flows with regard to the contractual cash flow characteristics criterion, as well as the classification of modifications in terms of their materiality, constitute a further discretionary decision (see also the section entitled "Accounting and measurement principles").

HSH Nordbank applies the fair value option through profit or loss for financial assets at its own discretion with regard to the avoidance of an accounting mismatch. The designation of financial liabilities using the fair value option to avoid an accounting mismatch, or on the basis of management on a fair value basis, is also at the discretion of the Bank.

The estimation of future cash flows from hybrid financial instruments required in applying IFRS 9.B5.4.6 requires material assumptions which are associated with uncertainties. The assumptions made are

subject to a periodic review and are adapted to the changed underlying conditions where necessary.

Within the context of the new impairment provisions, there are significant estimates and judgements with regard to the level allocation and the calculation of the amount of the loan loss provisions.

The transfer of a financial instrument between levels 1 and 2 and the associated definition of the extent giving rise to a significant deterioration in credit quality (significance threshold) is a central discretionary decision within the context of the new impairment provisions.

When calculating the loan loss provisions levels 1 and 2, HSH Nordbank estimates the associated credit risk parameters over a one-year period and extrapolates them on the basis of appropriate assumptions over a period of several years. Within this context, there are considerable uncertainties relating to estimates, particularly when including forward-looking macroeconomic scenarios.

The calculation of loan loss provision level 3, taking into account the effect of the guarantee, represents a further estimation process. In particular, the estimates for various scenarios, including associated probabilities of occurrence and the recoverable amount in the respective scenario, involve discretionary decisions in this respect.

ACCOUNTING AND MEASUREMENT PRINCIPLES

I. Classification and measurement of financial assets and liabilities

Under IFRS 9, all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Initial recognition is measured at fair value, which generally corresponds to the acquisition cost of the financial instrument.

Subsequent measurement of financial assets and liabilities depends on which category they were assigned to at the time of acquisition/origination. Under IFRS 9, they are measured at amortised cost (category "AC") or at fair value, whereby the valuation results are recognised at fair value through other comprehensive income ("FVOCI" category) or at fair value through profit and loss ("FVPL" category).

Financial assets are classified depending on the business model (portfolio level) and contractual cash flow characteristics (instrument level) under IFRS 9.

IFRS 9 makes a distinction between three business models:

- "Hold to collect": In this business model, the aim is to hold the financial assets in the portfolio in order to collect contractual cash flows from them. The financial assets are classified as AC as long as the contractual cash flow characteristics criterion (for information on the contractual cash flow characteristics criterion, please refer to the section below) is met.
- "Hold and sell": The aim of this business model is achieved both by collecting the contractual cash flows and by selling the financial assets. The financial assets are classified as FVOCI as long as the contractual cash flow characteristics criterion is met.
- "Other" Other business models that cannot be allocated to the two other business models. This category also includes portfolios that are held for trading or portfolios in which the cash flows are

to be generated by selling the financial assets. The financial assets are then classified as FVPL.

In the “Other” business model, HSH Nordbank makes a distinction between the business model strategies “Held for trading” and “Other not hold to collect (residual)”.

HSH Nordbank has allocated the portfolios of financial instruments to the above-mentioned business models based on the corresponding IFRS 9 criteria and the corresponding internal guidelines. Regarding the definition of the “Hold to collect” business model, it is important to note that sales not planned ex ante can, in exceptional cases, be consistent with the “Hold to collect” business model. IFRS 9 cites sales resulting from an increase in the loan default risk associated with an asset as an example. In order to operationalise the definition of an increased loan default risk, HSH Nordbank has defined both an absolute threshold value (rating threshold based on credit standards) and a relative threshold value (level allocation 2 pursuant to loan loss provision model). As an exception, sales are still consistent with the “Hold to collect” business model under IFRS 9 if they are implemented shortly prior to the final maturity of the financial asset and if the proceeds from the sale correspond roughly to the outstanding contractual cash flows. HSH Nordbank defines “shortly prior to final maturity” as follows:

- residual maturity of less than 90 days or
- residual maturity of greater than or equal to 90 days and less than or equal to 10 % of the overall term of the financial asset and proceeds from the sale correspond roughly to the contractual cash flows that are still outstanding.

Sales for other reasons can also be consistent with the “Hold to collect” business model if they are executed infrequently or erratically or are of an insignificant value either individually or in the aggregate, even if they occur frequently/regularly. In order to monitor the abovementioned restrictions in the “Hold to collect” business model, HSH Nordbank has defined a process which assesses and monitors the reasons for the sales in connection with the application for the receivables sale, meaning that receivables sales (that are unplanned ex ante) that are not covered by the exceptions do not exceed certain materiality thresholds or are to be classed as infrequent or erratic. The materiality thresholds relate both to a balance sheet assessment based on the carrying amount, and to an income statement-based assessment based on the loss/gain on disposal (individually and in the aggregate). For the purposes of the balance sheet assessment, the gross carrying amounts of the sold financial assets are expressed in relation to the gross carrying amount of the portfolio at the start of the period, both individually and in the aggregate. For the purposes of the income statement-based assessment, the absolute loss/gain on the disposal of the sold financial assets are expressed in relation to the gross interest income of the portfolio during the period, both individually and in the aggregate. If the average term of a portfolio lies outside of a range,

then this is reflected accordingly in special materiality thresholds that take the special average term into account accordingly.

In addition to the appraisal of the business model at portfolio level, the categorisation of financial assets depends on the nature of the cash flows at instrument level. Within this context, HSH Nordbank analyses what is known as the contractual cash flow characteristics criterion by assessing the contractual cash flows to determine whether they merely relate to payments of principal and interest on the principal amount outstanding on specified dates. The analysis is carried out once at the time of initial recognition at the level of the individual transaction. Financial assets that do not meet the contractual cash flow characteristics criterion are always recognised at fair value through profit or loss (FVPL categorisation). This also applies if they are assigned to the “Hold to collect” or “Hold and sell” business model at portfolio level.

Financial assets in the “Hold to collect” business model that meet the contractual cash flow characteristics criterion are recognised at amortised cost (AC categorisation). This is generally the case for loans in the lending units of the Core Bank. In exceptional cases, however, individual loans do not meet the contractual cash flow characteristics criterion, meaning that they are categorised as FVPL. The breach of the contractual cash flow characteristics criterion is due to certain detrimental side agreements (e.g. profit participation agreed in the loan agreement) or certain non-recourse financing arrangements. This non-recourse financing involves a substantial property/project risk on the commitment date, i.e. a primary investment risk (asset risk) that constitutes a business risk, meaning that the payments depend, in economic terms, to a considerable degree on the property/project being financed. By way of example, the non-recourse financing of a single-property company is deemed to carry a substantial property risk if, at the time of initial recognition, the loan amount is very high in relation to the value of the property (high loan-to-value ratio), the property company only has limited capital resources available for potential loss absorption and, in addition, there are no mitigating factors such as recoverable third-party collateral in favour of the lender.

“Hold and sell” assets that meet the contractual cash flow characteristics criterion are measured at fair value, with the result from fair value changes being recognised in Other comprehensive income (OCI) within equity (FVOCI categorisation). Upon the derecognition of the debt instruments, the cumulative valuation result is derecognised from Other comprehensive income via the statement of income (known as “recycling”). This categorisation applies to the overwhelming majority of the holdings in the securities and promissory note loan portfolio in the capital market unit that are not held for trading.

Financial assets in the “Other not hold to collect (remaining)” business model are subject to measurement at fair value through profit or loss (FVPL categorisation). This relates, in particular, to a loan portfolio of the Non-Core Bank, as well as portfolios of equity instruments.

HSH Nordbank's "held for trading" business model includes instruments held with an intention to resell/realise profits in the short term, in particular trading portfolios of securities in the capital market area and syndication shares from new business syndication in the lending business. These are also recognised at fair value through profit or loss (FVPL categorisation).

In the case of structured financial assets, there is no longer any requirement to separate embedded derivatives under IFRS 9. The instruments are to be assessed, depending on the business model, in their entirety based on their contractual structure in the analysis of the contractual cash flow characteristics criterion.

Derivative financial instruments are always recognised at fair value through profit or loss.

No analysis of the contractual cash flow characteristics criterion is required for financial obligations. Under IFRS 9, measurement is either at amortised cost (AC) for "not held for trading" or, in the case of "held for trading", at Fair Value through Profit or Loss (FVPL). Irrespective of this, there is also the option, in accordance with IFRS 9.4.2.2, of voluntary and irrevocable designation for measurement at fair value through profit or loss for financial obligations. If this option is exercised, however, then the amount of the fair value change that is attributable to the change in the institution's own credit risk is to be recognised in Other comprehensive income (OCI). The representation of this credit risk-induced valuation result associated with FVPL-designated financial liabilities in other comprehensive income (OCI) has already been applied at HSH Nordbank since 1 January 2017 on the basis of the option for the early application of this reporting provision under IFRS 9.

In the case of structured financial liabilities measured at amortised cost, derivatives subject to a separation requirement are to be separated and also measured at fair value through profit or loss.

Hybrid financial liabilities are measured at amortised cost (in particular silent participations, profit participation capital and debentures issued by consolidated subsidiaries). A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank. IFRS 9.B5.4.6 states that, for these financial instruments, the carrying amount is to be adjusted through profit or loss if the estimates of the future cash flows associated with the transactions change. The new gross carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting. Net income from hybrid financial instruments is shown as a separate item under Net interest income, and in addition to current interest expenses it includes the full effects of applying IFRS 9.B5.4.6. Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the Group financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as Securitised liabilities or as Subordinated capital.

II. Classification of financial instruments

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IFRS 9 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The following table shows the categories of financial instruments at HSH Nordbank in accordance with IFRS 9. The table for the categories of financial instruments under IAS 39 which are relevant for the information on comparative periods is presented further below.

Measurement method	Categories	
	IFRS 9 reporting category	Statement of financial position item/sub-item
Financial instruments measured at amortised cost	AC assets	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	AC liabilities	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
Financial instruments measured at Fair Value through Other Comprehensive Income (OCI)	Mandatory FVOCI	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
Financial instruments measured at fair value through profit or loss	FVPL Trading	Trading assets
		Credit derivative under the second loss guarantee
		Non-current assets held for sale and disposal groups
		Trading liabilities
		Liabilities relating to disposal groups
	Designated FVPL	Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
		Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
	FVPL Other	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Compensation item for financial instruments categorised as FVPL under the second loss guarantee
		Financial investments
Non-current assets held for sale and disposal groups		
Other assets		
Positive fair values of hedging derivatives		
Negative fair value of hedging derivatives		
n/a		
Financial instruments measured on the basis of other standards (exception: impairment provisions)	n/a	Receivables under finance leases
	n/a	Contingent liabilities
Off-balance-sheet transactions	n/a	Irrevocable loan commitments
		Other obligations

Measurement method	Categories	
	IAS 39 category	Statement of financial position item/sub-item
Financial instruments measured at amortised cost	Loans and Receivables (LaR)	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
	Other liabilities (LIA)	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital
		Other liabilities
Financial instruments measured at cost	Available for Sale (AFS)	Financial investments
		Non-current assets held for sale and disposal groups
		Other assets
Financial instruments measured at fair value	Held for Trading (HfT)	Trading assets
		Credit derivative under the second loss guarantee
		Non-current assets held for sale and disposal groups
		Trading liabilities
		Liabilities relating to disposal groups
	Designated at Fair Value (DFV)	Loans and advances to banks
		Loans and advances to customers
		Financial investments
		Non-current assets held for sale and disposal groups
	Available for Sale (AFS)	Cash reserve
		Loans and advances to banks
		Loans and advances to customers
		Financial investments
Non-current assets held for sale and disposal groups		
Financial instruments measured on the basis of other standards	n/a	Positive fair values of hedging derivatives
	n/a	Negative fair value of hedging derivatives
Off-balance-sheet transactions	n/a	Receivables under finance leases
	n/a	Contingent liabilities
		Irrevocable loan commitments
		Other obligations
	IFRS 9 category	
Financial instruments measured at fair value	Designated FVPL (FVPL DFP)	Liabilities to banks
		Liabilities to customers
		Securitised liabilities
		Liabilities relating to disposal groups
		Subordinated capital

III. Modifications

If a financial instrument, in particular a loan, is altered in its contractual components, then HSH Nordbank assesses whether this change results in the disposal of the financial instrument, leading to the de-recognition of the previous, and the recognition of a new, financial instrument at fair value (substantial modification) or whether, based on the modified contractual cash flows, the gross carrying amount is to be recalculated and a modification result recognised (non-substantial modification).

In the case of a substantial modification, the difference between the gross carrying amount, less updated loan loss provisions and the fair value of the newly added financial instrument is reported in the statement of income under the item Result from the disposal of financial assets classified as AC.

The modification result corresponds to the difference between the gross carrying amount immediately prior to modification, but taking into account any debt waivers, and the recalculated gross carrying amount. The modification gain or loss is recognised within loan loss provisions in the statement of income.

HSH Nordbank has included guidelines in its written regulations regarding how to distinguish between substantial and non-substantial modifications. Based on these guidelines, qualitative criteria, such as a change in currency, a significant change in HSH Nordbank's risk position or the existence of certain contractual changes leading to a breach of the contractual cash flow characteristics criterion set out in IFRS 9.4.1.1(b), are taken into account. If the qualitative analysis does not result in classification as a substantial modification, the 10% net present value test (in an analogous application of IFRS 9 B3.3.6) is used as an additional quantitative criterion. The net present value test involves comparing the net present values of the contractual cash flows before and after every modification of contractual components. If they differ by 10% or more, then this is deemed to constitute a substantial modification. If this is not the case, the modification is a non-substantial modification.

IV. Loan loss provisions and impairment of financial instruments

The introduction of IFRS 9 will replace the current model used to calculate loan loss provisions/impairments under IAS 39, which is based primarily on incurred losses, with a model based on the expected credit losses. The scope of the new model consistently includes all financial assets that are recognised at amortised cost or at fair value through other comprehensive income, irrevocable loan commitments and financial guarantees that constitute financial instruments in accordance with IFRS 9 and are not recognised at fair value through profit or loss, leasing receivables and contract assets.

Under IFRS 9.5.5.6, irrevocable loan commitments fall under the scope of application of the impairment provisions as of the time at which the company becomes party to the commitment. Impairments on irrevocable loan commitments are included in provisions at HSH Nordbank. The nominal volume of these transactions is reported under irrevocable loan commitments. The scope of these impairment provisions includes all loan commitments with the exception of those contracts under which the entity making the commitment can break with its commitment unilaterally and unconditionally, and with legal effect, at any time. As a result, this exception already does not apply if the termination only becomes effective after the expiry of a period of time in accordance with the contract or by law, since the entity making the commitment is exposed to a loan default risk until then.

For all financial instruments that fall under the scope of the loan loss provisions model under IFRS 9.5.5.1, the basic principle involves setting up loan loss provisions depending on the change in the credit quality of the financial instrument concerned. This model only applies to financial instruments which are not impaired at the time of initial recognition. At the time of initial recognition, these financial instruments are assigned to level 1, which is explained below. Depending on the extent of the change in credit quality, the financial instrument is assigned to one of the following three levels as part of the subsequent measurement process:

- a. Level 1: No significant increase in the loan default risk, 12-month expected loss

For financial instruments whose loan default risk is not significantly increased, the impairment is recognised in the amount of the anticipated 12-month credit losses.

- b. Level 2: Significant increase in the loan default risk, lifetime expected loss

For financial instruments whose loan default risk has increased significantly since the time of initial recognition, expected credit losses are recognised over the entire remaining term of the financial instrument.

- c. Level 3: Financial assets that are credit-impaired, lifetime expected loss

Financial instruments for which one or more events have occurred after the time of initial recognition that have an adverse impact on the expected future cash flows are assigned to level 3. The expected credit losses over the entire remaining term to maturity of the financial instrument are recognised for these financial instruments as well.

HSH Nordbank calculates expected credit losses at levels 1 and 2 based on the following credit risk parameters:

- Probability of default (PD)
- Loss given default (LGD)
- Exposure at default (EAD)

The internal credit risk models which – where necessary – are adjusted for the purposes of IFRS 9 are taken as a basis in this regard. The rating models used by HSH Nordbank have been developed based on the definition of “default” set out in Art. 178 CRR and are validated in this respect on a regular basis. The definition of default is used as standard for internal Credit Risk Management and for supervisory law and IFRS 9 purposes.

Any necessary adjustments/expansions of the existing models relate primarily to the use of methods for multiannual estimates. Within this

context, HSH Nordbank uses PD profiles based on migration matrices for its multiannual estimates. These reflect the observed rating migrations from debtors within a year and are calculated based on an extensive cross-economic historical observation period. The forward projection of the LGD over the multiannual period is based primarily on the expected collateralisation ratio of the financial instrument, which comprises the expected collateral value and the expected amount of the receivable. EAD modelling for the on-balance sheet business is used to project the gross carrying amount forward over the multiannual period, taking amortisation and repayment effects into account. Within this context, fixed cash flows that have been contractually agreed and expectations regarding the exercise of options and their impact on the cash flows are taken into account in the modelling. For off-balance sheet business, the estimate of the expected future drawdown is based on the borrower’s expected drawing behaviour over a multiannual period.

In addition, the credit risk parameters are expanded to include additional macroeconomic information relating to the future – if necessary. HSH Nordbank uses the same economic forecasts for planning, internal control and calculating loan loss provisions. As at each quarter end date, forecasts for selected parameters are prepared in three scenarios: base, downside and upside. The forecast horizon comprises the current reporting year-end and the next two years. The base scenario reflects the development that is deemed most likely to occur. This can be both an economic upswing and an economic downturn. The other scenarios reflect more optimistic (upside) or more pessimistic (downside) developments in relation to the base scenario. In addition, expectations regarding extreme events are taken into account using an additional scenario if necessary, i.e. if these have not already been included in the existing scenarios.

The scenario estimates are based on internal Bank economic forecasts which are prepared within the affected areas, taking into account the forecasts of the Bundesbank and the ECB, as well as Bloomberg consensus estimates. Segment-specific parameters are added to these scenarios.

The estimated parameters cover forward-looking information in the following areas, among others:

- Economy (gross domestic product and inflation rate for various regions)
- Direction of interest rates
- Movement in exchange rates
- Bond markets (in particular corporate spreads)
- Oil prices
- Share prices
- Shipping (in particular charter rates and second-hand prices)
- Real estate prices (broken down by location and type of property)
- Aviation

The impact of this forward-looking information on the credit risk parameters PD and LGD is determined using statistical procedures and is taken into account when calculating the expected credit losses. Within this context, PD and LGD are adjusted to reflect base scenario forecasts - where necessary. Regular checks are also performed to see whether other scenarios have a material non-linear impact on the amount of loan loss provisions. In such cases, the loan loss provisions are corrected by making a management adjustment, including the various scenarios weighted by probability.

The 12-month expected loss is calculated by multiplying the (one-year) credit risk parameters. The lifetime expected loss is calculated as the sum product of the period-specific credit risk parameters determined during the term. Discounting to the balance sheet date is based on the effective interest rate in each case.

The loan loss provisions are generally calculated at the level of the individual financial instrument. This means that there is generally no grouping of financial instruments with risk features in common at HSH Nordbank. One exception relates to securities for which joint level allocation and loan loss provision calculation is applied to different purchases of the same security. This involves dividing the purchases in terms of similar credit quality at the time of initial recognition (rating) - where necessary.

In order to assess a significant increase in the loan default risk of a financial instrument, HSH Nordbank uses internal ratings as the main characteristic. The extent giving rise to a significant deterioration in credit quality is determined for each portfolio or rating category segment in a manner that is specific to the initial rating and on the basis of a statistical quantile assessment. The outcome shows rating changes as of which the loan default risk is deemed to have deteriorated significantly (significance thresholds). The internal rating expected at the time the financial instrument was added for the balance sheet date in question serves as a benchmark in this regard. This expected rating is compared with the current rating to determine whether the relevant change in rating that is defined as significant is exceeded. In connection with the use of ratings as the main characteristic for assessing the significant increase in the loan default risk, HSH Nordbank furnishes proof that the relevant change in rating and corresponding change in the 12-month PD takes the main risk drivers into account that lead to the relevant change in the lifetime PD, meaning that changes in rating constitute a suitable assessment criterion for the level allocation. Key risk drivers over the term of a transaction that are not adequately addressed by ratings can relate to macroeconomic effects. In order to assess whether this is the case, the macroeconomic forecasts for the scenarios are analysed on an ongoing basis in a tolerance area test developed for this purpose. Depending on the results of the analysis, the defined significance thresholds are then adjusted in order to take the macroeconomic impact into account in the level allocation accordingly.

In addition, financial instruments are allocated to level 2 at the latest if forbearance measures (e.g. interest payment deferrals due to financial difficulties faced by the debtor) have been applied to the financial instrument or if the default has lasted more than 30 days.

A financial instrument is transferred (back) from level 2 to level 1 if the loan default risk is no longer significantly increased based on the rating. In cases involving modified financial instruments, however, a good conduct period is set, during which the financial instrument remains in level 2. This corresponds to the good conduct period for forbearance.

The Bank does not make use of the option set out in IFRS 9.5.5.10, which allows financial instruments with a loss risk of loan default to be assigned to level 1. Nor does it make use of the option provided for in IFRS 9.5.5.15 on the constant recognition of loan loss provisions in the amount of the lifetime expected loss for trade receivables or contract assets that include a material financing component, or for leasing receivables.

Defining level 3 of the impairment model involves assessing, on each balance sheet date, whether there are objective indications of an impairment that could have a detrimental impact on the expected future cash flows from the financial instrument. The criteria for impairment are consistent with those that apply to supervisory law default and include 90-day default and indications that, based on current information, interest payments cannot be made and an improvement in the financial situation cannot be demonstrated.

The default risk resulting from loans and securities with objective evidence of impairment is accounted for by setting up specific loan loss provisions for the receivable in question. To calculate the amount of the specific loan loss provisions, the effective interest rate net present value of the anticipated cash flows arising from the loan or advance - that is, achievable amount - is compared to its gross carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. The realisable amount is calculated using various scenarios and compared against the gross carrying amount. If the gross carrying amount is higher than the realisable amount for the scenario in question, then this scenario results in a potential loss in the amount of the difference. The specific loan loss provision is set up in the amount of the probability-weighted average losses from among the various scenarios.

In the subsequent periods, loan loss provisions are adjusted to reflect changes in the estimates for the expected cash flows and changes in the gross carrying amount. Changes in the gross carrying amount result not only from incoming payments that reduce the gross carrying amount, but also from interest claims. These claims increase the gross carrying amount and, as a result, the loan loss provisions. This increase is to be recognised with no effect on profit and loss. The collection of the interest for credit-impaired instruments, which is

recognised through profit or loss, is based on the net carrying amount, as under IAS 39.

Financial instruments in the balance sheet that are purchased or originated credit-impaired (“POCI”) are not assigned to any level. The question as to whether instruments are purchased or originated credit-impaired is determined in the same way as the “impairment trigger” for level 3. The general approach pursuant to IFRS 9.5.5.1 does not apply to POCI financial instruments. No loan loss provisions are set up through profit or loss at the time of initial recognition. Instead, the impaired credit rating is taken into account in the fair value at the time of initial recognition. The subsequent measurement reflects changes in the cash flows expected by the lender, taking into account the expected loan losses through profit or loss as loan loss provisions. Reversals of impairment losses are also to be reflected in loan loss provisions. The loan losses expected at the time of initial recognition are distributed over the term of the loan using the credit-adjusted effective interest rate. In the event of the debtor’s recovery, the financial instrument is generally still treated in line with the special provisions that apply to POCI transactions in the balance sheet. In such cases, however, the loan loss provisions are calculated using the standard credit risk parameters.

The loan loss provisions are generally calculated without taking into account the hedging effect of the second loss guarantee, regardless of the level or the POCI classification. The hedging effect is then mapped in the statement of financial position through the recognition of a compensation item, which directly reduces loan loss provisions. Risks of uncertainties in assessment for the hedged portfolio are assumed by the guarantor under the second loss guarantee.

The loan loss provisions set up with regard to loans and advances to banks and customers that are measured at amortised cost (category “AC”) are recognised in the separate balance sheet item “Loan loss provisions”. Any loan loss provisions thus created are written off at the time when the amount of the actual default of the receivable is determined or the receivable defaults. Irrecoverable receivables for which no specific loan loss provisions existed are written off directly as is the case for losses in the case of impaired receivables which exceed the recorded loan loss provisions.

For those financial instruments measured at fair value through other comprehensive income (“FVOCI” category), the fair value is recognised on the assets side. First of all, the full difference between the fair value and the amortised cost is recognised in the revaluation reserve. The loan loss provision amount that this implicitly includes is then reclassified from the revaluation reserve to the statement of income. This means that the fair value remains on the assets side, and the revaluation reserve only includes the market-induced share of the fair value changes. If the reasons for impairment no longer apply, a write-up to the maximum of amortised cost is made in profit or loss.

For the off-balance-sheet business, expected losses are also calculated on the basis of the three-stage model and recognised as provisions in the lending business.

V. Hedge accounting

Changes in the value of financial instruments assigned to the AC or FVOCI IFRS 9 categories are not recognised through profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions that are not recognised at fair value through profit or loss are hedged by derivatives, this creates a mismatch relating to the measurement/presentation of the results in the statement of income, which does not reflect the economic facts.

One way to avoid this mismatch with regard to hedged risks/hedged value changes is to apply portfolio fair value hedge accounting. HSH Nordbank makes use of the option provided for in IFRS 9.6.1.3 of continuing with portfolio fair value hedge accounting subject to the provisions set out in IAS 39. Another possibility for avoiding these distortions is to use micro fair value hedge accounting. HSH Nordbank also makes use of this opportunity, meaning that it has been applying micro fair value hedge accounting in accordance with IFRS 9.6.5.8 et seq. for certain hedging relationships since 1 January 2018.

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Beteiligungs Management GmbH, Hamburg, is the parent company and, at the same time, the top-level parent company of HSH Nordbank AG, which prepares Group financial statements.

HSH Nordbank AG has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (11) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 in conjunction with Section 315e (1) of the German Commercial Code (HGB) to draw up its Group financial statements in accordance with the International Financial Reporting Standards. International accounting standards, hereinafter IFRS or standards, refer to the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

Taking into account the requirements set out in IAS 34, the half-year financial report consists of condensed interim group financial statements and an interim Group management report. The condensed interim group financial statements consist of a statement of income, a statement of comprehensive income, a statement of financial position, a statement of changes in equity, a condensed cash flow statement and selected explanatory notes.

The interim Group financial statements as at 30 June 2018 were prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). In particular, the application of IAS 34 (Interim Financial Reporting) has been observed.

With the exception of the amendments resulting from the application of IFRS 9, the same accounting and measurement principles were applied in the interim Group financial statements as in the Group financial statements of HSH Nordbank AG as at 31 December 2017.

In accordance with IAS 34.C4, HSH Nordbank does not prepare any expert opinions for pension liabilities during the year and takes the data from the last expert opinion as at 31 December 2017 as a basis. Every quarter, pension provisions are reviewed for changes in key parameters, which are then adjusted if necessary and taken into account for accounting purposes (in particular changes in the discount rate).

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

IFRS 9 – Financial Instruments

The final version of IFRS 9, published in July 2014, replaces the existing guidelines contained in IAS 39 on the recognition and measurement of financial instruments with regard to classification and measurement, impairments and general hedge accounting.

IFRS 9 is to be applied for the first time, as a mandatory requirement, in financial years beginning on or after 1 January 2018. HSH Nordbank has been applying IFRS 9 in full since 1 January 2018. IFRS 9 permitted the isolated early application of the financial liabilities designated for measurement at fair value through profit or loss before the date of mandatory initial application of the Standard. HSH Nordbank has made use of this option and, since as early as 1 January 2017, has been reporting the credit risk-induced fair value changes in its own liabilities for which the fair value option was exercised, in Other comprehensive income (OCI), i.e. not through profit or loss.

The changes resulting from IFRS 9 are generally to be applied retrospectively – with the exception of the new hedge accounting requirements. HSH Nordbank has, however, made use of the option of not adjusting the prior-period figures. In addition, and by way of derogation from the principle of retrospective application, the following classification requirements were to be assessed based on the circumstances at the time of initial application on 1 January 2018:

- the determination of the business model in which the financial asset is held,
- the designation/revocation of the fair value designation of financial assets and liabilities.

The new regulations set out in IFRS 9 resulted in valuation effects to be recognised in equity in the opening balance sheet in retained earnings/the revaluation reserve at the time of initial application. These effects resulting from the initial application of IFRS 9 as at 1 January 2018, the date of first-time application, are explained in the section “Explanatory information” below the reconciliation tables.

The effects of the initial application of IFRS 9 have also had an impact on regulatory figures. Within this context, it is important to remember that the regulatory capital ratios have no longer been shown as a securitisation structure since March 2018, taking into account the regulatory relief effect of the second loss guarantee. As of March 2018, presentation is comparable with the pro forma CET1 capital ratio reported as an additional ratio in the past. The impact of IFRS 9 on the pro forma CET1 capital ratio at the time of first-time application was minimal.

In connection with the introduction of IFRS 9, the new CRR Article 473a came into force with effect from 1 January 2018 via EU Regulation 2017/2395 of 12 December 2017. This Article introduces the option allowing certain initial application effects to be distributed over a transitional period of five years. HSH Nordbank AG has opted not to apply the transitional provisions pursuant to Article 473a) CRR until further notice.

The following sections compare the main changes resulting from the application of IFRS 9 compared with IAS 39. In addition, information is provided on significant specific effects for the Bank and the use of options.

A) Classification and measurement

IFRS 9 introduces a new categorisation model for financial assets. They are classified into measurement categories on the basis of the business model (portfolio level) or the contractual terms or cash flow characteristics (instrument level). A distinction is made between the amortised cost (AC), fair value through other comprehensive income (FVOCI, measurement at fair value directly in equity) and fair value through profit or loss (FVPL, measurement at fair value through profit or loss) measurement categories.

IFRS 9 makes a distinction between three business models:

- “Hold to collect”: In this business model, the aim is to hold the financial assets in the portfolio in order to collect contractual cash flows from them. The financial assets are classified as AC as long as the contractual cash flow characteristics criterion (for information on the contractual cash flow characteristics criterion, please refer to the section below) is met.
- “Hold and sell”: The aim of this business model is achieved both by collecting the contractual cash flows and by selling the financial assets. The financial assets are classified as FVOCI as long as the contractual cash flow characteristics criterion is met.
- Other: Other business models that cannot be allocated to the two other business models. This category also includes portfolios that are held for trading or portfolios in which the cash flows are to be generated by selling the financial assets. The financial assets are then classified as FVPL.

The contractual cash flow characteristics criterion under IFRS 9 is considered to be met if the contractual terms only provide for payments on specified dates that are solely payments of principal and interest on the principal amount outstanding (basic lending arrangement). If a financial asset does not meet the contractual cash flow characteristics criterion, then it must be measured at FVPL irrespective of the business model.

In derogation from the principles described above, the following options apply:

- Upon the initial recognition of an equity instrument that falls under the scope of IFRS 9 and is not held for trading, there is the option of measuring the instrument at FVOCI (FVOCI option).
- Financial assets can be designated for measurement at FVPL to eliminate or significantly reduce a measurement or recognition inconsistency (accounting mismatch) (FVPL option).

Further information on the new classification and measurement provisions can be found in the section “Accounting and measurement principles” in the chapter entitled “Application of accounting methods IFRS 9 - Financial instruments”.

The new IFRS 9 categorisation model has resulted in different valuation categories compared with IAS 39 for certain portfolios/individual transactions involving financial assets within HSH Nordbank’s portfolio. This has expanded the scope of instruments to be valued at FVPL/FVOCI.

The business model condition resulted in the following material effects at the time of initial application:

Within the securities portfolio (capital markets business incl. promissory note loans), a large part of the portfolio that is not held for trading and is allocated to the LaR category under IAS 39 (AC valuation category) was reclassified to the FVOCI category under IFRS 9, as the business model is a “Hold and sell” business model.

The “Hold to collect” business model generally applies to the Core Bank’s loan portfolio (lending business). No receivables sales are planned as a general rule. An exception applies to syndication shares from new business syndication, which are allocated to a separate portfolio (see below).

The allocation of the Core Bank’s lending business to the “Hold to collect” business model results in measurement at AC in the same way as under IAS 39 – if the financial instrument also meets the contractual cash flow characteristics criterion.

By way of derogation from the principle of the “Hold to collect” classification of the loan portfolio (lending business) of the Core Bank, syndication shares from new business syndication are allocated to a separate portfolio that is to be measured at FVPL.

The Non-Core Bank’s lending business was split into two portfolios at the time of initial application: one portfolio that is allocated to the “Hold to collect” business model and another portfolio that is allocated to the “Other” business model. The “Hold to collect” portfolio bundles the business that is not to be wound down by way of receivables sales/syndication. The run-down of the “Hold to collect” portfolio is to be achieved using measures that are not harmful to the “Hold to collect” business model, e.g. “letting loan exposures expire”, restructuring, realisation of collateral to repay the loan. The Other portfolio bundles the transactions that the Bank also plans to wind down.

The run-down of this business, however, is to be implemented using receivables sales (individual and portfolio sales)/syndication. This portfolio relates, in particular, to the sale of a loan portfolio (portfolio transaction) to a special purpose vehicle (SPV) from the sphere of the investors concluded on 28 February 2018.

As the “Other” portfolio has the “Other” business model, the loan portfolio in question had to be reclassified, at the time of initial application, from the IAS 39 category LaR (AC measurement category) to the IFRS 9 category FVPL.

In May 2018, the business of the Non-Core Bank that does not form part of the above-mentioned portfolio transaction was transferred to the Core Bank. This transfer does not result in any reclassification with regard to the classifications made on the basis of the circumstances at the time of first-time application.

The contractual cash flow characteristics criterion resulted in the following material effects at the time of initial application of IFRS 9:

The vast majority of the securities portfolio (capital market business incl. promissory note loans) meets the criterion relating to the cash flow condition. At the time of initial application, there is only an insignificant amount of structured holdings that are not allocated to the “Other” business model, do not meet the contractual cash flow characteristics criterion and are reclassified from the IAS 39 category LaR (AC measurement category) to the IFRS 9 category FVPL.

As far as the loan portfolio (lending business) is concerned, the overwhelming majority of the instruments are to be classed as basic lending arrangements within the meaning of IFRS 9, i.e. the contractual terms of these transactions satisfy the cash flow condition. In addition, there are loans that breach the contractual cash flow characteristics criterion. The breach of the contractual cash flow characteristics criterion is due to certain detrimental side agreements (e.g. profit participation agreed in the loan agreement) or non-recourse financing. Non-recourse financing involves a substantial property/project risk on the commitment date, i.e. a primary investment risk (asset risk) that constitutes a business risk, meaning that the payments depend, in economic terms, to a considerable degree on the property/project being financed. By way of example, the non-recourse financing of a single-property company is deemed to carry a substantial property risk if, at the time of initial recognition, the loan amount is very high in relation to the value of the property (high loan-to-value ratio), the property company only has limited capital resources available for potential loss absorption and, in addition, there are no mitigating factors such as recoverable third-party collateral in favour of the lender.

For certain financial assets which are designated for measurement at FVPL under IAS 39 to avoid an accounting mismatch, the FVPL option under IFRS 9 was not exercised despite the criteria being met (revocation of the FVPL option). These assets are allocated to the

“Hold and sell” business model under IFRS 9, meaning that they are categorised as FVOCI. This resulted in a one-time reclassification within equity at the time of the first-time application of IFRS 9. This affected a portfolio with a carrying amount (fair value) of € 1,052 million as at 1 January 2018. The effective interest rate for the reclassified transactions ranged from 3.54% to 4.00%. The effective interest rate was calculated on the basis of the retrospectively calculated gross carrying amount, i.e. the gross carrying amount was not adjusted to reflect the fair value at the time of initial application. Interest income for the period from January to June 2018, calculated using the effective interest method, amounted to € 7 million. This amount includes the adjustment items from the amortisation of accrued hedge adjustments in the period, which are attributable to the fact that the transactions were designated as micro fair value hedges from 1 January 2018.

HSH Nordbank has not made use of the option relating to the FVOCI categorisation of equity instruments (FVOCI option) within the scope of IFRS 9.

The provisions governing the classification and measurement of financial liabilities remain largely unchanged compared with IAS 39. There are, however, changes to disclosures for financial liabilities designated at fair value. As far as these liabilities are concerned, fair value changes resulting from the Bank's own credit risk are no longer to be disclosed through profit or loss in the income statement, but rather directly in equity in Other comprehensive income (OCI) as a general rule (cf. also the comments made on the early isolated application of this recognition provision at the beginning of this section).

Under IFRS 9, the separation rules for embedded derivatives will only apply for host contracts that are financial liabilities or not of a financial nature.

B) Impairment

The introduction of IFRS 9 will replace the current model used to calculate loan loss provisions/impairments under IAS 39, which is based on incurred losses, with a model based on the expected credit losses. The scope of the new model consistently includes all financial instruments that are recognised at amortised cost or at fair value through other comprehensive income, irrevocable loan commitments and financial guarantees that are not recognised at fair value through profit or loss, leasing receivables and contract assets.

The calculation of loan loss provisions under the new impairment model will involve making a distinction between three provisioning levels. Allocation to a provisioning level is based on whether the loan default risk associated with a financial instrument has increased significantly since it was first added to the portfolio (level 2) and/or whether the financial instrument has an impaired credit rating, i.e. is credit-impaired (level 3). At the time of initial recognition of a financial instrument, all financial instruments – irrespective of their initial loan default risk – are initially allocated to level 1 as a general rule. This is associated with the recognition of loan loss provisions in the

amount of the 12-month expected loss through profit or loss. If the loan default risk associated with a financial instrument has increased significantly since it was first added to the portfolio and/or it is credit-impaired, then the loan loss provisions set up correspond to the lifetime expected loss (level 2/3). One exception to the application of this general (3-level) approach relates to financial instruments that are already purchased or originated credit impaired. These are subject to a separate calculation method (known as the POCI approach) on a permanent basis (until their derecognition in the balance sheet), which involves recognising the change in the lifetime expected loss as loan loss provisions through profit or loss.

Further information on the new impairment provisions can be found in the section “Accounting and measurement principles” in the chapter entitled “Application of accounting methods IFRS 9 - Financial instruments”.

Compared to the existing model under IAS 39, the new impairment model results in loan loss provisions being recognised earlier and in a higher amount. HSH Nordbank also expects the loan loss provisions pursuant to IFRS 9 to be more volatile.

As well as the new provisions governing impairment, IFRS 9 also contains new requirements governing how contractual modifications are taken into account. In cases involving substantial modifications resulting in the derecognition of the financial instrument in the balance sheet, the provisions continue to apply unchanged as against the IAS 39 provisions. In cases involving modifications not classed as substantial that do not result in the derecognition of the asset in the balance sheet, the gross carrying amount of the asset is adjusted. The new gross carrying amount is given by the present value of the modified cash flows using the financial instrument's original effective interest rate for discounting. The adjustment of the gross carrying amount results in a modification gain or loss that has to be recognised through profit or loss. Non-substantial modifications in the lending business result in receivables correction amounts, i.e. a reduction/increase in the gross carrying amount based on the effective interest rate present value of the cash flows following the contractual modification. The receivables corrections result, in loan loss provision level 3, in a reduction in the loan loss provisions set up (negative receivables correction) or in an increase in the loan loss provisions set up (positive receivables correction). In loan loss provision levels 1 and 2, the impact on loan loss provisions is relatively minor.

C) Hedge accounting

IFRS 9 includes various changes to hedge accounting rules compared to IAS 39. However, new rules for the recognition of (dynamic) portfolio or macro hedges respectively are not included in IFRS 9. As a result, options apply allowing for the continued application of existing IAS 39 provisions. HSH Nordbank has made use of the option provided for in IFRS 9.6.1.3 to apply the hedge accounting provisions set out in IAS 39 to portfolio fair value hedges on interest rate change risks.

IFRS 15 – Revenue from Contracts with Customers and Clarifications to IFRS 15

IFRS 15 Revenue from Contracts with Customers sets out a comprehensive framework for determining whether, at what level and when revenue is recognised. It replaces existing guidelines on recognising revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Amendments to IAS 40 – Transfers of Investment Property

The amendment to IAS 40 serves to clarify the cases in which properties start/stop being classified as an “investment property” if they are under construction or development. The previous exhaustive list in IAS 40.57 did not set out clear provisions on the classification of properties that had not yet been completed. The list is now explicitly designated as non-exhaustive, meaning that properties that have not yet been completed now also fall under the scope of the provisions.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses a question relating to the application of IAS 21 The Effects of Changes in Foreign Exchange Rates. The interpretation clarifies the time at which the exchange rate is to be calculated for the translation of foreign currency transactions that include the receipt or payment of advance consideration. According to the Standard, the decisive date for the purpose of determining the exchange rate for the underlying asset, income or expense, is the date of initial recognition of the asset or liability resulting from the advance consideration.

Improvements to IFRS 2014–2016

IAS 28 clarifies that the election to measure an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, can be exercised differently for each investment.

The short-term exemptions in IFRS 1 Appendix E (IFRS 1.E3 – E7) were also deleted for entities applying the IFRS for the first time.

With the exception of IFRS 9, the amendments have no material impact on the Group financial statements of HSH Nordbank.

In addition to IFRS, HSH Nordbank has complied with German Accounting Standard GAS 16 Interim Financial Reporting for its interim management report.

These interim Group financial statements have been reviewed by an auditor.

All findings up until 17 August 2018 have been taken into account.

Going concern assumption

With regard to the going concern assumption, we refer to the comments in the interim Group management report in the section entitled “Forecast, opportunities and risks report”. This section shows that the going concern assumption for accounting and measurement purposes, as well as the continued survival of HSH Nordbank AG and major group companies is based, in particular, on the share purchase agreement concluded on 28 February 2018, in which with the HSH Beteiligungs Management GmbH sold 94.9% of the shares in HSH Nordbank AG to various funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, Golden Tree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG (hereinafter referred to as the “bidders”) being closed and implemented.

After the competition authorities in Germany and Austria have granted their approval, the approval of the federal state parliaments in Hamburg and Schleswig-Holstein has been obtained and HSH Finanzfonds AöR has submitted a final settlement report on the full settlement of the second loss guarantee granted by HSH Finanzfonds AöR, the closing of the share purchase agreement requires that:

- the competent banking supervisory authority (European Central Bank (ECB)), German Federal Financial Supervisory Authority (BaFin) and Commission de Surveillance du Secteur Financier (CSSF Luxembourg) grants the necessary approvals,
- the European Commission approves the proposed new corporate structure after performing a viability review,

- the extension of HSH Nordbank AG’s membership of the guarantee scheme of the German Savings Banks Finance Group (SFG) beyond the two years stipulated in the articles of association, namely for an additional third year following the closing of the share purchase agreement, is confirmed,
- the bidders pay the portion of the purchase price attributable to them on the closing date.

If any of the conditions set out above for the closing of the share purchase agreement are not met, and if no agreement can be reached between the parties involved in each case, in particular if the EU Commission reaches the conclusion, in the course of its viability review, that the planned new corporate structure will not lead to a business model that is profitable in the long term, then the Bank 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 that the Bank is wound down as a result of the above or for other reasons, or if its rating is downgraded or other adverse developments emerge, then this could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank’s funding options. In the case of major unexpected fund outflows, additional measures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

It is further required that the acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG’s future business model is maintained or gained.

2. EVENTS AFTER THE REPORTING DATE

When calculating pension provisions, the Bank takes into account, among other things, the parameters set out in K. Heubeck’s 2005 G mortality tables when making actuarial assumptions. Heubeck AG published new mortality tables on 20 July 2018. The Bank expects the

Germany Federal Ministry of Finance to issue instructions regarding the date of application of the new Heubeck 2018 G mortality tables, which will then be applied by the Bank accordingly. It is not currently possible to reliably quantify the effects of the change to the new tables on the level of pension provisions.

3. PROVISION OF A GUARANTEE FACILITY

I. Second loss guarantee of HSH Finanzfonds AÖR

The fundamental information on the hedging effect of the guarantee is presented in the Annual Report as at 31 December 2017.

The guarantee of the federal states is split into two partial guarantees for financial reporting purposes. Partial guarantee One is recognised in the Group financial statements as a financial guarantee contract in accordance with IFRS 9. Partial guarantee Two is recognised as a credit derivative.

With the application of the provisions of IFRS 9 as of 1 January 2018, the compensation item of partial guarantee One is divided into two balance sheet items. The compensation item for financial instruments categorised as FVPL is reported in a separate balance sheet item (Compensation item for financial instruments categorised as FVPL under the second loss guarantee). The changes in the compensation item are reported in the income statement under Result from financial instruments categorised as FVPL, as this is where the changes in the valuation of the hedged loans are also shown. For financial instruments that are not categorised at FV held for trading, the compensation item is still within loan loss provisions. The disclosure in the statement of income is made in the corresponding income item Loan loss provisions.

In exchange for the guarantee, since 1 January 2016 HSH Nordbank AG has been paying a contractually agreed base premium of 2.2% p.a. on the guarantee volume that has not yet been drawn down. The recurring base premium payable is recognised through profit or loss on an accrual basis in the Expenses for government guarantees line item. The guarantee premium expense that is attributable to partial guarantee Two (credit derivative) is taken into account when calculating the market value of the credit derivative. The other fee components of the guarantee (base premium on the utilised portion of the guarantee, base premium of 1.8% p.a. on the

nominal amount of the guarantee and additional premium) are assumed by HSH Beteiligungs Management GmbH.

As at 30 June 2018, a compensation item disclosed on the balance sheet of € 1,209 million (31 December 2017: € 1,696 million) results from the hedging effect of partial guarantee One for financial instruments not measured at FVPL, which is offset under the Loan loss provisions item. An amount of € – 30 million (previous year: € 178 million) has been taken into account under Loan loss provisions in the statement of income. The compensation item for financial instruments categorised as FVPL amounts to € 3,530 million.

The compensation items on the balance sheet include compensation claims of HSH Nordbank AG vis-à-vis the guarantor in the total amount of € 4.7 billion, as the settled payment defaults under the guarantee exceeded the first loss piece to be borne by the Bank of € 3.2 billion. This means that HSH Nordbank AG now has a contractual entitlement to loss compensation with regard to the main claims in default and the interest accrued. The payments already made by the guarantor amount to € 4.3 billion as at 30 June 2018, with € 0.5 billion of this amount being paid in 2018.

The partial guarantee Two is disclosed as a credit derivative under the “Credit derivative under the second loss guarantee” line item. Changes in the measurement of the credit derivative at fair value are disclosed under the “Hedging effect of the credit derivative second loss guarantee” line item in the statement of income. The fair value of the partial guarantee Two was € 969 million as at 30 June 2018 (31 December 2017: € 1,014 million). Expense of € 50 million (previous year: expense of € 89 million) has been recognised under the “Hedging effect of credit derivative under the second loss guarantee” line item in the statement of income. This also includes the premium share of € 5 million (previous year: € 7 million) attributable to the credit derivative.

HEDGING EFFECT OF THE GUARANTEE

(€ m)	30.06.2018			31.12.2017			01.01.2018			January – June 2018			January – June 2017	
	Balance sheet			Balance sheet			Balance sheet			Statement of income			Statement of income	
	Loan loss provisions	Credit derivative	Compensation item for financial instruments categorised as FVPL under the second loss guarantee	Loan loss provisions	Credit derivative	Compensation item for financial instruments categorised as FVPL under the second loss guarantee	Loan loss provisions	Credit derivative	Compensation item for financial instruments categorised as FVPL	Loan loss provisions	Credit derivative	Result from financial instruments categorised as FVPL	Loan loss provisions	Credit derivative
Compensation under the second loss guarantee	1,209	-	3,530	1,696	-	3,485	-487	-	45	-830	-			
Payments to HSH Finanzfonds AöR	-	-	-	-	-	-	457	-	34	1,008	-			
Fair value credit derivative	-	969	-	-	1,014	-	-	-50	-	-	-89			
Hedging effect of the guarantee	1,209	969	3,530	1,696	1,014	3,485	-30	-50	79	178	-89			

The utilisation of the guarantee amounted to € 10.0 billion as at 30 June 2018 (31 December 2017: € 10.0 billion). Since the 2009 reporting year the Bank has recorded premium expense totalling € 4,024 million for the provision of the second loss guarantee. € 3,992 million has been paid to date, of which € 2,857 million is attributable to the current base premium and € 1,135 million to one-off payments (thereof € 260 million to HSH Beteiligungs Management GmbH).

Privatisation of the Bank

As part of the privatisation of the Bank, an agreement was reached between HSH Nordbank AG, the guarantor and HSH Beteiligungsmanagement GmbH on 28 February 2018 on the premature termination of the agreement on the provision of a guarantee facility. This means that, on the date on which the cancellation takes effect, HSH will no longer be under any obligation to pay guarantee fees, and the guarantor will make a compensation payment to HSH to compensate for the loss facility that has not yet been settled/dispensed. In addition, HSH is to make a one-off payment of € 100 million to the guarantor to compensate for the monetary benefits associated with the early termination of the guarantee, as well as the premature liquidity effect, in particular state aid law advantages resulting from the fact that premium payments are no longer to be made. This is already included in the reporting period. Losses from guarantee cases that have not yet been definitively confirmed at the time of the signing of this agreement were assessed as part of a separate settlement procedure and confirmed by HSH Finanzfonds AöR in the settlement report dated 15 June 2018. These will be compensated for within the

context of the compensation payment. The cancellation of the guarantee, remuneration and compensation payment, i.e. the guarantee cancellation agreement, depends on the closing of the purchase agreement on the shares in HSH Nordbank (share purchase agreement), corresponding notification sent to the parties to the agreement on the sale of an extensive credit portfolio (portfolio transaction) on 28 February 2018 and, as a result, on the closing of the portfolio transaction.

II. Synthetic securitisation transaction

In the fourth quarter of 2016, largely for capital management reasons, HSH Nordbank AG securitised loan receivables from the Corporate Clients and Real Estate Clients areas accounting for a volume of € 3 billion in total. By way of a financial guarantee, this involves the transfer of the default risk associated with a mezzanine tranche (with an initial and current amount of € 235 million) to an unconsolidated structured entity in Luxembourg (Horizon 2016 S.A.), which has, in turn, passed the default risk on to an investor. The financial resources of the structured entity received from the investor were deposited as cash collateral for the guarantee at HSH Nordbank AG. HSH Nordbank AG in turn provides the structured entity with securities as collateral for this cash deposit.

A vertical tranche approach is used in accordance with Art. 405 (1a) CRR. This means that loan receivables are included in the reference portfolio at a maximum of 95% of their nominal value. The resulting first loss piece of at least 5% is not treated as an additional retained tranche, but rather as unsecured outside of the Horizon transaction

and as ranking pari passu with the securitised share regarding the allocation of losses.

The use of the financial guarantee allows the risk weighting of the secured loan portfolio to be reduced. This allows the two following objectives to be achieved:

- Risk management (reduction of credit risks in the portfolio)
- Relief on equity capital (reduction in regulatory equity capital requirements)

HSH Nordbank AG pays an annual premium on the respective outstanding mezzanine tranche. The premium to be paid in each case is determined primarily by the extent to which the guarantee has actually been utilised. The premium is recognised through profit or loss in commission expense. In the first half of 2018, the Bank incurred premium expense totalling around € 12.8 million. In 2018, the Bank expects to incur total premium expense totalling a maximum of around € 25.9 million. The contractual term of the guarantee is 9 years (starting from the time at which the guarantee agreement was concluded in the fourth quarter of 2016).

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 to be borne by HSH Nordbank AG (on the securitised portfolio) in an initial amount of € 30 million (the aforementioned first loss piece comprises a first loss tranche of € 22.5 million and an initial and current excess spread, i.e. a loss buffer to be determined on an annual basis, of around € 7.5 million), then there is no claim for compensation against the guarantor that is eligible for capitalisation. Against this background the hedging effect of the financial guarantee recognised in the balance sheet is accounted for on a net basis. The Bank initially determines specific and general loan loss provisions without taking the hedging effect of the financial guarantee into account and then records the hedging effect (if the first loss piece is exceeded by the specific and general loan loss provisions) on the face of the balance sheet through the use of a compensation item, which reduces the amount recognised under loan loss provisions in the lending business in the balance sheet accordingly. The specific and general loan loss provisions recognised are not changed by the accounting applied to the hedging effect. As at 30 June 2018, no compensation item was recognised because the specific and general loan loss provisions did not exceed the first loss piece of € 30 million in total. The maximum possible hedging/compensation effect of the guarantee is limited to the volume of the mezzanine tranche in the amount of € 235 million.

4. SCOPE OF CONSOLIDATION

In addition to the parent company, HSH Nordbank AG, Hamburg/Kiel, the scope of consolidation includes 51 fully consolidated subsidiaries (31 December 2017: 53).

As at December 31, 2017, there are no associates or joint ventures accounted for using the equity method.

The following subsidiaries are included in the Group financial statements of HSH Nordbank AG:

CONSOLIDATED COMPANIES

Subsidiaries in which HSH Nordbank AG directly or indirectly holds 100% of the equity interests

	Registered office	Share of equity capital (in %) as at 30.06.2018	Share of equity capital (in %) as at 31.12.2017
1. Avia Management S.à.r.l.	Luxembourg	100.0	100.0
2. BINNENALSTER-Beteiligungsgesellschaft mbH	Hamburg	100.0	100.0
3. Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
4. CAPCELLENCE Dritte Fondsbeteiligung GmbH ⁴⁾	Hamburg	100.0	100.0
5. CAPCELLENCE Erste Fondsbeteiligung GmbH ³⁾	Hamburg	100.0	100.0
6. CAPCELLENCE Holding GmbH & Co. KG ⁵⁾	Hamburg	100.0	100.0
7. CAPCELLENCE Zweite Fondsbeteiligung GmbH ⁴⁾	Hamburg	100.0	100.0
8. Chasms Navigation Ltd. ⁸⁾	Douglas	100.0	100.0
9. Cregneash Navigation Ltd. ⁸⁾	Douglas	100.0	100.0
10. Curragh Navigation Ltd. ⁸⁾	Douglas	100.0	100.0
11. GODAN GmbH	Hamburg	100.0	100.0
12. HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
13. HSH Facility Management GmbH	Hamburg	100.0	100.0
14. HSH Gastro+Event GmbH ⁵⁾	Hamburg	100.0	100.0
15. HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
16. HSH N Residual Value Ltd.	Hamilton	100.0	100.0
17. HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
18. HSH Private Equity GmbH	Hamburg	100.0	100.0
19. Ilex Integra GmbH ¹⁾	Hamburg	100.0	100.0
20. ISM Agency LLC ⁷⁾	New York	100.0	100.0
21. Mooragh Navigation Ltd. ⁸⁾	Douglas	100.0	100.0
22. Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
23. Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0
24. Soderick Navigation Ltd. ⁸⁾	Douglas	100.0	100.0
25. 2200 Victory LLC	Dover	100.0	100.0

CONSOLIDATED COMPANIES

Subsidiaries with non-controlling interests

	Registered office	Share of equity capital (in %) as at 30.06.2018	Share of equity capital (in %) as at 31.12.2017
26. Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG ¹⁾	Mainz	–	–
27. Amentum Aircraft Leasing No. Five Limited ²⁾	Dublin	49.0	49.0
28. Amentum Aircraft Leasing No. Seven Limited ²⁾	Dublin	49.0	49.0
29. Amentum Aircraft Leasing No. Six Limited ²⁾	Dublin	49.0	49.0
30. Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	83.3	83.3
31. Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	90.9	90.9
32. CAPCELLENCE Vintage Year 11 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	83.3	83.3
33. CAPCELLENCE Vintage Year 13 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	90.9	90.9
34. CAPCELLENCE Vintage Year 16 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	83.3	83.3
35. CAPCELLENCE Vintage Year 18 Beteiligungen GmbH & Co. KG ²⁾	Hamburg	83.3	–
36. Castellum ABF S.A. ³⁾	Luxembourg	–	–
37. GmbH Altstadt Grundstücksgesellschaft ⁴⁾	Mainz	50.0	50.0
38. HSH Care+Clean GmbH ⁵⁾	Hamburg	51.0	51.0
39. HSH Move+More GmbH ⁵⁾	Kiel	51.0	51.0
40. HSH N Funding II ⁶⁾	George Town	56.3	56.3
41. Life Insurance Fund Elite LLC ⁷⁾	New York	–	–
42. Life Insurance Fund Elite LLC Trust ⁸⁾	Minneapolis	–	–
43. Next Generation Aircraft Finance 2 S.à.r.l. ⁸⁾	Findel	49.0	49.0
44. Next Generation Aircraft Finance 3 S.à.r.l. ⁸⁾	Findel	49.0	49.0
45. OCEAN Funding 2013 GmbH ⁹⁾	Frankfurt a.M.	–	–
46. RDM Limited ⁹⁾	George Town	–	–
47. RESPARCS Funding Limited Partnership I ⁹⁾	Hong Kong	0.0	0.0
48. RESPARCS Funding II Limited Partnership ⁹⁾	St. Helier	0.0	0.0
49. Senior Assured Investment S.A. ⁹⁾	Luxembourg	–	–
50. Senior Preferred Investments S.A. ⁹⁾	Luxembourg	–	–
51. Stratus ABF S.A. ⁹⁾	Luxembourg	–	–

¹⁾ Subsidiary of Bu Wi Beteiligungsholding GmbH.²⁾ Subsidiary of CAPCELLENCE Holding GmbH & Co. KG.³⁾ Subsidiary of Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG.⁴⁾ Subsidiary of Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG.⁵⁾ Subsidiary of HSH Facility Management GmbH.⁶⁾ Subsidiary of HSH Private Equity GmbH.⁷⁾ Subsidiary of Life Insurance Fund Elite LLC.⁸⁾ Structured entity.

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

A) Additions

The company CAPCELLENCE Vintage Year 18 Beteiligungen GmbH & Co. KG, which was set up on 18 March 2018 and in which HSH Nordbank holds the majority of voting rights, is included for the first time in the scope of consolidation on a fully consolidated basis.

B) Disposals

Contrary to the inclusion as at 31 December 2017, the following companies are no longer included in the scope of fully consolidated companies:

- FSL Asset Management Pte. Ltd., Singapore
- FSL Holdings Pte. Ltd., Singapore
- FSL Trust Management Pte. Ltd., Singapore

With effect from 28 February 2018, GODAN GmbH, which is wholly owned by HSH Nordbank AG, sold 100% of its shares in FSL Holdings Pte Ltd. to an investor. Within this context, HSH Nordbank AG also sold its loan receivable from FSL Holdings Pte Ltd. to this investor. As a result of these transactions, HSH Nordbank has lost control over the FSL Group. In addition to the three subsidiaries mentioned above, the FSL Group also includes the 24.82% interest in the First Ship Lease Trust reported as held for sale as at 31 December 2017. A profit in the amount of € 2.3 million resulted from the deconsolidation of the FSL Group, which is recognised under the item Other operating income.

C) Modification of holdings in subsidiaries

There were no changes in the ownership interests held by HSH Nordbank in a subsidiary in the period under review that did not lead to a loss of control.

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

A) General information

At the reporting date, HSH Nordbank did not hold any shares in associates or joint ventures accounted for using the equity method that are material for the Group's earnings, net assets and financial position.

B) Summarised financial information

As no shares in associates and joint ventures accounted for using the equity method are reported on the reporting date, only the previous year's figures are shown in the following overview.

OTHER SHARES HELD IN ASSOCIATES ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	30.06.2018	31.12.2017
Share of the following attributable to HSH Nordbank:		
Net income/loss for the year	–	2
Other comprehensive income	–	-
Total comprehensive income	–	2
Cumulative carrying amount	–	–

III. Information on consolidated structured entities

HSH Nordbank's scope of consolidation includes 23 fully-consolidated structured entities. These companies are controlled due to contractual rights and/or principal-agent relationships. Concerning three of these companies, the majority of the voting rights is also held.

NOTES ON THE GROUP STATEMENT OF INCOME

5. NET INTEREST INCOME

NET INTEREST INCOME (€ m)	January – June 2018	January – June 2017
Interest income from		
Lending and money market transactions categorised as AC and FVOCI	298	n.r.
Fixed-interest securities categorised as AC and FVOCI	8	n.r.
Impaired financial assets	122	n.r.
Receivables sales from financial assets categorised as FVOCI	34	n.r.
Interest income from financial assets categorised as AC and FVOCI	462	n.r.
thereof attributable to financial assets measured at AC	338	n.r.
thereof attributable to financial assets measured at fair value in OCI as a mandatory requirement	124	n.r.
Interest income from		
Other lending and money market transactions	69	n.r.
Other fixed-interest securities	77	n.r.
Trading transactions	4	n.r.
Derivative financial instruments	661	n.r.
Current income from		
Equities and other non-fixed-interest securities	3	4
Equity holdings in non-affiliated companies	1	10
Other holdings	–	1
Interest income from other financial instruments	815	15
Negative interest on lending and money market transactions categorised as AC and FVOCI	–10	n.r.
Negative interest on investments categorised as AC and FVOCI.	–10	n.r.
thereof attributable to financial assets measured at AC	–10	n.r.
Negative interest from derivative financial instruments	–120	n.r.
Negative interest on other cash investments and derivatives	–120	n.r.
Interest income from		
Lending and money market transactions	n.r.	545
Fixed-interest securities	n.r.	115
Trading transactions	n.r.	2
Derivative financial instruments	n.r.	755
Unwinding	n.r.	56
Interest income	n.r.	1,473
of which attributable to financial instruments not classified as HfT or DFV	n.r.	907
Negative interest resulting from		
Lending and money market transactions	n.r.	–9
Derivative financial instruments	n.r.	–138
Negative interest	n.r.	–147
Interest expenses for		
Liabilities to banks	49	61
Liabilities to customers	194	211
Securitised liabilities	81	126
Subordinated capital	7	10
Other liabilities	9	9
Derivative financial instruments	595	758
Interest expenses	935	1,175
thereof attributable to financial liabilities not measured at fair value through profit or loss	200	n.r.
of which attributable to financial instruments not classified as HfT or DFV	n.r.	245
Positive interest for		
Liabilities to banks	–4	–4
Liabilities to customers	–5	–6
Derivative financial instruments	–110	–139
Positive interest on borrowings and derivatives	–119	–149
thereof attributable to financial liabilities not measured at fair value through profit or loss	–9	n.r.
Net income from discounting and compounding	–45	–56
Net income/loss from hybrid financial instruments	–45	–56
thereof attributable to financial liabilities not measured at fair value through profit or loss	–45	n.r.
of which attributable to financial instruments not classified as HfT or DFV	n.r.	–56
Total	286	259

¹¹ In contrast to the presentation in the statement of income, the presentation of net interest income for the previous year is not broken down in accordance with IAS 1.82(a), as a breakdown by product type is not possible for 30 June 2017.

Regarding the adjusted prior-year net interest income figures, see “Balance sheet item reconciliation from IAS 39 to IFRS 9”, section “Adjustments to the prior-year figures”.

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expense from/for trading and hedging derivatives.

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

For receivables subject to specific loan loss provisions, both the interest income and the loan loss provisions have to be adjusted by multiplying them by the original effective interest rate in Net interest income. This procedure corresponds to the previous unwinding.

The term hybrid financial instruments covers silent participations, profit participation capital and bonds measured at amortised cost, the return on which is profit-related and which participate in the net loss for the year of the Bank.

Net income or loss from hybrid financial instruments includes both the effects on profit/loss resulting from the application of IFRS 9 Appendix A (previous year: IAS 39.A8), as well as the current interest income from the instruments that fall under the scope of application of this standard.

The cumulative net income from hybrid financial instruments amounts to € 602 million (previous year: € 287 million). € 2,057 million is attributable to the result from re-estimating interest and principal repayment flows (previous year: € 1,644 million) and € -1,455 million is attributable to the income/loss from discounting and compounding (previous year: € -1,357 million).

The difference between the valuation for tax purposes and measurement under IFRS 9 B5.4.6 (previous year: IAS 39.A8) results in deferred tax assets of € 5 million (previous year: € 6 million).

6. NET COMMISSION INCOME

NET COMMISSION INCOME (€ m)	January – June 2018	January – June 2017
Commission income from		
Lending business	17	24
Securities business	3	4
Guarantee business	5	5
Payments and account transactions as well as documentary business	11	13
Other commission income	8	7
Commission income	44	53
Commission expense from		
Lending business	1	1
Securities business	1	2
Guarantee business	13	14
Payments and account transactions as well as documentary business	5	3
Other commission expenses	1	1
Commission expenses	21	21
Total	23	32

Financial instruments that are not measured at fair value through profit or loss account for € 25 million of net commission income. In the previous year, € 33 million of net commission income was attributable to financial instruments not categorised as HfT or DFV.

The premium expense resulting from the synthetic securitisation transaction (see Note 3.II) is reported under Net commission income and amounted to € 13 million in the reporting period (previous year: € 13 million).

7. RESULT FROM HEDGING

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

RESULT FROM HEDGING

(€ m)	January – June 2018	January – June 2017
Fair value changes from hedging transactions	-15	-56
Micro fair value hedge	-4	-
Portfolio fair value hedge	-11	-56
Fair value changes from underlyings	13	47
Micro fair value hedge	10	-
Portfolio fair value hedge	3	47
Total	-2	-9

8. RESULT FROM FINANCIAL INSTRUMENTS CATEGORISED AS FVPL

The Result from financial instruments categorised as FVPL includes the realised result and the valuation result of financial instruments in the FVPL Trading, FVPL Designated and FVPL Other categories. The interest income and expense and results from current dividends in these holding categories are reported under Net interest income. The comparative period comprises the realised result and the valuation result of financial instruments classified as HfT and DFV.

Gains and losses arising on currency translation are generally disclosed in this statement of income line item. In derogation of the above, the results from the translation of loan loss provisions denominated in foreign currency are disclosed in the Loan loss provisions.

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

RESULT FROM FINANCIAL INSTRUMENTS CATEGORISED AS FVPL

(€ m)	January – June 2018	January – June 2017
Bonds and interest rate derivatives		
FVPL Trading	-17	n.r.
Designated FVPL	14	n.r.
FVPL Other	-109	n.r.
Total	-112	n.r.
HfT	n.r.	124
DFV	n.r.	-17
Total	n.r.	107
Equities and equity derivatives		
FVPL Trading	7	n.r.
Designated FVPL	1	n.r.
FVPL Other	-2	n.r.
Total	6	n.r.
HfT	n.r.	-
DFV	n.r.	-2
Total	n.r.	-2
Other products		
FVPL Trading	2	n.r.
Designated FVPL	1	n.r.
FVPL Other	-17	n.r.
Total	-14	n.r.
HfT	n.r.	46
DFV	n.r.	-
Total	n.r.	46
Compensation under the second loss guarantee	79	
Total	-41	151

The Result from financial instruments categorised as FVPL includes net income from foreign currency of € –6 million (previous year: € 45 million).

During the reporting period, € –1 million (previous year: € 45 million) of the changes in fair value of the financial assets categorised as

Designated FVPL related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € –4 million (previous year: € 8 million) is attributable to changes in the credit spread.

9. NET INCOME FROM FINANCIAL INVESTMENTS

Under IFRS 9, this item shows the realised results of financial assets categorised as FVOCI and equity holdings in non-affiliated companies recognised at fair value as of the year under review.

In the prior-year reporting period, this item included, in addition to any realised gains and losses from financial investments classified as loans and receivables (LaR) and available for sale (AfS), write-downs and write-ups and general loan loss provisions. In the case of financial investments classified as AfS, write-ups were only recognised in the statement of income for debt instruments up to a maximum of the amortised cost.

Regarding the adjusted prior-year figures, see “Balance sheet item reconciliation from IAS 39 to IFRS 9”, section “Adjustments to the prior-year figures”.

NET INCOME FROM FINANCIAL INVESTMENTS

(€ m)	January - June 2018	January - June 2017
Realised results from financial assets categorised as FVOCI	78	n.r.
Total	78	n.r.
Classified as AfS		
+ Realised gains/losses (-)	n.r.	-7
- Write-downs	n.r.	3
Total	n.r.	-10
Classified as LaR		
+ Write-ups	n.r.	21
Total	n.r.	21
Total	78	11

10. RESULT FROM THE DISPOSAL OF FINANCIAL ASSETS CLASSIFIED AS AC

This item includes all realised results from the sale and premature repayment of, as well as substantial modifications to, financial assets categorised at amortised cost.

Under IAS 39, the result of receivables that were purchased or originated credit-impaired was reported in the result from loan loss provisions. If the result was mainly based on interest components, it was reported under Net interest income. Otherwise, it was disclosed under Other operating result.

The disposals in the reporting period relate to sales and premature repayments. The sales executed are compatible with the “Hold to collect” business model.

Regarding the prior-year figures, see “Balance sheet item reconciliation from IAS 39 to IFRS 9”, section “Adjustments to the prior-year figures”.

RESULT FROM THE DISPOSAL OF FINANCIAL ASSETS CLASSIFIED AS AC

(€ m)	January - June 2018	January - June 2017
Gains from the disposal of financial assets measured at AC		
Loans and advances to customers	3	283
Financial investments	-	15
Total gains	3	298
Losses from the disposal of financial assets measured at AC		
Loans and advances to customers	6	-
Total losses	6	-
Total	-3	298

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

As at 30 June 2018, HSH Nordbank does not hold any shares in associates or joint ventures that are included in the Group financial statements using the equity method, as was also the case as at 31 December 2017 (see Note 5).

This means that as at 30 June 2018, the Group had no pro rata net income from financial investments accounted for under the equity method. As a result, only the previous year's result is shown in the following overview.

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)	January – June 2018	January – June 2017
Pro rata net income for the period	–	2
Total	–	2

12. LOAN LOSS PROVISIONS

This item shows the change in loan loss provisions for all loans and advances to banks, loans and advances to customers and financial

investments, as well as leasing receivables, categorised as AC or FVOCI.

LOAN LOSS PROVISIONS

	January – June 2018
Loans and advances to customers	
insignificant increase in the loan default risk (level 1/12-month ECL)	24
significant increase in the loan default risk (level 2/lifetime ECL)	102
impaired credit rating (level 3/lifetime ECL)	15
Result from the change in loan loss provisions on loans and advances to customers	141
Financial investments	
significant increase in the loan default risk (level 2/lifetime ECL)	2
thereof FVOCI	2
Result from the change in loan loss provisions for financial investments	2
Off-balance-sheet business	
insignificant increase in the loan default risk (level 1/12-month ECL)	– 1
significant increase in the loan default risk (level 2/lifetime ECL)	– 1
impaired credit rating (level 3/lifetime ECL)	12
Provisions in lending business in accordance with IAS 37	12
Result from changes in provisions in the lending business	22
– Direct write-downs	8
+ Payments received on loans and advances previously written down	5
Result from other changes to loan loss provisions	– 3
Result from changes in loan loss provisions before currency translation gains or losses and compensation	162
Currency translation gains or losses on loan loss provisions denominated in foreign currency	– 1
Compensation under the second loss guarantee	– 30
Compensation under synthetic securitisation Horizon	–
Total loan loss provisions	131

In the reporting period, changes in loans and advances to customers relate only to transactions categorised as AC.

Under IAS 39, changes in loan loss provisions for loans and advances to banks and loans and advances to customers in the LaR category were reported under the item Loan loss provisions in the lending business.

LOAN LOSS PROVISIONS IN THE LENDING BUSINESS

(€ m)	January – June 2017
– Expense from additions to loan loss provisions	693
+ Income from the reversal of loan loss provisions	218
Result from changes in loan loss provisions	– 475
– Expenses from allocations to provisions in the lending business	13
+ Income from reversals of provisions in the lending business	30
Result from changes to provisions in the lending business	17
– Direct write-downs	19
+ Payments received on loans and advances previously written down	98
Result from other changes to loan loss provisions	79
Result from changes in loan loss provisions before currency translation gains or losses and compensation	– 379
Currency translation gains or losses on loan loss provisions denominated in foreign currency	49
Compensation under the second loss guarantee	178
Total loan loss provisions in the lending business	– 152

NET CHANGES IN LOAN LOSS PROVISIONS IN THE LENDING BUSINESS

(€ m)	January – June 2017
Specific loan loss provisions	– 498
General loan loss provisions	23
Net change in loan loss provisions in the lending business	– 475
Provisions for specific risks	13
Provisions for portfolio risks	4
Net change in provisions in the lending business	17

13. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)	January – June 2018	January – June 2017
Personnel expenses	99	113
Operating expenses	111	124
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	13	9
Total	223	246

In the reporting period, unscheduled depreciation of € 8 million was recognised on assets held for sale and disposal groups (previous year: € 3 million). This was attributable to the Non-Core Bank. Further information can be found in Note 28.

14. OTHER OPERATING INCOME

OTHER OPERATING INCOME

(€ m)	January – June 2018	January – June 2017
Other operating income	40	90
Other operating expenses	17	28
Total	23	62

Regarding the adjusted prior-year figures, see “Balance sheet item reconciliation from IAS 39 to IFRS 9”, section “Adjustments to the prior-year figures”.

Other operating income includes income from the leasing business in the amount of € 5 million (previous year: € 15 million) and income from the reversal of provisions in the amount of € 3 million (previous year: € 27 million). The Other operating income in the previous year includes € 15 million in income from five single-ship companies, € 7 million of which is attributable to effects from the initial consolidation of these companies.

Other operating expenses include expenses from allocations to provisions in the amount of € 7 million (previous year: € 12 million).

15. EXPENSES FOR BANK LEVY AND DEPOSIT GUARANTEE FUND

EXPENSES FOR BANK LEVY AND DEPOSIT GUARANTEE FUND

(€ m)	January – June 2018	January – June 2017
Expenses for European bank levy and deposit guarantee	34	41
Total	34	41

The event triggering the obligation to pay the bank levy in accordance with IFRIC 21 is established at the beginning of each year. This means that the expenses for the bank levy are recognised in full at the beginning of the year and not pro rata temporis.

The expense for the deposit guarantee of the German Savings Bank Finance Group (Sparkassen Finanzgruppe) is also disclosed under this item. The contribution was levied based on the Deposit Guarantee Act (Einlagensicherungsgesetz).

16. NET INCOME FROM RESTRUCTURING AND PRIVATISATION

NET INCOME FROM RESTRUCTURING AND PRIVATISATION

(€ m)	January – June 2018	January – June 2017
Operating expenses due to restructuring	8	11
Income from reversals of provisions and liabilities from restructuring	2	7
Net income from restructuring	-6	-4
Expenses from privatisation	25	21
Net income from restructuring and privatisation	-31	-25

The programmes for the reduction of operating and personnel expenses initiated in 2014 and 2016 were continued in the reporting period. The main expenses incurred in this regard were operating expenses, mainly for the implementation of defined cost reduction measures as part of IT projects. The expenses associated with the privatisation of HSH Nordbank are also reported under Net income from restructuring and privatisation. In the reporting period, privatisation expenses mainly consisted of external project support and legal advice in connection with the privatisation process.

17. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES

(€ m)	January – June 2018	January – June 2017
HSH Finanzfonds AöR	158	80
Total	158	80

In June 2013, the guarantee granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg was replenished to € 10 billion. Since 1 January 2016, the Bank has been calculating the base premium at a rate of 2.2% p.a. on the portion of the guarantee that has not yet been drawn. The share of the premium relating to partial guarantee Two (CDS) is disclosed under the line item Hedging effect of credit derivative under the second loss guarantee in the amount of € 5 million (previous year: € 2 million). Expenses in the first half of 2018 include a one-time amount of € 100 million for the early cancellation of the guarantee. This will be paid to the guarantor on the cancellation date.

18. EARNINGS PER SHARE

For the calculation of Earnings per share, the Group net result attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. As in the previous year, HSH Nordbank AG has not issued any diluted forms of capital as at 30 June 2018, i.e. the diluted and undiluted earnings are the same. The calculation was based on non-rounded values.

EARNINGS PER SHARE

	January – June 2018	January – June 2017
Attributable Group net result (€ m) – undiluted/diluted	–78	158
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	302	302
Earnings per share (€)		
Undiluted	–0.26	0.52
Diluted	–0.26	0.52

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

19. CASH RESERVE

CASH RESERVE		
(€ m)	30.06.2018	31.12.2017
Cash on hand	8	4
Balances at central banks	2,630	6,515
of which at the Deutsche Bundesbank	2,616	6,499
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	60	106
Total	2,698	6,625

20. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS		
(€ m)	30.06.2018	31.12.2017
Payable on demand	1,651	1,915
Other loans and advances	1,760	1,923
Total	3,411	3,838

The development of the carrying amounts of loans and advances to banks is shown in Note 42.

21. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS		
(€ m)	30.06.2018	31.12.2017
Retail customers	529	687
Corporate clients	30,725	34,576
Public authorities	3,993	3,911
Total	35,247	39,174

The development of the carrying amounts of loans and advances to customers is shown in Note 42.

22. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)	30.06.2018	31.12.2017
Loan loss provisions for loans and advances to banks categorised as AC	1	n.r.
Loan loss provisions for loans and advances to customers categorised as AC, incl. leasing	728	n.r.
Loan loss provisions for loans and advances to banks	n.r.	1
Loan loss provisions for loans and advances to customer and non-current assets held for sale and disposal groups	n.r.	4,493
Loan loss provisions in the lending business	729	4,494
Compensation under the second loss guarantee	-1,209	-5,181
Loan loss provisions for items in the statement of financial position	-480	-687
Provisions in the lending business	47	67
Loan loss provisions for items in the statement of financial position and off-balance-sheet risk in the lending business	-433	-620

In accordance with IFRS 9, loan loss provisions are only recognised for transactions categorised as AC and are initially calculated without taking into account the hedging effect of the second loss guarantee. The hedging effect is then mapped in the statement of financial position through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 3).

The compensation item also includes compensatory claims against the guarantor HSH Finanzfonds AöR resulting from settled losses for transactions for which loan loss provisions had already been recognised.

For information on the development of the IFRS 9 portfolio of loan loss provisions for banks and loans and advances to customers, please refer to Note 42.

The development of loan loss provisions for banks under IAS 39 in the previous year was as follows:

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

(€ m)	Specific loan loss provisions	General loan loss provisions	Total
As at 1 January 2017	-	1	1
As at 30 June 2017	-	1	1

Loan loss provisions for customers under IAS 39 developed as follows in the previous year:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMER AND NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS BEFORE COMPENSATION

(€ m)	Specific loan loss provisions	General loan loss provisions	Total
As at 1 January 2017	6,336	375	6,711
Additions	2,307	–	2,307
Reversals	536	228	764
Utilisation	3,093	–	3,093
Other changes	– 14	–	– 14
Unwinding	– 94	–	– 94
Changes in the scope of consolidation	– 14	–	– 14
Exchange rate changes	– 552	– 9	– 561
As at 30 June 2017	4,340	138	4,478

The loan loss provisions under IAS 39 relate exclusively to items categorised as loans and receivables (LaR).

23. HEDGE ACCOUNTING

HSH Nordbank continues to apply the portfolio fair value hedge approach in accordance with IAS 39, making use of the option under IFRS 9.6.1.3. Furthermore, HSH Nordbank now uses the micro fair value hedge approach in accordance with IFRS 9 for financial instruments measured at fair value directly in equity under IFRS 9. The following section provides a description of the hedging and underlying transactions used for hedging purposes, including the risk management strategy, the impact on cash flows and the effects on the net assets, statement of comprehensive income and statement of changes in equity.

I. Risk management strategy

In order to avoid distortions in the statement of income resulting from interest-bearing financial instruments, micro and portfolio fair value hedge accounting is used to hedge the market price risk interest.

For micro fair value hedges, structured euro swaps are designated as hedging instruments for structured euro underlying transactions. These designated hedges correspond to economic back-to-back hedges which neutralise the market price risks associated with the underlying transactions. The effectiveness of these hedges is ensured by a critical term match and ineffectiveness is expected from model adjustments, measurement mismatches and the inclusion of tenor basis spreads. In portfolio fair value hedges on interest rate risks, the underlying transactions as a whole are hedged by means of interest rate swaps. Effectiveness is measured in accordance with the rules set out in IAS 39 and the hedge ratio is calculated using the dollar offset method. Ineffectiveness can result from maturities of assets and liabilities

that do not match, and from the reference interest rate of the hedging transactions.

Hedge accounting is used solely for interest rate risks.

II. Effects on cash flows

In order to assess the cash flows to be expected, the nominal and average prices of the hedging instruments in micro fair value hedges are presented below.

MICRO FAIR VALUE HEDGES

(€ m)	Maturity date		
	2027	2037	2038
Nominal value of hedging instruments	100	450	200
Average swap rate	3.869	3.678	3.644

III. Effects on net assets and statement of comprehensive income

The effects on the net assets and statement of comprehensive income are presented separately for hedging transactions and underlying transactions.

Hedging instruments

This section presents the nominal, hedge adjustment and the positive and negative fair values of derivatives used in hedge accounting. Only

interest rate swaps are currently taken into account as hedging instruments. If a derivative is only designated pro rata in hedge accounting, the item Positive/negative fair value of hedging derivatives con-

tains the corresponding share of the derivative's fair value, nominal value and hedge adjustment. The residual amount is reported under Trading assets/Net trading income.

HEDGING INSTRUMENTS¹⁾

Hedge type/type of risk	30.06.2018			31.12.2017			
	Nominal value	Carrying amount	Hedge adjustment (ytd)	Nominal value	Carrying amount	Hedge adjustment (ytd)	Balance sheet item
Fair value hedge/interest rate risk							
Interest rate derivatives (assets side)	12,410	338	13	–	264	–	Positive fair values of hedging derivatives
Interest rate derivatives (liabilities side) ²⁾	10,025	559	12	–	163	–	Negative fair values of hedging derivatives

¹⁾ The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

²⁾ The carrying amount of € 559 million as at the reporting date includes a micro fair value hedge, the carrying amount of € 163 million for the previous year does not include a micro fair value hedge.

Asset-side transactions are reported in the balance sheet item Positive fair values of hedging derivatives and derivatives on the liabilities side are shown in the balance sheet item Negative fair values of hedging derivatives. There is a direct link between the development in the positive and negative fair values of hedging derivatives. The overall changes in this item are mainly due to changes in the portfolio compositions and movements in interest rates in the euro and US dollar capital markets.

Underlying transactions

This section presents financial instruments on the assets and liabilities side used in portfolio fair value hedge accounting. The following table shows the carrying amounts, accumulated changes in value (Itd) and since the beginning of the financial year (ytd) for these financial instruments. The underlying transactions currently only include assets (receivables and securities) and liabilities within the framework of portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

UNDERLYING TRANSACTIONS¹⁾

(€ m)	30.06.2018			31.12.2017			
	Carrying amount	Cum. Hedge adjustment (Itd)	Hedge adjustment (ytd)	Carrying amount	Cum. Hedge adjustment (Itd)	Hedge adjustment (ytd)	Balance sheet item
Fair value hedge/interest rate risk							
Portfolio fair value hedge: Fixed-interest rate loans, debentures, securities	10,284	230	- 19	-	249	-	Positive adjustment item from portfolio fair value hedges
Receivables ²⁾	1,035	3	3	-	-	-	Loans and advances to customers
Portfolio fair value hedge: Fixed-interest issues	14,916	424	- 32	-	456	-	Negative adjustment item from portfolio fair value hedges
Portfolio fair value hedge (inactive)	954	5	- 1	-	6	-	Positive adjustment item from portfolio fair value hedges
Portfolio fair value hedge (inactive)	300	65	- 32	-	97	-	Negative adjustment item from portfolio fair value hedges

¹⁾ The portfolios are newly designated/redesignated on a monthly basis at the time of the integration of the new business. This leads to a change in the composition of the hedging relationship between the underlying and hedging transactions.

²⁾ Underlying transactions from micro fair value hedges.

The components of the underlying transactions relevant to the balance sheet are reported in the balance sheet items Positive adjustment item from portfolio fair value hedges and Negative adjustment item from portfolio fair value hedges. The values shown there result from

the sum of the cumulative hedge adjustments (Itd) of active and inactive portfolios.

24. TRADING ASSETS

Only financial assets in the FVPL Trading category are reported under Trading assets. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IAS 39/IFRS 9 for hedge accounting.

TRADING ASSETS

(€ m)	30.06.2018	31.12.2017
Debentures and other fixed-interest securities	645	201
Positive fair value of financial derivatives	3,045	3,420
Other, including promissory notes held for trading	13	13
Receivables from syndication transactions	207	7
Total	3,910	3,641

25. FINANCIAL INVESTMENTS

In particular, financial instruments not held for trading purposes are reported as financial investments. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associates not carried at equity in the Group financial statements. Under IAS 39, these financial instruments were classified as AfS and LaR and, to a lesser extent, as DFV. Under IFRS 9, these financial instruments belong to the categories Designated FVPL and FVPL Other, Mandatory FVOCI and AC.

FINANCIAL INVESTMENTS

(€ m)	30.06.2018	31.12.2017
Debentures and other fixed-interest securities	12,465	13,545
Shares and other non-fixed-interest securities	35	51
Equity holdings in non-affiliated companies	52	50
Interests in affiliated companies	1	1
Total	12,553	13,647

The development in the carrying amounts of financial investments for the current year is shown in Note 42.

26. INTANGIBLE ASSETS

INTANGIBLE ASSETS

(€ m)	30.06.2018	31.12.2017
Software	8	9
developed in-house	2	3
acquired	6	6
Software in development	2	1
acquired	2	1
Total	10	10

27. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT

(€ m)	30.06.2018	31.12.2017
Land and buildings	187	219
Plant and equipment	11	12
Assets under construction	2	1
Total	200	232

Under the item Investment property, all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Properties leased, in the capacity of lessor, under operating leases are also included in this item.

INVESTMENT PROPERTY

(€ m)	30.06.2018	31.12.2017
Investment property	43	13
Total	43	13

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

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	30.06.2018	31.12.2017
Loans and advances to banks	–	1
Loans and advances to customers	10	12
Property, plant and equipment	60	113
Other assets	–	13
Total	70	139

As at 30 June 2018, this item relates exclusively to disposals not yet finalised as part of the market portfolio transactions.

As at 31 December 2017, six aircraft held for sale by subsidiaries of HSH Nordbank were reported under property, plant and equipment. The sales plan to be included in the market portfolio transaction stipulated that these aircraft, together with the cash accounts and maintenance reserves recognised at the special purpose companies, would be sold to various buyers in order to reduce HSH Nordbank AG's loan receivables to the greatest extent possible. As at 31 December 2017, this sales plan comprised a total of six disposal groups (Aviation II/I to Aviation II/VI), each consisting of property, plant and equipment, other assets (cash accounts), other liabilities and provisions. With effect from 26 February and 22 June 2018, the sale of the disposal groups Aviation II/I and Aviation II/III was completed. This resulted in a decrease in property, plant and equipment as well as in other liabilities and provisions (see Note 36). No gain or loss arose from these sales. After the reporting date, two

further disposal groups from Aviation II were disposed of after 30 June 2018. The subsequent measurement of the disposal groups from Aviation II in accordance with IFRS 5 resulted in a total loss of € 8 million in the reporting period, which is reported under Administrative expenses. The fair value of the property, plant and equipment reported in accordance with IFRS 5 as at 30 June 2018 is assigned to level 2 of the fair value hierarchy.

As was the case as at 31 December 2017, the loans and advances to customers in the amount of € 10 million reported under this item relate to the few loans that have not yet been definitively sold from a larger non-strategic loan portfolio belonging to the Aviation asset class for which the purchase agreement was already signed in August 2017 as part of the implementation of the market portfolio transaction. Due to the staggered closing mechanism provided for in the purchase agreement, the sale of this loan portfolio involves different closing dates. Seven of the eight planned closings had already taken place in 2017. The loans and advances to customers reported under this item as at 30 June 2018 will be derecognised from the balance sheet at the time of the last closing, which is expected for the third quarter of 2018. Loans and advances to customers attributable to the Non-Core Bank segment are included in IFRS 9 category FVPL.

The sale of the FSL Group (formerly Non-Core Bank segment) was completed in February 2018. More detailed information on this disposal process can be found in Note 4. This sale involved the derecognition of the loans and advances to banks and other assets in the amount of € 12 million reported under IFRS 5 as at 31 December 2017 from the balance sheet.

29. DEFERRED TAX ASSETS

Of the deferred tax assets of € 665 million (31 December 2017: € 723 million), € 14 million (31 December 2017: € 17 million) relates to tax loss carry-forwards.

As at 30 June 2018, these are attributable to the Singapore branch in the amount of € 14 million (31 December 2017: € 17 million).

The recoverability of deferred taxes on losses carried forward results from planned future income.

30. OTHER ASSETS**OTHER ASSETS**

(€ m)	30.06.2018	31.12.2017
Receivables from insurance contracts	16	16
Other prepaid expenses	15	16
Receivables from other taxes	15	5
Receivables from fund transactions	10	9
Other assets	19	28
Total	75	74

€ 60 million of the assets reported here relate to financial instruments (31 December 2017: € 35 million).

31. LIABILITIES TO BANKS**LIABILITIES TO BANKS**

(€ m)	30.06.2018	31.12.2017
Payable on demand	696	617
Other term liabilities	6,643	7,654
Total	7,339	8,271

32. LIABILITIES TO CUSTOMERS**LIABILITIES TO CUSTOMERS**

(€ m)	30.06.2018	31.12.2017
Savings deposits	11	14
Other liabilities		
Payable on demand	8,978	10,889
Term liabilities	24,186	25,302
Total	33,175	36,205

33. SECURITISED LIABILITIES

SECURITISED LIABILITIES		
(€ m)	30.06.2018	31.12.2017
Debentures issued	10,983	12,441
Money market securities issued	3	3
Total	10,986	12,444

In the item Securitised liabilities, repurchased own debentures in the amount of € 2,232 million (31 December 2017: € 2,666 million) were deducted.

Debentures issued include € 532 million of hybrid financial instruments (31 December 2017: € 508 million), the carrying amounts of which were determined on the basis of assumptions regarding HSH Nordbank's future earnings situation (IFRS 9.B5.4.6, previous year: IAS 39.A8).

34. TRADING LIABILITIES

Only financial obligations in the FVPL Trading category (previous year: HfT) are reported under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IFRS 9 for hedge accounting (previous year: IAS 39).

TRADING LIABILITIES		
(€ m)	30.06.2018	31.12.2017
Negative fair value from derivative financial instruments		
Interest rate-related business	2,722	3,374
Currency-related business	37	59
Other business	373	442
Total	3,132	3,875

35. PROVISIONS

PROVISIONS (€ m)	30.06.2018	31.12.2017
Provisions for pension obligations and similar obligations	1,077	1,103
Other provisions		
Provisions for personnel expenses	19	24
Provisions in the lending business	49	67
Provisions for restructuring	39	45
Provisions for litigation risks and costs	95	98
Other provisions	163	101
Total	1,442	1,438

The provisions in the lending business shown in the table above include € 2 million in provisions attributable to guarantees and credits by way of bank guarantees. These are measured in accordance with IAS 39, meaning that they are not treated as financial instruments in accordance with IFRS 9.

The net change in pension provisions of € –26 million consists of the payments for pension liabilities of € 26 million. Additions and reversals come to zero in total.

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

PROVISIONS IN THE LENDING BUSINESS (ONLY FINANCIAL INSTRUMENTS)

(€ m)	30.06.2018	31.12.2017
Provisions for contingent liabilities	10	n.r.
Level 1 (12-month ECL)	1	n.r.
Level 2 (lifetime ECL)	1	n.r.
Level 3 (lifetime ECL)	8	n.r.
Irrevocable loan commitments	18	n.r.
Level 1 (12-month ECL)	9	n.r.
Level 2 (lifetime ECL)	2	n.r.
Level 3 (lifetime ECL)	7	n.r.
Other loan provisions	19	n.r.
Level 1 (12-month ECL)	–	n.r.
Level 2 (lifetime ECL)	–	n.r.
Level 3 (lifetime ECL)	19	n.r.
Total	47	
Specific loan loss provisions for		
Contingent liabilities	n.r.	10
Irrevocable loan commitments	n.r.	29
Other credit risks	n.r.	21
Total	n.r.	60
Portfolio loan loss provisions for		
Contingent liabilities	n.r.	1
Irrevocable loan commitments	n.r.	6
Total	n.r.	7
Total	47	67

For information on the development of loan loss provisions for financial instruments reported under contingent liabilities in the current year, please refer to Note 42 (Schedule of loan loss provisions).

36. LIABILITIES RELATING TO DISPOSAL GROUPS

LIABILITIES RELATING TO DISPOSAL GROUPS (€ m)	30.06.2018	31.12.2017
Provisions	31	44
Other liabilities	1	2
Deferred tax liabilities	–	1
Total	32	47

All liabilities included in this item as at 30 June 2018 are attributable to the Aviation II disposal groups (see Note 28).

37. OTHER LIABILITIES

OTHER LIABILITIES		
(€ m)	30.06.2018	31.12.2017
Collateral provided for liabilities assumed	490	519
Liabilities for invoices outstanding	47	45
Outstanding payments for the second loss guarantee	29	33
Liabilities for restructuring	5	12
Other tax liabilities	18	7
Deferred income	12	13
Personnel liabilities	10	8
Other	45	21
Total	656	658

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

€ 594 million of the liabilities reported here relate to financial instruments (31 December 2017: € 638 million).

38. SUBORDINATED CAPITAL

SUBORDINATED CAPITAL		
(€ m)	30.06.2018	31.12.2017
Subordinated liabilities	1,065	1,060
Silent participations	1,226	1,192
Total	2,291	2,252

The carrying amounts for silent participations were determined on the basis of assumptions regarding the future earnings situation of HSH Nordbank and the exercise of termination or extension options (IFRS 9.B5.4.6, previous year: IAS 39.A8).

39. EQUITY

EQUITY	30.06.2018	31.12.2017
(€ m)		
Share capital	3,018	3,018
Capital reserve	75	75
Retained earnings	1,005	1,701
thereof: cumulative gains and losses arising on the revaluation of net defined benefit liabilities recognised in OCI	-182	-196
of which: Deferred taxes on cumulative gains and losses arising on the revaluation of net defined benefit liabilities recognised in OCI	58	58
Revaluation reserve	276	117
thereof: credit risk-induced changes in the value of liabilities designated at fair value (after taxes)	6	8
of which: Valuation results relating to financial assets classified as FVOCI as a mandatory requirement (after taxes)	269	n.r.
thereof: from fair value measurement AFS	n.r.	109
Currency conversion reserve	13	2
Group net result	-78	-535
Total before non-controlling interests	4,309	4,378
Non-controlling interests	-4	-5
Total	4,305	4,373

CHANGES IN ORDINARY SHARES

(Number of shares)	30.06.2018	31.12.2017
Number at the beginning of the year	301,822,453	301,822,453
Number at the end of the year	301,822,453	301,822,453

SEGMENT REPORTING

40. SEGMENT REPORT

(€ m/%)	Corporate Clients		Real Estate		Shipping		Treasury & Markets		Core Bank (total)	
	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017
Net interest income	80	80	80	97	46	44	56	56	262	277
Net commission income	21	24	7	6	5	6	5	2	38	38
Result from hedging	-	-	-	-	-	-	-	-	-	-
Result from financial instruments categorised as FVPL	4	26	7	19	1	4	55	44	67	93
Net income from financial investments including other income items ¹⁾	1	-	1	-	-	-	66	313	68	313
Total income	106	130	95	122	52	54	182	415	435	721
Loan loss provisions incl. credit derivative under the second loss guarantee ²⁾	-4	4	3	-	140	4	18	1	157	9
Administrative expenses	-66	-66	-31	-28	-20	-22	-39	-44	-156	-160
Other operating income	7	4	1	2	1	1	-	1	9	8
Expenses for bank levy and deposit guarantee fund	-7	-6	-8	-7	-4	-4	-7	-8	-26	-25
Net income before restructuring and privatisation	36	66	60	89	169	33	154	365	419	553
Net income from restructuring and privatisation	-	-	-	-	-	-	-	-	-	-
Expenses for government guarantees	-12	-1	-5	-1	-20	-8	-4	-	-41	-10
Net income before taxes	24	65	55	88	149	25	150	365	378	543
Cost/income ratio (CIR)	58 %	49 %	32 %	23 %	38 %	40 %	21 %	11 %	35 %	22 %
Return on equity before taxes	3 %	9 %	12 %	17 %	47 %	12 %	48 %	143 %	21 %	33 %
Average equity	1,443	1,369	891	1,043	635	405	621	512	3,590	3,329

(€ bn)	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017
Segment assets	12.1	11.6	12.5	10.3	4.8	5.1	18.7	21.4	48.1	48.4

¹⁾ Including Net income from financial investments accounted for under the equity method, Result from the disposal of financial assets classified as AC, Result from the reclassification of financial assets previously categorised as AC and Result from the reclassification of financial assets formerly classified as FVOCI as a mandatory requirement. The figures for the previous year have been adjusted accordingly.

²⁾ Summary of Loan loss provisions and Hedging effect of credit derivative under the second loss guarantee.

(€ m/%)	Core Bank		Non-Core Bank		Other and Consolidation ³⁾		Group	
	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017	30.06. 2018	30.06. 2017
Net interest income	262	277	89	10	-65	-28	286	259
Net commission income	38	38	-	11	-15	-17	23	32
Result from hedging	-	-	-	-	-2	-9	-2	-9
Result from financial instruments categorised as FVPL	67	93	-104	32	-4	26	-41	151
Net income from financial investments including other income items ¹⁾	68	313	-	-3	7	1	75	311
Total income	435	721	-15	50	-79	-27	341	744
Loan loss provisions incl. credit derivative under the second loss guarantee ²⁾	157	9	5	-251	-81	1	81	-241
Administrative expenses	-156	-160	-69	-95	2	9	-223	-246
Other operating income	9	8	7	43	7	11	23	62
Expenses for bank levy and deposit guarantee fund	-26	-25	-1	-9	-7	-7	-34	-41
Net income before restructuring and privatisation	419	553	-73	-262	-158	-13	188	278
Net income from restructuring and privatisation	-	-	-	-	-31	-25	-31	-25
Expenses for government guarantees	-41	-10	-118	-70	1	-	-158	-80
Net income before taxes	378	543	-191	-332	-188	-38	-1	173
Cost/income ratio (CIR)	35 %	22 %	-	-	-	-	61 %	31 %
Return on equity before tax	21 %	33 %	-	-	-	-	0 %	7 %
Average equity	3,590	3,329	503	1,409	286	293	4,379	5,031

(€ bn)	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017	30.06. 2018	31.12. 2017
Segment assets⁴⁾	48.1	48.4	7.5	11.7	8.9	10.3	64.5	70.4

¹⁾ Including Net income from financial investments accounted for under the equity method¹⁾, "Result from the disposal of financial assets classified as AC, Result from the reclassification of financial assets previously categorised as AC and Result from the reclassification of financial assets formerly classified as FVOCI as a mandatory requirement. The figures for the previous year have been adjusted accordingly.

²⁾ Summary of Loan loss provisions and Hedging effect of credit derivative under the second loss guarantee.

³⁾ Consolidation includes, among other things, reconciliation effects resulting from differences in recognition between the internal management system and IFRS accounting.

⁴⁾ Segment assets of the Non-Core Bank as at the reporting date comprise the transaction portfolio and the compensation item for the second loss guarantee.

(€ m/%)	30.06.2018			30.06.2017		
	Other	Consolidation ³⁾	Total Other and Consolidation	Other	Consolidation ³⁾	Total Other and Consolidation
Net interest income	-89	24	-65	-61	33	-28
Net commission income	-15	-	-15	-14	-3	-17
Result from hedging	-	-2	-2	-	-9	-9
Result from financial instruments categorised as FVPL	7	-11	-4	14	12	26
Net income from financial investments including other income items ¹⁾	7	-	7	4	-3	1
Total income	-90	11	-79	-57	30	-27
Loan loss provisions incl. credit derivative under the second loss guarantee ²⁾	-	-81	-81	1	-	1
Administrative expenses	3	-1	2	8	1	9
Other operating income	4	3	7	13	-2	11
Expenses for bank levy and deposit guarantee fund	-5	-2	-7	-5	-2	-7
Net income before restructuring and privatisation	-88	-70	-158	-40	27	-13
Net income from restructuring and privatisation	-	-31	-31	-	-25	-25
Expenses for government guarantees	-	1	1	-	-	-
Net income before taxes	-88	-100	-188	-40	2	-38
Cost/income ratio (CIR)	-	-	-	-	-	-
Return on equity before tax	-	-	-	-	-	-
Average equity	286	-	286	294	-1	293

(€ bn)	30.06.2018			31.12.2017		
Segment assets	8.8	0.1	8.9	10.3	-	10.3

¹⁾ Including Net income from financial investments accounted for under the equity method, Result from the disposal of financial assets classified as AC, Result from the reclassification of financial assets previously categorised as AC and Result from the reclassification of financial assets formerly classified as FVOCI as a mandatory requirement. The figures for the previous year have been adjusted accordingly.

²⁾ Summary of Loan loss provisions and Hedging effect of credit derivative under the second loss guarantee.

³⁾ Consolidation includes, among other things, reconciliation effects resulting from differences in recognition between the internal management system and IFRS accounting.

Segment reporting is in accordance with the provisions of IFRS 8. The Group has five segments subject to a reporting requirement: four in the Core Bank, and the Non-Core Bank. The Core Bank segments result from the Bank's internal organisational structure which is based on product and customer groups and which corresponds to the delimitation for internal Group management purposes. The formation of the segments is intended to achieve the greatest possible homogeneity of customer groups with regard to a focused loan financing product range as well as other products and services.

HSH Nordbank's Core Bank consists of the segments Real Estate, Shipping, Corporate Clients and Treasury & Markets. The business activities of the Real Estate, Shipping and Corporate Clients customer departments focus on offering financing solutions in the lending business.

The Real Estate segment includes business with real estate clients, while the Shipping segment includes the business with shipping clients. In the Corporate Clients segment, the strategic focus is on the Energy & Infrastructure, Trade & Food, Healthcare, Industry & Services and Wealth Management business areas. In addition, the business unit offers the consultancy areas of structured financing, leveraged buy-out and mergers & acquisitions from a single source for all clients of the Bank.

The Treasury & Markets segment supports the customer departments in their business by providing a tailored range of capital market-oriented product solutions and within the framework of syndications. At the same time, support is provided to the savings banks and institutional clients in the areas of issuance and deposits. This segment is also responsible for the central management of the liquidity and market price risks relating to the Bank's position and the Bank's function as an issuer.

The Non-Core Bank comprises lending and capital market transactions that will not be continued in the Core Bank and will be transferred to the sphere of the buyers when the privatisation process is closed. The Non-Core Bank will then be dissolved. These are overall bank positions for which the Overall Management Board is responsible. The Special Credit Management business unit is responsible for loan restructuring and workout and, as a result, also for the active winding down of the portfolio of impaired loan commitments.

In preparation for the closing, a total of € 2.5 billion (thereof € 0.4 billion in NPE volume) of transactions not included in the portfolio transaction was transferred from the Non-Core Bank to the Core Bank in the first half of 2018. Most of these loans are healthy portfolios that were previously allocated to the non-strategic business and will remain within the Bank in the future. The prior-year figures were not adjusted, as the effects on the Core Bank segments are not material and the costs associated with adjusting the Non-Core Bank are disproportionately high.

The expenses for the bank levy and deposit guarantee fund are allocated to the segments based on the adjusted balance sheet volume.

Loan loss provisions are shown in the segments in which they originated. Since the introduction of IFRS 9 in 2018, the hedging effect of the second loss guarantee on the balance sheet has resulted in compensation effects relating to the items Result from financial instruments categorised as FVPL and Loan loss provisions, have virtually no effect on income overall and are presented under Consolidation. These delayed compensation effects are related to the privatisation process and result from the ongoing guarantee settlement/the guarantee settlement report dated 15 June 2018.

By way of derogation from this principle, the guarantee fees are allocated to the segments based on the regulatory equity capital requirements for the guaranteed portfolio.

The Other column shows the contributions made by segments not subject to a reporting requirement and the contributions made by other business activities. These include the administration and service divisions and the Transaction Banking product division, which offers tailor-made services in the fields of payment transactions, account management and foreign trade for the customer departments, insofar as these activities were not allocated to the segments subject to a reporting requirement as part of the business management of the Bank.

The Consolidation column contains effects from different accounting methods between the parameters reported internally and the presentation in the Group financial statements. The reconciliation effects included are shown separately in the table above pursuant to IFRS 8.28 and are explained in further detail below.

Net interest income for the purpose of internal reporting to management is calculated in accordance with the Fund Transfer Pricing (FTP). The planned investment and financing profit is distributed among the business segments on the basis of economic capital committed. The transformation contribution mainly includes the results from the liquidity management of the banking book and, as a result, the temporary effects resulting from the increase in liquidity during the privatisation phase, in particular. As of 2018, the transformation contribution is reported centrally under Other in line with the internal management and is no longer allocated to the segments. The figures for the previous year have been adjusted accordingly.

Reconciliation effects relating to Net interest income in the amount of € 24 million are due largely to valuation differences. These are largely the result of the use of internal transactions within the framework of internal interest rate and liquidity management/the consideration of imputed interest rate margins (fund transfer pricing, FTP) instead of gross interest in the lending business. Further reconciliation effects result, in particular, from the use of what are, in some cases, different calculation and amortisation methods within the context of internal reporting. In addition, in the internal management system, the measurement results of the hedging derivatives in hedge accounting are only recognised upon the disposal of AC or FVOCI positions, whereas under the IFRS hedge accounting regulations, the hedge adjustments are continuously amortised within Net interest income.

The reconciliation effects of the Result from financial instruments categorised as FVPL (€ -11 million) include, in addition to the subsequent compensation effects described above, the differences in the presentation of capital market transactions between the internal management system and IFRS accounting, including different posting methods for foreign currency transactions. Earnings contributions made by individual subsidiaries in the scope of consolidation are not taken into account in the internal management. Further differences result from the hedging of certain financial instruments that are included in the portfolio fair value hedge in full in the internal recognition of the interest rate hedge transaction, whereas under the IFRS, they are not, or are only partly, included in the portfolio fair value hedge.

In addition, Net income from restructuring and privatisation is also shown in full under Consolidation as an item for reconciliation with the internally managed values.

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

Geographical data and information on income from external clients for each product and each service is not collected for management reporting purposes as this data is not relevant for management purposes and involves disproportionately high costs, meaning that it does not have to be published in accordance with IFRS 8.32 and 8.33.

The cost/income ratio (CIR) and return on equity (RoE) are not shown in the segment report for the Non-Core Bank segment. In the case of the Non-Core Bank, the segment involves business areas which are not strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

The allocation key for the allocation of the average reported equity capital to the segments is the regulatory capital commitment due to its management relevance.

The CIR is calculated as the ratio of Administrative expenses to Total income plus Other operating income. Return on equity is the ratio of net income before taxes to average equity capital.

Information on the companies consolidated under the equity method which are shown under Net income from financial investments including other income items in the segment report can be found in Note 11.

NOTES ON FINANCIAL INSTRUMENTS

41. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS

(€ m)	AC assets	Mandatory FVOCI	Designated FVPL	FVPL Trading	FVPL Other	AC liabilities	Without IFRS 9 category	Total
30.06.2018								
Assets								
Cash reserve	2,698	-	-	-	-	-	-	2,698
Loans and advances to banks	3,215	196	-	-	-	-	-	3,411
Loans and advances to customers	30,807	2,105	123	-	2,139	-	-	35,174
Receivables under finance leases	-	-	-	-	-	-	73	73
Credit derivative under the second loss guarantee	-	-	-	969	-	-	-	969
Positive fair value of hedging derivatives	-	-	-	-	-	-	338	338
Value adjustments from the portfolio fair value hedge	-	-	-	-	-	-	235	235
Trading assets	-	-	-	3,910	-	-	-	3,910
Financial investments	96	11,595	164	-	698	-	-	12,553
Non-current assets held for sale and disposal groups	-	-	-	-	10	-	-	10
Other assets	45	-	-	-	15	-	-	60
Total assets	36,861	13,896	287	4,879	2,862	-	646	59,431
Liabilities								
Liabilities to banks	-	-	125	-	-	7,214	-	7,339
Liabilities to customers	-	-	769	-	-	32,406	-	33,175
Securitised liabilities	-	-	1,422	-	-	9,564	-	10,986
Negative fair value of hedging derivatives	-	-	-	-	-	-	559	559
Value adjustments from the portfolio fair value hedge	-	-	-	-	-	-	489	489
Trading liabilities	-	-	-	3,132	-	-	-	3,132
Liabilities relating to disposal groups	-	-	-	-	-	1	-	1
Other liabilities	-	-	-	-	-	594	-	594
Subordinated capital	-	-	-	-	-	2,291	-	2,291
Total liabilities	-	-	2,316	3,132	-	52,070	1,048	58,566

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS

(€ m)	LaR	AfS	DFV	HfT	LIA	Without IAS 39 category	Total
31.12.2017							
Assets							
Cash reserve	6,519	106	-	-	-	-	6,625
Loans and advances to banks	3,759	79	-	-	-	-	3,838
Loans and advances to customers	37,798	45	1,255	-	-	-	39,098
Receivables under finance leases	-	-	-	-	-	76	76
Credit derivative under the second loss guarantee	-	-	-	1,014	-	-	1,014
Positive fair value of hedging derivatives	-	-	-	-	-	264	264
Value adjustments from the portfolio fair value hedge	-	-	-	-	-	255	255
Trading assets	-	-	-	3,641	-	-	3,641
Financial investments	560	12,475	612	-	-	-	13,647
Non-current assets held for sale and disposal groups	26	-	-	-	-	-	26
Other assets	35	-	-	-	-	-	35
Total assets	48,697	12,705	1,867	4,655	-	595	68,519
Liabilities							
Liabilities to banks	-	-	118	-	8,153	-	8,271
Liabilities to customers	-	-	819	-	35,386	-	36,205
Securitised liabilities	-	-	1,627	-	10,817	-	12,444
Negative fair value of hedging derivatives	-	-	-	-	-	163	163
Value adjustments from the portfolio fair value hedge	-	-	-	-	-	553	553
Trading liabilities	-	-	-	3,875	-	-	3,875
Liabilities relating to disposal groups	-	-	-	-	2	-	2
Other liabilities	-	-	-	-	638	-	638
Subordinated capital	-	-	-	-	2,252	-	2,252
Total liabilities	-	-	2,564	3,875	57,248	716	64,403

42. INFORMATION ON THE DEVELOPMENT OF LOAN LOSS PROVISIONS AND THE CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

DEVELOPMENT IN GROSS CARRYING AMOUNTS FOR LOANS AND ADVANCES TO BANKS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2018	3,761	5	-	-	3,766
thereof AC	3,556	5	-	-	3,561
thereof FVOCI	205	-	-	-	205
Increases and other changes in fair value	2,848	12	-	-	2,860
thereof AC	2,849	12	-	-	2,861
thereof FVOCI	-1	-	-	-	-1
Disposals and repayments	3,199	17	-	-	3,216
thereof AC	3,191	17	-	-	3,208
thereof FVOCI	8	-	-	-	8
Foreign currency changes	-	-	-	-	-
thereof AC	1	-	-	-	1
thereof FVOCI	-1	-	-	-	-1
FV changes incl. expected losses	1	-	-	-	1
thereof FVOCI	1	-	-	-	1
Carrying amounts as at 30 June 2018	3,411	-	-	-	3,411
thereof AC	3,215	-	-	-	3,215
thereof FVOCI	196	-	-	-	196

DEVELOPMENT IN LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Loan loss provisions on 1 January 2018	1	-	-	-	1
thereof AC	1	-	-	-	1
Loan loss provisions on 30 June 2018	1	-	-	-	1
thereof AC	1	-	-	-	1

DEVELOPMENT IN GROSS CARRYING AMOUNTS FOR LOANS AND ADVANCES TO CUSTOMERS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 01 January 2018	28,441	2,743	1,700	-	32,884
thereof AC	26,095	2,724	1,700	-	30,519
thereof FVOCI	2,270	19	-	-	2,289
thereof Receivables under finance lease transactions	76	-	-	-	76
Reclassifications to LECL level 2	-221	314	-93	-	-
thereof AC	-221	314	-93	-	-
Reclassifications to LECL level 3	-26	-147	173	-	-
thereof AC	-26	-147	173	-	-
Reclassifications to 12-month ECL	406	-98	-308	-	-
thereof AC	406	-98	-308	-	-
Increases and other changes in fair value	3,565	148	93	-	3,806
thereof AC	3,577	148	93	-	3,818
thereof FVOCI	-12	-	-	-	-12
New joiners	1,705	-	-	-	1,705
thereof AC	1,705	-	-	-	1,705
Impairment losses and utilisation of loan loss provisions	-	-	118	-	118
thereof AC	-	-	118	-	118
Disposals and repayments	4,648	497	271	-	5,416
thereof AC	4,526	487	271	-	5,284
thereof FVOCI	117	10	-	-	127
thereof Receivables under finance lease transactions	5	-	-	-	5
Foreign currency changes	119	30	21	-	170
thereof AC	116	30	21	-	167
thereof FVOCI	1	-	-	-	1
thereof Receivables under finance lease transactions	2	-	-	-	2
FV changes incl. expected losses	-47	1	-	-	-46
thereof FVOCI	-47	1	-	-	-46
Carrying amounts as at 30 June 2018	29,294	2,494	1,197	-	32,985
thereof AC	27,126	2,484	1,197	-	30,807
thereof FVOCI	2,095	10	-	-	2,105
thereof Receivables under finance lease transactions	73	-	-	-	73

DEVELOPMENT IN LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Loan loss provisions on 1 January 2018	61	216	700	-	977
thereof AC	61	216	700	-	977
Reclassifications to LECL level 2	-4	4	-	-	-
thereof AC	-4	4	-	-	-
Reclassifications to LECL level 3	-	-3	3	-	-
thereof AC	-	-3	3	-	-
Reclassifications to 12-month ECL	11	-11	-	-	-
thereof AC	11	-11	-	-	-
Reversals due to disposals	2	20	20	-	42
thereof AC	2	20	20	-	42
Changes in financial instruments compared to 1 January	5	-30	-17	-	-42
thereof AC	5	-30	-17	-	-42
Allocations due to new additions	6	-	-	-	6
thereof AC	6	-	-	-	6
Other reversals	35	104	106	-	245
thereof AC	35	104	106	-	245
Other additions	7	21	112	-	140
thereof AC	7	21	112	-	140
Utilisation	-	-	116	-	116
thereof AC	-	-	116	-	116
Exchange rate changes	1	1	6	-	8
thereof AC	1	1	6	-	8
Loan loss provisions on 30 June 2018	45	104	579	-	728
thereof AC	45	104	579	-	728

DEVELOPMENT IN GROSS CARRYING AMOUNTS FOR FINANCIAL INVESTMENTS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts as at 1 January 2018 (carryforward)	12,664	250	-	-	12,914
thereof AC	103	-	-	-	103
thereof FVOCI	12,561	250	-	-	12,811
Increases and other changes in fair value	169	-	-	-	169
thereof FVOCI	169	-	-	-	169
New business	274	3	-	-	277
thereof AC	-	3	-	-	3
thereof FVOCI	274	-	-	-	274
Disposals and repayments	1,497	149	-	-	1,646
thereof AC	10	-	-	-	10
thereof FVOCI	1,487	149	-	-	1,636
Foreign currency changes	-1	-	-	-	-1
thereof FVOCI	-1	-	-	-	-1
FV changes incl. expected losses	-24	6	-	-	-18
thereof FVOCI	-24	6	-	-	-18
Carrying amounts as at 30 June 2018	11,585	110	-	-	11,695
thereof AC	93	3	-	-	96
thereof FVOCI	11,492	107	-	-	11,599

DEVELOPMENT IN LOAN LOSS PROVISIONS FOR FINANCIAL INVESTMENTS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Loan loss provisions on 1 January 2018	-	7	-	-	7
thereof AC	-	-	-	-	-
thereof FVOCI	-	7	-	-	7
Other reversals	-	4	-	-	4
thereof AC	-	-	-	-	-
thereof FVOCI	-	4	-	-	4
Other additions	-	2	-	-	2
thereof AC	-	-	-	-	-
thereof FVOCI	-	2	-	-	2
Loan loss provisions on 30 June 2018	-	5	-	-	5
thereof AC	-	-	-	-	-
thereof FVOCI	-	5	-	-	5

DEVELOPMENT IN GROSS CARRYING AMOUNTS OF NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

(€ m)	30.06.2018				Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	Loans purchased or originated credit-impaired (POCI)	
Carrying amounts IFRS					
Loan loss provisions on 1 January 2018	2	-	-	-	2
thereof AC	2	-	-	-	2
Changes in the scope of consolidation	-2	-	-	-	-2
thereof AC	-2	-	-	-	-2
thereof FVOCI	-	-	-	-	-
of which leasing	-	-	-	-	-
Loan loss provisions on 30 June 2018	-	-	-	-	-
thereof AC	-	-	-	-	-
thereof FVOCI	-	-	-	-	-
of which leasing	-	-	-	-	-

CARRYING AMOUNTS OF OFF-BALANCE SHEET BUSINESS

(€ m)	30.06.2018			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	
Values as at 1 January 2018 (carryforward)	7,152	252	199	7,603
Reclassifications to LECL level 2	-9	11	-2	-
Reclassifications to 12-month ECL	21	-21	-	-
Increases and other changes in fair value	4,105	131	20	4,256
New joiners	1,329	-	-	1,329
Disposals and utilisations	2,729	94	88	2,911
Foreign currency changes	26	1	1	28
Carrying amount as at 30 June 2018	9,895	280	130	10,305

DEVELOPMENT IN LOAN LOSS PROVISIONS FOR OFF-BALANCE-SHEET BUSINESS

(€ m)	30.06.2018			Total
	Insignificant increase in the loan default risk (12-month ECL)	Significant increase in the loan default risk (LECL level 2)	Credit-impaired (LECL level 3)	
Loan loss provisions on 1 January 2018	8	2	46	56
Reversals due to disposals	1	–	3	4
Changes in financial instruments compared to 1 January	–1	–	–3	–4
Allocations due to new additions	5	0	0	5
Other reversals	3	1	13	17
Other additions	–	2	4	6
Exchange rate changes	1	–	–	1
Loan loss provisions on 30 June 2018	10	3	34	47

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

I. Determining fair value

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

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

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

1. Valuation techniques and models

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

The fair value is determined based on an income approach using an appropriate model (e.g. option price model, discounted cash flow method, collateralised debt obligation model (Gauss-Copula)), if the market approach using the mark-to-market or mark-to-matrix method is not possible or is not of sufficient quality. Where available, inputs observable in the market as well as quality assured market data from appropriate pricing agencies or also validated prices from market partners (arrangers) are also used as a primary source for model valuations. Fair values determined by means of model valuations, for which only observable inputs are used or which are only based to an insignificant extent on unobservable inputs, are assigned to level 2 of the fair value hi-

erarchy. Observable market data is usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices). If the fair values determined using valuation models are based to a significant extent on unobservable inputs, they are assigned to level 3 of the fair value hierarchy. Valuation models that are based on unobservable market data, and which therefore require assumptions concerning the relevant parameters, are often necessary for structured securities – or more generally for securities whose markets are illiquid and for complex OTC derivatives.

The fair value of receivables and liabilities measured at amortised cost is mainly determined by discounting the contractual future cash flows of the financial instruments. In the case of receivables with a default rating, the fair values are determined based on the still to be expected future cash flows.

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

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

2. Parameters used in valuation techniques and models

The following are the parameters used to determine the fair value for each class of financial assets and liabilities. We refer to the information set out in part IV of this Note regarding the quantitative disclosures on significant, unobservable parameters.

a. Trading assets/liabilities (FVPL Trading):

Securities in the trading portfolio are valued using quoted market prices and prices from the liquid OTC market to a large extent. If a current price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

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

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

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

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

b. Positive/negative fair value of hedging derivatives:

This class contains exclusively plain vanilla interest rate and cross-currency interest rate swaps which can be measured using recognised techniques and models.

c. Financial investments (FVPL Other, FVPL Designated, FVOCI Mandatory, AC assets):

HSH Nordbank's financial investments comprise mainly fixed income securities. For instruments not measured at amortised cost, the fair value is calculated primarily using liquid market prices (e.g. prices from the liquid OTC market). If a current

price from a liquid market is not available, interest-bearing securities are valued using mixed prices of pricing services or the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

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

d. Credit derivative under the second loss guarantee (FVPL Trading):

The fair value is calculated on the basis of the full utilisation of the guarantee expected in accordance with the settlement report and a correspondingly discounted cash flow, taking into account the expected settlement dates, as well as on the basis of the present value of the premium of 2.2% p.a. to be paid for the undrawn portion of the guarantee for the share of partial guarantee Two.

e. Assets/liabilities designated at fair value (FVPL Designated):

Assets designated at fair value carried under financial investments and loans and advances to customers primarily comprise promissory note loans and bonds. The pricing hierarchy mentioned above is used for these products.

Liabilities designated at fair value disclosed under Securitised liabilities, Liabilities to customers/Liabilities to banks include complex structured registered and bearer securities with embedded interest, currency and equity, as well as other risks, which are mainly directly hedged by corresponding derivatives (so-called back-to-back transactions). Where current market prices or OTC market prices are available for securitised liabilities on liquid markets, these are used. However, the vast majority of DFV liabilities is measured using valuation techniques and models. These make extensive use of complex techniques and models (such as option price models) which also use market parameters which are not directly observable.

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

f. Assets not measured at fair value on the balance sheet (AC assets)

Cash flows are discounted using the discounted cash flow method to determine the fair value of loans and advances to customers and loans and advances to banks. Sectoral-dependent market interest rate curves as well as rating- and ratio-dependent credit spreads are used as significant parameters in this regard.

Financial instruments in the AC assets category disclosed under financial investments are mainly interest-bearing securities. If a stock exchange price or a price from the liquid OTC market is not available, prices obtained from pricing services are used or the discounted cash flow method is applied, whereby rating- and sector-dependent interest rate curves derived from market data for interest-bearing securities are used as parameters for discounting the cash flows.

For current receivables (e.g. current accounts) the carrying amount is taken as the fair value. This also applies to most of the cash reserve, as this comprises credit balances at central banks.

g. Liabilities not measured at fair value on the balance sheet (AC liabilities)

The majority of financial instruments disclosed under the Liabilities to banks, Liabilities to customers, Securitised liabilities, Other liabilities and Subordinated capital balance sheet line items is allocated to the AC liabilities category. These mainly comprise non-complex structured loan notes and bearer bonds as well as deposits. If a liquid stock exchange price or a price from the liquid OTC market is not available, mixed prices obtained from pricing services are used or the discounted cash flow method is applied, in order to determine the fair value. The spreads used for this are derived from the type of collateral and the ranking of the financial instrument in relation to other liabilities of the Bank. Any existing cancellation options are also taken into account.

For current liabilities (e.g. current accounts) the carrying amount is shown at fair value

3. Value adjustments

If the value of a financial instrument as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads or closing costs, liquidity, model risks, parameter uncertainties and credit and/or counterparty default risks, the Bank makes corresponding valuation adjustments, which a purchaser of similar positions would also take into

account. The methods applied for this draw to some extent on unobservable market parameters in the form of estimates.

Funding costs and benefits arise on the hedging of the risks relating to an uncollateralised OTC derivative with a collateralised OTC derivative. A funding valuation adjustment is determined as part of the method used to determine fair values for derivatives and is included in the fair value of the uncollateralised OTC derivative for funding costs/benefits arising on the provision or receipt of collateral due to the hedging asymmetry of the derivatives.

Hedge relationships (back-to-back transactions) and corresponding risk-compensating effects are taken into account when determining value adjustments to be made for model risks and uncertainties regarding parameters. The value adjustment for the credit risk is determined for OTC derivatives at the level of a group of financial instruments of a business partner (so-called portfolio-based valuation adjustment). This is permitted if the conditions stipulated in IFS 13.49 for a portfolio-based measurement are met.

The portfolio-based valuation adjustment for the credit risk is allocated to assets or liabilities in proportion to the fair value of the asset or liability respectively before the valuation adjustment is taken into account. Allocation only takes place to the assets or liabilities depending on whether there is an excess of assets or liabilities (so-called "relative fair value approach" – net approach).

4. Day One Profit and Loss

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

5. Measurement processes

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

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

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

The measurement procedures and models as well as the estimation technique used to determine the level –3 inputs and their parameterisation are periodically reviewed and, if applicable, developed further, recalibrated or replaced by new measurement procedures or models.

II. Fair values of financial instruments

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

FAIR VALUES OF FINANCIAL INSTRUMENTS

ASSETS

(€ m)	30.06.2018		
	Carrying amount	Fair value	Difference
AC assets			
Cash reserve	2,698	2,698	–
Loans and advances to banks	3,214	3,220	6
Loans and advances to customers	30,079	30,159	80
Financial investments	96	95	–1
Other assets	45	114	69
Mandatory FVOCI			
Loans and advances to banks	196	196	–
Loans and advances to customers	2,105	2,105	–
Financial investments ¹⁾	11,595	11,822	227
Designated FVPL			
Loans and advances to customers	123	123	–
Financial investments	164	164	–
FVPL Trading			
Trading assets	3,910	3,910	–
Credit derivative under the second loss guarantee	969	969	–
FVPL Other			
Loans and advances to customers	2,139	2,139	–
Financial investments	698	698	–
Other assets	15	15	–
Non-current assets held for sale and disposal groups	10	10	–
No IFRS 9 category			
Receivables under finance leases	73	73	–
Positive fair values of hedging derivatives	338	338	–
Value adjustments from the portfolio fair value hedge	235	235	–
Total assets	58,702	59,083	381

1) The difference between the carrying amount and fair value of FVOCI financial investments amounts to € 227 million. This amount is offset by the separately reported reconciling item from the portfolio fair value hedge in the amount of € 235 million, € 227 million of which is attributable to FVOCI financial investments. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

FAIR VALUES OF FINANCIAL INSTRUMENTS

ASSETS

(€ m)	31.12.2017		
	Carrying amount	Fair value	Difference
Held for Trading (HfT)			
Trading assets	3,641	3,641	–
Credit derivative under the second loss guaranteee	1,014	1,014	–
Designated at Fair Value (DFV)			
Loans and advances to customers	1,255	1,255	–
Financial investments	612	612	–
Available for Sale (AFS)			
Cash reserve	106	106	–
Loans and advances to banks	79	79	–
Loans and advances to customers	45	45	–
Financial investments ¹⁾	12,475	12,718	243
of which equity instruments measured at cost ²⁾	–	–	–
Non-current assets held for sale and disposal groups	–	–	–
Loans and Receivables (LaR)			
Cash reserve	6,519	6,519	–
Loans and advances to banks	3,758	3,764	6
Loans and advances to customers	33,305	33,519	214
Financial investments	560	640	80
Non-current assets held for sale and disposal groups	26	26	–
Other assets	35	35	–
No IAS 39 category			
Positive fair values of hedging derivatives	264	264	–
Receivables under finance leases	76	76	–
Value adjustments from the portfolio fair value hedge	255	–	–255
Total assets	64,025	64,313	288

¹⁾ The difference between the carrying amount and fair value of financial investments classified as AFS amounts to € 243 million. This amount is offset by the separately reported reconciling item from the portfolio fair value hedge in the amount of € 255 million, € 243 million of which is attributable to AFS financial investments. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed in the Value adjustments from the portfolio fair value hedge item, of which € 227 million is accounted for by financial investments classified as FVOCI as a mandatory requirement (31 December 2017: € 243 million) and € 8 million

(31 December 2017: € 12 million) by loans and advances to banks and customers classified as AC HTC.

FAIR VALUES OF FINANCIAL INSTRUMENTS

LIABILITIES

(€ m)	30.06.2018		
	Carrying amount	Fair value	Difference
AC liabilities			
Liabilities to banks	7,214	7,118	-96
Liabilities to customers	32,406	33,209	803
Securitised liabilities	9,564	9,450	-114
Other liabilities	594	594	-
Subordinated capital	2,291	2,185	-106
Liabilities relating to disposal groups	1	1	-
Designated FVPL			
Liabilities to banks	125	125	-
Liabilities to customers	769	769	-
Securitised liabilities	1,422	1,422	-
FVPL Trading			
Trading liabilities	3,132	3,132	-
No IFRS 9 category			
Negative fair values of hedging derivatives	559	559	-
Value adjustments from the portfolio fair value hedge	489	-	-489
Total liabilities	58,566	58,564	-2

FAIR VALUES OF FINANCIAL INSTRUMENTS

LIABILITIES

(€ m)	31.12.2017		
	Carrying amount	Fair value	Difference
Held for Trading (HfT)			
Trading liabilities	3,875	3,875	-
Designated at Fair Value (DFV)			
Liabilities to banks	118	118	-
Liabilities to customers	819	819	-
Securitised liabilities	1,627	1,627	-
Other liabilities (LIA)			
Liabilities to banks	8,153	8,054	-99
Liabilities to customers	35,386	36,194	808
Securitised liabilities	10,817	10,786	-31
Liabilities relating to disposal groups	2	2	-
Other liabilities	638	638	-
Subordinated capital	2,252	2,203	-49
No IAS 39 category			
Negative fair values of hedging derivatives	163	163	-
Value adjustments from the portfolio fair value hedge	553	-	-553
Total liabilities	64,403	64,479	76

The carrying amounts of loans and advances to banks and loans and advances to customers classified as AC HTC are shown less the

reported loan loss provisions, since fair value also reflects possible impairments.

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

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

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			Total
	Level 1	Level 2	Level 3	
30.06.2018				
Balance sheet item/category/instrument type				
Loans and advances to banks				
thereof mandatory FVOCI	–	196	–	196
of which debt instruments	–	196	–	196
Loans and advances to customers				
thereof mandatory FVOCI	–	965	1,140	2,105
of which debt instruments	–	965	1,140	2,105
of which designated FVPL	–	59	64	123
of which debt instruments	–	59	64	123
of which FVPL Other	–	1,689	450	2,139
of which debt instruments	–	1,689	450	2,139
Credit derivative under the second loss guarantee	–	969	–	969
of which credit derivatives	–	969	–	969
Positive fair values of hedging derivatives	–	338	–	338
of which interest rate derivatives	–	338	–	338
Trading assets (FVPL Trading)	591	2,836	483	3,910
of which debt instruments	591	53	207	851
of which interest rate derivatives	–	2,396	53	2,449
of which cross-currency interest rate derivatives	–	149	–	149
of which currency derivatives	–	148	–	148
of which credit derivatives	–	14	–	14
of which other derivatives	–	13	–	13
of which structured derivatives	–	50	223	273
of which other trading portfolios	–	13	–	13
Financial investments				
of which mandatory FVOCI ¹⁾	10,037	1,558	–	11,595
of which debt instruments	10,037	1,558	–	11,595
of which designated FVPL	–	94	70	164
of which debt instruments	–	94	70	164
of which FVPL Other	11	219	468	698
of which debt instruments	–	111	416	527
of which contractually linked instruments	–	83	–	83
of which equity and near-equity instruments	11	25	52	88
Non-current assets held for sale and disposal groups				
of which FVPL Other	–	–	10	10
of which debt instruments	–	–	10	10
Other assets				
of which FVPL Other	–	15	–	15
of which debt instruments	–	15	–	15
Total	10,639	8,938	2,685	22,262

¹⁾ The difference between the total FVOCI financial investments in the hierarchy table and in the fair value disclosures in Section I is attributable to effects in the item Value adjustments from the portfolio fair value hedge in the amount of € 227 million. These effects are not disclosed in the hierarchy table.

HIERARCHY LEVELS, ASSETS

(€ m)	Assets recognised at fair value			
	Level 1	Level 2	Level 3	Total
31.12.2017				
Balance sheet item/category/instrument type				
Cash reserve				
Afs	–	106	–	106
of which debt instruments	–	106	–	106
Loans and advances to banks				
Afs	–	36	43	79
of which debt instruments	–	36	43	79
Loans and advances to customers				
Afs	–	–	45	45
of which debt instruments	–	–	45	45
DFV	–	54	1,201	1,255
of which debt instruments	–	54	1,201	1,255
Credit derivative under the second loss guarantee	–	–	1,014	1,014
of which credit derivatives	–	–	1,014	1,014
Positive fair values of hedging derivatives	–	264	–	264
of which interest rate derivatives	–	264	–	264
Trading assets (HFT)	81	3,212	348	3,641
of which debt instruments	81	120	7	208
of which interest rate derivatives	–	2,775	61	2,836
of which cross-currency interest rate derivatives	–	156	–	156
of which currency derivatives	–	71	1	72
of which credit derivatives	–	13	–	13
of which other derivatives	–	14	43	57
of which structured derivatives	–	51	236	287
of which other trading portfolios	–	12	–	12
Financial investments (excluding equity instruments measured at cost)				
Afs ¹⁾	11,322	1,068	85	12,475
of which debt instruments	11,307	1,067	–	12,374
of which equity and near-equity instruments	15	1	85	101
DFV	–	124	488	612
of which debt instruments	–	124	487	611
of which equity and near-equity instruments	–	–	1	1
Total	11,403	4,864	3,224	19,491

¹⁾ The difference between the total Afs financial investments in the asset hierarchy table and the fair value disclosures in Section II is attributable to effects in the item Value adjustments from the portfolio fair value hedge in the amount of € 243 million. These effects are not disclosed in the hierarchy table.

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
	Level 1	Level 2	Level 3	Total
30.06.2018				
Liabilities to banks				
Designated FVPL	–	16	109	125
of which debt instruments	–	16	109	125
Liabilities to customers				
Designated FVPL	–	292	477	769
of which debt instruments	–	292	477	769
Securitised liabilities				
Designated FVPL	98	922	402	1,422
of which debt instruments	98	922	402	1,422
Negative fair values of hedging derivatives	–	219	340	559
of which interest rate derivatives	–	219	340	559
Trading liabilities (FVPL Trading)	–	2,786	346	3,132
of which interest rate derivatives	–	2,331	149	2,480
of which cross-currency interest rate derivatives	–	244	–	244
of which currency derivatives	–	36	–	36
of which structured derivatives	–	175	197	372
Total	98	4,235	1,674	6,007

HIERARCHY LEVELS, LIABILITIES

(€ m)	Liabilities recognised at fair value			
	Level 1	Level 2	Level 3	Total
31.12.2017				
Liabilities to banks				
DFV	–	11	107	118
of which debt instruments	–	11	107	118
Liabilities to customers				
DFV	–	302	517	819
of which debt instruments	–	302	517	819
Securitised liabilities				
DFV	–	1,230	397	1,627
of which debt instruments	–	1,230	397	1,627
Negative fair values of hedging derivatives	–	163	–	163
of which interest rate derivatives	–	163	–	163
Trading assets (Hft)	–	3,134	741	3,875
of which interest rate derivatives	–	2,780	485	3,265
of which cross-currency interest rate derivatives	–	110	–	110
of which currency derivatives	–	59	–	59
of which other derivatives	–	–	43	43
of which structured derivatives	–	185	213	398
Total	–	4,840	1,762	6,602

Of the financial instruments allocated to level 3, € 1,360 million of assets (31 December 2017: € 1,871 million) and € 1,009 million of liabilities (31 December 2017: € 1,384 million) are in economic hedging relationships (at micro level), so that existing uncertainties and

risk positions due to unobservable inputs offset each other at the level of hedging relationships (at micro level) involved.

In the period under review financial instruments measured at fair value were transferred from one hierarchy level to another.

These transfers are shown below together with the carrying amounts at the time of transfer for each class of financial instruments.

TRANSFER, ASSETS

(€ m) 30.06.2018	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to customers						
of which FVPL Other	-	-	41	-	-	-41
of which debt instruments	-	-	41	-	-	-41
Credit derivative under the second loss guarantee	-	-	1,014	-	-	-1,014
of which credit derivatives	-	-	1,014	-	-	-1,014
Trading assets (HfT)	-	-	4	-	-	-4
of which structured derivatives	-	-	4	-	-	-4
Financial investments						
thereof mandatory FVOCI	312	-669	669	-312	-	-
of which debt instruments	312	-669	669	-312	-	-
of which FVPL Other	-	-	23	-	-	-23
of which equity and near-equity instruments	-	-	23	-	-	-23
Total	312	-669	1,751	-312	-	-1,082

TRANSFER, ASSETS

(€ m) 31.12.2017	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Trading assets (HfT)	39	-27	27	-79	40	-
of which debt instruments	39	-27	27	-39	-	-
of which interest rate derivatives	-	-	-	-14	14	-
of which structured derivatives	-	-	-	-26	26	-
Financial investments (excl. equity instruments measured at cost)						
Afs	5,744	-4,218	4,218	-5,744	-	-
of which debt instruments	5,744	-4,218	4,218	-5,744	-	-
Total	5,783	-4,245	4,245	-5,823	40	-

There were no liability transfers in the reporting period.

TRANSFER, LIABILITIES

(€ m) 31.12.2017	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Liabilities to customers						
DFV	-	-	-	-6	6	-
of which debt instruments	-	-	-	-6	6	-
Trading assets (Hft)	-	-	-	-31	31	-
of which interest rate derivatives	-	-	-	-5	5	-
of which structured derivatives	-	-	-	-26	26	-
Total	-	-	-	-37	37	-

IFRS 13 and IDW RS HFA 47 specify the principles to be applied in determining the fair value. They also include the guidelines for assigning input factors to the fair value hierarchy levels. HSH Nordbank uses prices obtained from pricing services such as Bloomberg or Reuters to measure interest-bearing securities, for which the OTC market is the relevant market. Average prices determined on the basis of binding offers or transaction-based prices are level 2 input factors within the meaning of IFRS 13 and IDW RS HFA 47. Interest-bearing securities were accordingly transferred from level 1 to level 2 or vice versa in the reporting period – depending on the prices used for measurement. As part of the adjustment to the valuation model for the credit derivative under the second loss guarantee, there was a reclassification from level 3 to level 2.

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

Income relating to liability items is shown with a negative sign and expenses are shown without a sign in the reconciliations below.

The first-time application of IFRS 9 results in changes between the column value for 1 January 2018 in the above reconciliations in accordance with IFRS 9 and the column value for 31 December 2017 in the reconciliations in accordance with IAS 39 included in the previous financial statements. The changes are based on the new IFRS 9 classification and measurement provisions.

The following reconciliation has been prepared to show these changes. This reconciliation was made for each balance sheet item if the financial instruments contained therein were measured at fair value in accordance with either IAS 39 or IFRS 9 or both accounting standards, and were assigned to Level 3.

The IAS 39 carrying amounts as at 31 December 2017 are shown in the following reconciliations for each IAS 39 holding category and type of instrument in the column IAS 39 carrying amount (“from” line). In the Reclassification column, these IAS 39 carrying amounts are allocated to the IFRS 9 carrying amount categories (“to” line). The IFRS 9 carrying amounts as at 1 January 2018 are shown for each IFRS 9 measurement category and type of instrument in the column “IFRS 9 carrying amount” (also “to” line). The difference between the columns “Reclassifications” and “IFRS 9 carrying amount” column is displayed in the “Remeasurement/retained earnings” column and represents the measurement difference between IAS 39 and IFRS 9 that is recognised exclusively in retained earnings.

Some financial instruments that are not measured at fair value in accordance with IAS 39 but are assigned to Level 3 are measured at fair value for the first time in accordance with IFRS 9. The IAS 39 carrying amounts of these transactions are presented in net terms in the following reconciliations, i.e. the loan loss provisions associated with the transactions have already been offset against their amortised cost. This is designed to facilitate the appropriate presentation of the measurement difference between IAS 39 and IFRS 9, since the derecognised loan loss provision amount has already been taken into account implicitly as a component of the fair value measurement.

RECONCILIATION, ASSETS

(€ m)	Change in balance affecting income		
	1 January 2018	Realised net income (income statement)	Revaluation reserve
30.06.2018			
Balance sheet item/category/instrument type			
Loans and advances to banks			
of which FVPL Other	43	-	-
of which debt instruments	43	-	-
Loans and advances to customers			
thereof mandatory FVOCI	1,277	6	-43
of which debt instruments	1,277	6	-43
of which designated FVPL	65	-1	-
of which debt instruments	65	-1	-
of which FVPL Other	490	-9	-
of which debt instruments	490	-9	-
Credit derivative under the second loss guarantee	1,014	-	-
Trading assets (FVPL Trading)	348	-8	-
of which debt instruments	7	-3	-
of which interest rate derivatives	61	-8	-
of which currency derivatives	1	-	-
of which other derivatives	43	12	-
of which structured derivatives	236	-9	-
Financial investments			
of which designated FVPL	70	-	-
of which debt instruments	70	-	-
of which FVPL Other	520	-8	-
of which debt instruments	434	-4	-
of which equity and near-equity instruments	86	-4	-
Non-current assets held for sale and disposal groups			
of which FVPL Other	12	-	-
of which debt instruments	12	-	-
Total	3,839	-20	-43

	Quantitative change in balance				Transfers		Transfer/ reclassification/ reclassification	Exchange rate changes	30 June 2018	Net income from assets held as at 30 June 2018
	Long positions	Short positions	Issues	Settlements	From level 3	To level 3				
										-
	-	-	-43	-	-	-	-	-	-	-
	-	-	-43	-	-	-	-	-	-	-
	-	-	-100	-	-	-	-	-	1,140	8
	-	-	-100	-	-	-	-	-	1,140	8
	-	-	-	-	-	-	-	-	64	-
	-	-	-	-	-	-	-	-	64	-
	32	-21	-39	-	-41	-	27	11	450	-4
	32	-21	-39	-	-41	-	27	11	450	-4
	-	-	-	-	-1,014	-	-	-	-	-
-	219	-72	-	-	-4	-	-	-	483	-19
	219	-16	-	-	-	-	-	-	207	-3
	-	-	-	-	-	-	-	-	53	-9
	-	-1	-	-	-	-	-	-	-	-
	-	-55	-	-	-	-	-	-	-	-
	-	-	-	-	-4	-	-	-	223	-7
	-	-	-	-	-	-	-	-	70	-
	-	-	-	-	-	-	-	-	70	-
-	-	-18	-	-	-23	-	-	-3	468	-11
	-	-10	-	-	-	-	-	-4	416	-4
	-	-8	-	-	-23	-	-	1	52	-7
	-	-	-2	-	-	-	-	-	10	-
	-	-	-2	-	-	-	-	-	10	-
-	251	-111	-184	-	-1,082	-	27	8	2,685	-26

RECONCILIATION, ASSETS

(€ m)	Change in balance affecting income		
	1 January 2017	Realised net income (income statement)	Net income not recognised in profit or loss
31.12.2017			
Balance sheet item/category/instrument type			
Loans and advances to banks			
Afs	44	-2	1
of which debt instruments	44	-2	1
Loans and advances to customers			
Afs	61	-9	-
of which debt instruments	61	-9	-
DFV	1,273	-58	-
of which debt instruments	1,273	-58	-
Credit derivative second loss guarantee (Hft)	199	815	-
of which credit derivatives	199	815	-
Trading assets (Hft)	446	-126	-
of which debt instruments	9	-	-
of which interest rate derivatives	96	-49	-
of which currency derivatives	29	-19	-
of which other derivatives	51	-8	-
of which structured derivatives	261	-50	-
Financial investments (excluding equity instruments measured at cost)			
Afs	29	-54	8
of which equity and near-equity instruments	29	-54	8
DFV	545	-32	-
of which debt instruments	544	-32	-
of which equity and near-equity instruments	1	-	-
Total	2,597	534	9

	Quantitative change in balance			Transfers		Reclassi- fication	Exchange rate changes	31 December 2017	Net income from assets held as at 31 December 2017
	Long positions	Short positions	Settlements	From level 3	To level 3				
	-	-	-	-	-	-	-	43	-2
	-	-	-	-	-	-	-	43	-2
	-	-	-	-	-	-	-7	45	-9
	-	-	-	-	-	-	-7	45	-9
	-	-11	-	-	-	-	-3	1,201	-58
	-	-11	-	-	-	-	-3	1,201	-58
	-	-	-	-	-	-	-	1,014	815
	-	-	-	-	-	-	-	1,014	815
	8	-20	-	-	40	-	-	348	-16
	7	-9	-	-	-	-	-	7	-
	-	-	-	-	14	-	-	61	-14
	1	-10	-	-	-	-	-	1	-
	-	-	-	-	-	-	-	43	-8
	-	-1	-	-	26	-	-	236	6
	-	-26	-	-	-	132	-4	85	-54
	-	-26	-	-	-	132	-4	85	-54
	-	-	-23	-	-	-	-2	488	1
	-	-	-23	-	-	-	-2	487	1
	-	-	-	-	-	-	-	1	-
	8	-57	-23	-	40	132	-16	3,224	677

RECONCILIATION, LIABILITIES

(€ m)	Change in balance affecting income		
	1 January 2018	Realised net income (income statement)	Net income not recognised in profit or loss
30.06.2018			
Balance sheet item/category/instrument type			
Liabilities to banks			
Designated FVPL	107	3	-1
of which debt instruments	107	3	-1
Liabilities to customers			
Designated FVPL	517	-2	1
of which debt instruments	517	-2	1
Securitised liabilities			
Designated FVPL	397	2	1
of which debt instruments	397	2	1
Negative fair values of hedging derivatives	-	3	-
of which interest rate derivatives	-	3	-
Trading liabilities (FVPL Trading)	741	-2	-
of which interest rate derivatives	485	1	-
of which other derivatives	43	13	-
of which structured derivatives	213	-16	-
Total	1,762	4	1

Quantitative change in balance				Transfers		Transfer/ reclassification/ reclassification	Exchange rate changes	Changes in the scope of consolidation	30 June 2018	Net income from assets held as at 30 June 2018
Long positions	Short positions	New business	Settlements	From level 3	To level 3					
-	-	-	-	-	-	-	-	-	109	-2
-	-	-	-	-	-	-	-	-	109	-2
-	-9	-	-31	-	-	-	-	-	476	1
-	-9	-	-31	-	-	-	-	-	476	1
-15	7	-	-	-	-	-	10	-	402	-2
-15	7	-	-	-	-	-	10	-	402	-2
-	-	-	-	-	-	337	-	-	340	-3
-	-	-	-	-	-	337	-	-	340	-3
-	-56	-	-	-	-	-337	-	-	346	14
-	-	-	-	-	-	-337	-	-	149	-2
-	-56	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	197	16
-15	-58	-	-31	-	-	-	10	-	1,673	8

RECONCILIATION, LIABILITIES

(€ m)	Change in balance affecting income		
	1 January 2017	Realised net income (income statement)	Net income not recognised in profit or loss
31.12.2017			
Balance sheet item/category/instrument type			
Liabilities to banks			
DFV	109	-2	-
of which debt instruments	109	-2	-
Liabilities to customers			
DFV	1,018	-40	3
of which debt instruments	1,018	-40	3
Securitised liabilities			
DFV	494	-19	6
of which debt instruments	494	-19	6
Trading assets (HFT)			
of which interest rate derivatives	583	-98	-
of which currency derivatives	40	-29	-
of which other derivatives	51	-8	-
of which structured derivatives	325	-125	-
Total	2,620	-321	9

Quantitative change in balance				Transfers				Exchange rate changes	31 December 2017	Net income from assets held as at 31 December 2017
Long positions	Short positions	New business	Settlements	From level 3	To level 3	Reclassification				
-	-	-	-	-	-	-	-	107	2	
-	-	-	-	-	-	-	-	107	2	
18	-10	-	-476	-	6	-	-2	517	15	
18	-10	-	-476	-	6	-	-2	517	15	
-27	5	-	-40	-	-	-	-22	397	18	
-27	5	-	-40	-	-	-	-22	397	18	
-	-29	-	-	-	31	-	-	741	91	
-	-5	-	-	-	5	-	-	485	92	
-	-11	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	43	8	
-	-13	-	-	-	26	-	-	213	-9	
-9	-34	-	-516	-	37	-	-24	1,762	126	

The first-time application of IFRS 9 results in changes between the column value for 1 January 2018 in the above reconciliations in accordance with IFRS 9 and the column value for 31 December 2017 in the reconciliations in accordance with IAS 39 included in the previous financial statements. The changes are based on the new IFRS 9 classification and measurement provisions.

The following reconciliation has been prepared to show these changes. This reconciliation was made for each balance sheet item if the financial instruments contained therein were measured at fair value in accordance with either IAS 39 or IFRS 9 or both accounting standards, and were assigned to level 3.

The IAS 39 carrying amounts as at 31 December 2017 are shown in the following reconciliations for each IAS 39 holding category and type of instrument in the column IAS 39 carrying amount ("from" line). In the Reclassification column, these IAS 39 carrying amounts are allocated to the IFRS 9 carrying amount categories ("to" line). The IFRS 9 carrying amounts as at 1 January 2018 are shown for each

IFRS 9 measurement category and type of instrument in the column "IFRS 9 carrying amount" (also "to" line). The difference between the columns "Reclassifications" and "IFRS 9 carrying amount" column is displayed in the "Remeasurement/retained earnings" column and represents the measurement difference between IAS 39 and IFRS 9 that is recognised exclusively in retained earnings.

Some financial instruments that are not measured at fair value in accordance with IAS 39 but are assigned to level 3 are measured at fair value for the first time in accordance with IFRS 9. The IAS 39 carrying amounts of these transactions are presented in net terms in the following reconciliations, i.e. the loan loss provisions associated with the transactions have already been offset against their amortised cost. This is designed to facilitate the appropriate presentation of the measurement difference between IAS 39 and IFRS 9, since the de-recognised loan loss provision amount has already been taken into account implicitly as a component of the fair value measurement.

RECONCILIATION – FIRST-TIME APPLICATION, ASSETS

(m €)		31.12.2017		01.01.2018	
		IAS 39 carrying amount	Reclassification	Remeasurement/ retained earnings	IFRS 9 carrying amount
Loans and advances to banks					
From	AfS	–	–	–	–
	of which debt instruments	43	–	–	–
To	FVPL	–	–	–	–
	of which FVPL Other	–	–	–	–
	of which debt instruments	–	43	–	43
Loans and advances to customers					
From	AfS	–	–	–	–
	of which debt instruments	45	–	–	–
To	FVPL	–	–	–	–
	of which designated FVPL	–	–	–	–
	of which debt instruments	–	45	–	45
From	DFV	–	–	–	–
	of which debt instruments	1,201	–	–	–
To	FVPL	–	–	–	–
	of which designated FVPL	–	–	–	–
	of which debt instruments	–	65	–	65
	of which FVPL Other	–	–	–	–
	of which debt instruments	–	84	–	84
	FVOCI	–	–	–	–
	thereof mandatory FVOCI	–	–	–	–
	of which debt instruments	–	1,052	–	1,052
From	LaR	–	–	–	–
	of which debt instruments	535	–	–	–
To	FVPL	–	–	–	–
	of which FVPL Other	–	–	–	–
	of which debt instruments	–	357	4	361
	FVOCI	–	–	–	–
	thereof mandatory FVOCI	–	–	–	–
	of which debt instruments	–	178	47	225
Credit derivative second loss guarantee (HfT)					
From	HfT	–	–	–	–
	of which credit derivatives	1,014	–	–	–
To	FVPL	–	–	–	–
	of which FVPL Trading	–	1,014	–	1,014
Trading assets					
From	HfT	–	–	–	–
	of which debt instruments	7	–	–	–
	of which interest rate derivatives	61	–	–	–
	of which currency derivatives	1	–	–	–
	of which other derivatives	43	–	–	–
	of which structured derivatives	236	–	–	–
To	FVPL	–	–	–	–
	of which FVPL Trading	–	–	–	–
	of which debt instruments	–	7	–	7
	of which interest rate derivatives	–	61	–	61
	of which currency derivatives	–	1	–	1
	of which other derivatives	–	43	–	43
	of which structured derivatives	–	236	–	236

RECONCILIATION - FIRST-TIME APPLICATION, ASSETS

		31.12.2017	01.01.2018		
		IAS 39 carrying amount	Reclassification	Remeasurement/ retained earnings	IFRS 9 carrying amount
Financial investments					
From	AfS	-	-	-	-
	of which equity and near-equity instruments	85	-	-	-
To	FVPL	-	-	-	-
	of which FVPL Other	-	-	-	-
	of which equity and near-equity instruments	-	85	-	85
From	DFV	-	-	-	-
	of which debt instruments	487	-	-	-
	of which equity and near-equity instruments	1	-	-	-
To	FVPL	-	-	-	-
	of which designated FVPL	-	-	-	-
	of which debt instruments	-	70	-	70
	of which FVPL Other	-	-	-	-
	of which debt instruments	-	417	-	417
	of which equity and near-equity instruments	-	1	-	1
From	LaR	-	-	-	-
	of which debt instruments	13	-	-	-
To	FVPL	-	-	-	-
	of which FVPL Other	-	-	-	-
	of which debt instruments	-	13	4	17
Non-current assets held for sale and disposal groups					
From	LaR	-	-	-	-
	of which debt instruments	12	-	-	-
To	FVPL	-	-	-	-
	of which FVPL Other	-	-	-	-
	of which debt instruments	-	12	-	12
	Total	3,784	3,784	55	3,839

RECONCILIATION – FIRST-TIME APPLICATION, LIABILITIES

		31.12.2017	01.01.2018		
		IAS 39 carrying amount	Reclassification	Remeasurement/ retained earnings	IFRS 9 carrying amount
Liabilities to banks					
From	DFV				
	of which debt instruments	107			
To	FVPL				
	of which designated FVPL		-	-	-
	of which debt instruments		107	-	107
Liabilities to customers					
From	DFV				
	of which debt instruments	517			
To	FVPL				
	of which designated FVPL				
	of which debt instruments		517	-	517
Securitised liabilities					
From	DFV				
	of which debt instruments	397			
To	FVPL				
	of which designated FVPL				
	of which debt instruments		397	-	397
Trading liabilities					
From	HfT				
	of which interest rate derivatives	485			
	of which other derivatives	43			
	of which structured derivatives	213			
To	FVPL				
	of which FVPL Trading				
	of which interest rate derivatives		485	-	485
	of which other derivatives		43	-	43
	of which structured derivatives		213	-	213
	Total	1,762	1,762	-	1,762

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)

	Realised/unrealised net income (income statement)			Total
	Net interest income	Result from FVPL	Net income from financial investments	
30.06.2018				
Balance sheet item/category/instrument type				
Loans and advances to customers				
thereof mandatory FVOCI	6	-	-	6
of which debt instruments	6	-	-	6
of which designated FVPL	-	-1	-	-1
of which debt instruments	-	-1	-	-1
of which contractually linked instruments	-	-	-	-
of which FVPL Other	-10	1	-	-9
of which debt instruments	-10	1	-	-9
Trading assets (FVPL Trading)	5	-13	-	-8
of which debt instruments	-	-3	-	-3
of which interest rate derivatives	-2	-6	-	-9
of which other derivatives	-	12	-	12
of which structured derivatives	7	-16	-	-10
Financial investments				
of which designated FVPL	2	-2	-	-
of which debt instruments	2	-2	-	-
of which FVPL Other	6	-14	-	-8
of which debt instruments	6	-10	-	-4
of which equity and near-equity instruments	-	-4	-	-4
Total	9	-29	-	-20

	Other net income for the period	Net income from assets still held as at 30 June 2018				Total	Revaluation reserve
		Net interest income	Result from FVPL	Net income from financial investments			
	-43	8	-	-	8	-10	
	-43	8	-	-	8	-10	
	-	-	-	-	-	-	
	-	-	-	-	-	-	
	-	-	-	-	-	-	
	-	-23	19	-	-4	-	
	-	-23	19	-	-4	-	
	-	4	-23	-	-19	-	
	-	-	-3	-	-3	-	
	-	-3	-6	-	-9	-	
	-	-	-	-	-	-	
	-	7	-14	-	-7	-	
	-	2	-2	-	-	-	
	-	2	-2	-	-	-	
	-	6	-17	-	-11	-	
	-	6	-10	-	-4	-	
	-	-	-7	-	-7	-	
	-43	-3	-23	-	-26	-10	

NET INCOME ITEMS FROM RECONCILIATION, ASSETS

(€ m)

	Realised/unrealised net income (income statement)				Total
	Net interest income	Net trading income	Net income from financial investments	Hedging effect of credit derivative second loss guarantee	
30.06. 2017					
Balance sheet item/category/instrument type					
Loans and advances to banks					
Afs	-3	-	-	-	-3
of which debt instruments	-3	-	-	-	-3
Loans and advances to customers					
Afs	-	-	-	-	-
of which debt instruments	-	-	-	-	-
DFV	6	-54	-	-	-48
of which debt instruments	6	-54	-	-	-48
Credit derivative second loss guarantee (Hft)	-	-86	-	-	-86
of which credit derivatives	-	-86	-	-	-86
Trading assets (Hft)	5	-68	-	-	-63
of which interest rate derivatives	-2	-23	-	-	-25
of which currency derivatives	-	-20	-	-	-20
of which other derivatives	-	-6	-	-	-6
of which structured derivatives	7	-19	-	-	-12
Financial investments (excluding equity instruments measured at cost)					
DFV	7	-28	-	-	-21
of which debt instruments	7	-28	-	-	-21
Total	15	-236	-	-	-221

	Net income from assets still held as at 30 June 2017							
	Other net income for the period	Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	Hedging effect of credit derivative second loss guarantee	Total	Other net income for the period
		1	-3	-	-	-	-3	1
		1	-3	-	-	-	-3	1
		-4	-	-	-	-	-	-4
		-4	-	-	-	-	-	-4
		-	6	-54	-	-	-48	-
		-	6	-54	-	-	-48	-
		-	-	-86	-	-	-86	-
		-	-	-86	-	-	-86	-
		-	14	10	-	-	24	-
		-	6	-17	-	-	-11	-
		-	-	-	-	-	-	-
		-	-	-6	-	-	-6	-
		-	8	33	-	-	41	-
		-	8	-28	-	-	-20	-
		-	8	-28	-	-	-20	-
		-3	25	-158	-	-	-133	-3

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)				Total	Other net
	Net interest income	Hedge result	Result from FVPL	Net income from financial investments		income for the period
						Revaluation reserve
30.06.2018						
Balance sheet item/category/ instrument type						
Liabilities to banks						
Designated FVPL	-	-	-3	-	-3	1
of which debt instruments	-	-	-3	-	-3	1
Liabilities to customers						
Designated FVPL	4	-	-2	-	2	-1
of which debt instruments	4	-	-2	-	2	-1
Securitised liabilities						
Designated FVPL	-7	-	5	-	-2	-1
of which debt instruments	-7	-	5	-	-2	-1
Negative fair values of hedging derivatives	8	-4	-7	-	-3	-
of which interest rate derivatives	8	-4	-7	-	-3	-
Trading liabilities (FVPL Trading)	-7	-	9	-	2	-
of which interest rate derivatives	-8	-	7	-	-1	-
of which other derivatives	-	-	-13	-	-13	-
of which structured derivatives	1	-	15	-	16	-
Total	-2	-4	2	-	-4	-1

Net income from liabilities still held as at 30 June 2018

	Net interest income	Hedge result	Result from FVPL	Net income from financial investments	Total	Revaluation reserve
	-	-	-2	-	-2	1
	-	-	-2	-	-2	1
	3	-	-2	-	1	-1
	3	-	-2	-	1	-1
	-7	-	5	-	-2	-1
	-7	-	5	-	-2	-1
	8	-4	-7	-	-3	-
	8	-4	-7	-	-3	-
	-7	-	21	-	14	-
	-8	-	6	-	-2	-
	-	-	-	-	-	-
	1	-	15	-	16	-
	-3	-4	15	-	8	-1

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES

(€ m)	Realised/unrealised net income (income statement)				Other net income for the period	Net income from liabilities still held as at 30 June 2017				
	Net interest income	Net trading income	Net income from financial investments	Total		Revaluation reserve	Net interest income	Net trading income	Net income from financial investments	Total
30.06.2017										
Balance sheet item/ category/ instrument type										
Liabilities to banks										
DFV	-	1	-	1	-	-	-	-	-	-
of which debt instruments	-	1	-	1	-	-	-	-	-	-
Liabilities to customers										
DFV	-1	18	-	17	-1	-3	15	-	12	-1
of which debt instruments	-1	18	-	17	-1	-3	15	-	12	-1
Securitised liabilities										
DFV	-7	20	-	13	-7	-7	19	-	12	-7
of which debt instruments	-7	20	-	13	-7	-7	19	-	12	-7
Trading assets (HfT)	-10	192	-	182	-	-14	73	-	59	-
of which interest rate derivatives	-14	85	-	71	-	-14	85	-	71	-
of which currency derivatives	-	22	-	22	-	-	1	-	1	-
of which other derivatives	-	5	-	5	-	-	6	-	6	-
of which structured derivatives	4	80	-	84	-	-	-19	-	-19	-
Total	-18	231	-	213	-8	-24	107	-	83	-8

IV. Information on significant unobservable inputs

Quantitative information on significant unobservable inputs

The following overview contains quantitative information on significant unobservable inputs.

FAIR VALUE

(€ m)

			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin			
30.06.2018											
Loans and advances to customers	Mandatory FVOCI	Debt instruments	1,140		Option pricing model	Mean reversion	0% – 10%	2%			
						Interest rate volatility	6% – 19%	12%			
	Designated FVPL	Debt instruments	64		Option pricing model	Mean reversion	0% – 10%	2%			
						FVPL Other	Debt instruments	450		DCF method	Spread (bps)
					Option pricing model	Interest rate FX correlation	– 35% – 26%	– 9%			
				Price	Price	32 – 132	104				
Trading assets/trading liabilities	FVPL Trading	Debt instruments	207	–	DCF method	Spread	148 – 474	208			
						Interest rate derivatives	53	149	Option pricing model	Mean reversion	0% – 10%
										Interest rate volatility	6% – 19%
									Interest rate FX correlation	– 35% – 26%	– 9%
		Structured derivatives	223	197	Option pricing model	Mean reversion	0% – 10%	2%			
										Interest rate volatility	6% – 19%
									Interest rate correlation	– 77% – 99%	21%
									Interest rate FX correlation	– 35% – 26%	– 9%
									FX correlation	39% – 62%	53%
	Positive/negative fair values of hedging derivatives		Interest rate derivatives	–	340	Option pricing model	Mean reversion	0% – 10%	0.02		

FAIR VALUE

					Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
			Assets	Liabilities				
30.06.2018								
Financial investments	Designated FVPL	Debt instruments	70		Option pricing model	Mean reversion	0% – 10%	2%
	FVPL Other	Debt instruments	416		Option pricing model	Mean reversion	0% – 10%	2%
						Interest rate volatility	6% – 19%	12%
		Equity and near-equity instruments	52		Price DCF method	Price Capital costs	1 – 12,000 6% – 9%	1,000 8%
Non-current assets held for sale and disposal groups	FVPL Other	Debt instruments	10		DCF method	Spread	115 – 287	235
Liabilities to banks	Designated FVPL	Debt instruments		109	Option pricing model	Interest rate volatility	6% – 19%	12%
						Interest rate FX correlation	– 35% – 26%	– 9%
Liabilities to customers	Designated FVPL	Debt instruments		477	Option pricing model	Mean reversion	0% – 10%	2%
						Interest rate volatility	6% – 19%	12%
						Interest rate FX correlation	– 35% – 26%	– 9%
						Price	Price	34
Securitised liabilities	Designated FVPL	Debt instruments		402	Option pricing model	Mean reversion	0% – 10%	2%
						Interest rate volatility	6% – 19%	12%
						FX correlation	39% – 62%	53%
						Shares FX correlation	– 36% – 40%	7%
						Price	Price	32 – 132
Total			2,685	1,674				

FAIR VALUE

(€ m)			Assets	Liabilities	Measurement procedures	Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
31.12.2017								
Loans and advances to banks	AfS	Debt instruments	43	–	DCF method	Spread (bps)	54	54
Loans and advances to customers	AfS	Debt instruments	45	–	DCF method	Spread (bps)Price	700	700
	DFV	Debt instruments	1,201	–	Option pricing model	Mean reversion	0% – 10%	2%
						Interest rate FX correlation	–29% – 33%	–10%
					Price	Price	25 – 83	68
Credit derivative under the second loss guarantee	HfT	Credit derivatives	1,014	–	DCF method	Expected cash flow	–	–
Trading assets/trading liabilities	HfT	Debt instruments	7	–	DCF method	Spread (bps)	175 – 200	199
		Interest rate derivatives	61	485	Option pricing model	Mean reversion	0% – 10%	2%
						Interest rate volatility	5% – 23%	12%
						Interest rate FX correlation	–29% – 33%	–10%
		Currency derivatives	1	–	Option pricing model	FX correlation	44% – 64%	54%
		Other derivatives	43	43	Option pricing model	Shares FX correlation	–45% – 25%	–5%
		Structured derivatives	236	213	Option pricing model	Mean reversion	0% – 10%	2%
						Interest rate volatility	5% – 23%	12%
						Interest rate correlation	–73% – 21%	21%
						Interest rate FX correlation	–29% – 33%	–10%
						FX correlation	44% – 64%	54%

FAIR VALUE

(€ m)							Significant unobservable inputs (level 3)	Margin	(Weighted) average margin
31.12.2017			Assets	Liabilities	Measurement procedures				
Financial investments	AFS	Equity and near-equity instruments	85	–	Price	Price	1 – 12,000	1,600	
					DCF method	Spread (bps)	20	20	
						Capital costs	6% – 10%	8%	
	DFV	Debt instruments	487	–	Option pricing model	Mean reversion	0% – 10%	2%	
						Interest rate volatility	5% – 23%	12%	
Liabilities to banks	DFV	Equity and near-equity instruments	1	–	Price	Price	5	5	
		Debt instruments	–	107	Option pricing model	Interest rate volatility	5% – 23%	12%	
						Interest rate FX correlation	–29% – 33%	–10%	
Liabilities to customers	DFV	Debt instruments	–	517	Option pricing model	Mean reversion	0% – 10%	2%	
						Interest rate volatility	5% – 23%	12%	
						Interest rate correlation	–73% – 21%	21%	
						Interest rate FX correlation	–29% – 33%	–10%	
Securitised liabilities	DFV	Debt instruments	–	397	Option pricing model	Mean reversion	0% – 10%	2%	
						Interest rate volatility	5% – 23%	12%	
						FX correlation	44% – 64%	54%	
						Shares FX correlation	–45% – 25%	–5%	
Total			3,224	1,762	Price	Price	52 – 83	62	

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

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

Sensitivities of fair values in relation to unobservable inputs

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

Correlation

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

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

Volatility

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

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

Price

Prices can represent an important unobservable input for the measurement of financial instruments. These prices represent pricing information of third parties within the meaning of IFRS 13.93(d) sentence 4, whereby the Bank does not produce any quantitative, unobservable input factors for measuring the fair value of the respective financial instrument. More detailed quantitative information on these input factors is not required therefore. The fair value increases, if the price increases, and it falls, if the price declines.

Reciprocal effects between unobservable inputs

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

Effects of unobservable inputs

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

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

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

FAIR VALUE CHANGES LEVEL 3

(€ m)			30.06.2018	
			advantageous	Disadvantageous
Loans and advances to customers	FVPL Other	Debt instruments	7	7
Trading assets/trading liabilities	FVPL Trading	Interest rate derivatives	5	5
		Debt instruments	4	4
		Structured derivatives	5	5
Financial investments	Mandatory FVOCI	Equity and near-equity instruments	2	2
Securitised liabilities	Designated FVPL	Debt instruments	1	1
			24	24
thereof measured in profit or loss			24	24
thereof not measured in profit of loss			-	-

FAIR VALUE CHANGES LEVEL 3

(€ m)			31.12.2017	
			advantageous	disadvantageous
Loans and advances to customers	AfS	Debt instruments	1	1
Credit derivative under the second loss guarantee	HfT	Credit derivatives	3	3
Trading assets/trading liabilities	HfT	Interest rate derivatives	8	8
		Other derivatives	-	-
		Structured derivatives	4	4
Financial investments	AfS	Equity and near-equity instruments	4	4
			20	20
thereof measured in profit or loss			15	15
thereof not measured in profit of loss			5	5

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

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

FAIR VALUE CHANGES LEVEL 3

(€ m)			30.06.2018	
			advantageous	Disadvantageous
Trading assets/trading liabilities	FVPL Trading	Interest rate derivatives	1	1
		Structured derivatives	2	2
Liabilities to banks	Designated FVPL	Debt instruments	1	1
			4	4
thereof measured in profit or loss			4	4
thereof not measured in profit or loss			-	-

FAIR VALUE CHANGES LEVEL 3

(€ m)			31.12.2017	
			advantageous	disadvantageous
Loans and advances to customers	DFV	Debt instruments	1	1
Trading assets/trading liabilities	HfT	Interest rate derivatives	1	1
		Structured derivatives	2	2
Liabilities to banks	DFV	Debt instruments	1	1
Liabilities to customers	DFV	Debt instruments	-	-
Securitised liabilities	DFV	Debt instruments	1	1
			6	6
thereof measured in profit or loss			6	6
thereof not measured in profit or loss			-	-

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

V. Day One Profit and Loss

The day one profit and loss reserve developed as follows:

(€ m)	30.06.2018	31.12.2017
Holdings as at 1 January	2	13
Additions not recognised in profit or loss	-	1
Reversals recognised in profit or loss	-	12
Holdings as at 30 June	2	2

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

44. FINANCIAL TRANSACTIONS ENTERED INTO WITH SELECTED STATES

The following tables contain overviews of HSH Nordbank's exposure in selected countries where an increased economic risk is assumed. They present the risk directly attributable to the listed countries.

ASSETS CLASSIFIED AS AC HTC

(€ m)	Gross carrying amount	Loan loss provisions 12-mon.ECL, LECL Level 2, LECL Level 3, POCI	Fair value
	30.06.2018	30.06.2018	30.06.2018
Portugal	41	-	39
Corporates/Other	41	-	39
Italy	480	-244	240
Banks	3	-	3
Corporates/Other	477	-244	237
Greece	338	-6	338
Corporates/Other	338	-6	338
Russia	26	-	26
Corporates/Other	26	-	26
Spain	279	-12	273
Corporates/Other	279	-12	273
Cyprus	361	-1	366
Corporates/Other	361	-1	366
Croatia	90	-1	91
Banks	1	-	1
Corporates/Other	89	-1	90
Turkey	78	-2	74
Banks	59	-	57
Corporates/Other	19	-2	17
Total	1,693	-266	1,447

ASSETS CLASSIFIED AS LAR

(€ m)	Gross carrying amount	Specific loan loss provision	Fair value
	31.12.2017	31.12.2017	31.12.2017
Portugal	174	6	195
Public sector	127	–	155
Corporates/Other	47	6	40
Italy	569	289	288
Public sector	19	–	20
Banks	3	–	3
Corporates/Other	547	289	265
Greece	912	261	653
Corporates/Other	912	261	653
Russia	29	–	29
Corporates/Other	29	–	29
Spain	960	233	736
Public sector	79	–	90
Corporates/Other	881	233	646
Cyprus	418	40	381
Corporates/Other	418	40	381
Croatia	93	–	93
Corporates/Other	93	–	93
Turkey	232	80	152
Banks	59	–	58
Corporates/Other	173	80	94
Total	3,387	909	2,527

FINANCING TRANSACTIONS IN THE FAIR VALUE HOLDING CATEGORIES

(€ m)	FVPL Trading (FVPL HFT)	FVPL Other (FVPL HTC, FVPL HAS, FVPL RES)	Hedge (no category)	Designated FVPL (FVPL DFP)	Mandatory FVOCI (FVOCIR HAS)
	30.06.2018	30.06.2018	30.06.2018	30.06.2018	30.06.2018
Portugal	-	-	-	59	-
Public sector	-	-	-	59	-
Italy	4	-	-	-	20
Public sector	-	-	-	-	20
Corporates/Other	4	-	-	-	-
Greece	3	78	-	-	-
Corporates/Other	3	78	-	-	-
Russia	11	-	-	-	-
Corporates/Other	11	-	-	-	-
Spain	57	342	5	-	95
Public sector	-	-	-	-	95
Banks	26	-	5	-	-
Corporates/Other	31	342	-	-	-
Cyprus	-	56	-	-	-
Corporates/Other	-	56	-	-	-
Croatia	1	-	-	-	-
Corporates/Other	1	-	-	-	-
Turkey	-	42	-	-	-
Corporates/Other	-	42	-	-	-
Total	76	518	5	59	115

FINANCING TRANSACTIONS IN THE FAIR VALUE HOLDING CATEGORIES

(€ m)	HFT	Hedge	DFV	AFS
	31.12.2017	31.12.2017	31.12.2017	31.12.2017
Portugal	-	-	54	-
Public sector	-	-	54	-
Italy	9	-	-	-
Corporates/Other	9	-	-	-
Greece	4	-	-	-
Corporates/Other	4	-	-	-
Russia	18	-	-	-
Banks	1	-	-	-
Corporates/Other	17	-	-	-
Spain	64	5	-	-
Banks	32	5	-	-
Corporates/Other	32	-	-	-
Cyprus	1	-	-	-
Corporates/Other	1	-	-	-
Croatia	1	-	-	-
Corporates/Other	1	-	-	-
Total	97	5	54	-

The cumulative measurement result recognised directly in equity for financial instruments measured at FVOCI amounted to € 16 million for the selected countries. Furthermore, cumulative loan loss provisions in the amount of € 4 million arose.

In the previous year, there was no cumulative measurement result recognised directly in equity for the financial instruments in the AfS measurement category vis-à-vis selected countries.

45. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS

I. Credit quality

The following table contains information on the credit quality of all financial instruments held by the Bank. The following table shows the

credit risk exposures by classifying the gross carrying amounts of financial assets and the nominal amounts of off-balance sheet transactions by credit risk level and assigning them to rating categories.

CREDIT QUALITY

(€ m)

		1(AAA) to 1(AA+)	1(AA) to 1(A-)	2 to 5	6 to 9
30.06.2018					
Financial instruments without any significant deterioration in credit quality (12-month ECL)					
	Cash reserve				
	thereof AC assets	2,693	5	-	-
	Loans and advances to customers				
	thereof AC assets	1,924	5,037	11,036	8,167
	thereof mandatory FVOCI	1,988	107	-	-
	Loans and advances to banks				
	thereof AC assets	1,487	1,232	318	114
	thereof mandatory FVOCI	196	-	-	-
	Financial investments	-	-	-	-
	thereof AC assets	-	64	28	-
	thereof mandatory FVOCI	8,143	2,983	368	-
	Other assets				
	thereof AC assets	-	45	-	-
	No holding category	-	-	-	-
	Receivables under finance lease transactions	-	73	-	-
	Contingent liabilities	107	149	527	250
	Irrevocable loan commitments	1,222	610	4,035	2,894
Financial instruments with a significant deterioration in credit quality (LECL level 2)					
	Loans and advances to customers				
	thereof AC assets	2	-	400	702
	thereof mandatory FVOCI	-	-	10	-
	Financial investments				
	thereof AC assets	-	-	-	3
	thereof mandatory FVOCI	-	-	24	83
	Contingent liabilities	-	-	1	12
	Irrevocable loan commitments	-	-	47	125
Credit-impaired (LECL level 3)					
	Loans and advances to customers				
	thereof AC assets	-	-	-	2
Total		15,069	10,255	16,794	12,352

CREDIT QUALITY

(€ m)					
30.06.2018			10 to 12	13 to 15	16 to 18
Financial instruments without any significant deterioration in credit quality (12-month ECL)					
	Loans and advances to customers				
	thereof AC assets	601	361	–	
	Loans and advances to banks				
	thereof AC assets	64	–	–	
	No holding category				
	Receivables under finance lease transactions	–	–	–	
	Contingent liabilities	1	–	–	
	Irrevocable loan commitments	16	85	–	
Financial instruments with a significant deterioration in credit quality (LECL level 2)					
	Loans and advances to customers				
	thereof AC assets	559	821	–	
	Contingent liabilities	25	–	–	
	Irrevocable loan commitments	60	10	–	
Credit-impaired (LECL level 3)					
	Loans and advances to customers				
	thereof AC assets	–	79	1,116	
	Contingent liabilities	–	–	73	
	Irrevocable loan commitments	–	–	57	
Total			1,326	1,356	1,246

The Bank does not apply the simplified approach under IFRS 9.5.5.15, meaning that the disclosure under IFRS 7.35 M(b)(iii) is not relevant.

In the previous year, only those financial instruments that were neither impaired nor overdue were shown separately, broken down by category, in the table on credit quality. Impaired and overdue financial instruments are shown in separate tables, which are shown under II. and III. for the comparative period.

CREDIT QUALITY

(€ m)	1 (AAA) to 1 (AA+)	1 (AA) to 1 (A-)	2 to 5	6 to 9
31.12.2017				
Held for Trading (HFT)				
Trading assets	1,165	801	1,202	328
Credit derivative under the second loss guarantee	1,014	-	-	-
Designated at Fair Value (DFV)				
Loans and advances to customers	1,180	-	-	-
Financial investments	98	416	98	-
Available for Sale (AFS)				
Cash reserve	106	-	-	-
Loans and advances to banks	-	-	79	-
Loans and advances to customers	-	-	-	-
Financial investments	9,181	2,730	496	-
Non-current assets held for sale and disposal groups	-	-	-	-
Loans and Receivables (LaR)				
Cash reserve	6,519	-	-	-
Loans and advances to banks	1,242	1,127	1,315	-
Loans and advances to customers	2,778	4,614	10,648	9,301
Financial investments	106	129	56	269
Non-current assets held for sale and disposal groups	-	-	-	26
Other assets	-	-	-	-
No IAS 39 category				
Positive fair values of hedging derivatives	61	74	129	-
Receivables under finance lease transactions	7	12	27	24
Value adjustments from the portfolio fair value hedge	59	71	125	-
Total	23,516	9,974	14,175	9,948

CREDIT QUALITY

(€ m)			
31.12.2017	10 to 12	13 to 15	16 to 18
Held for Trading (HfT)			
Trading assets	-	109	36
Credit derivative under the second loss guarantee	-	-	-
Designated at Fair Value (DFV)			
Loans and advances to customers	-	75	-
Financial investments	-	-	-
Non-current assets held for sale and disposal groups	-	-	-
Available for Sale (AFS)			
Cash reserve	-	-	-
Loans and advances to banks	-	-	-
Loans and advances to customers	-	-	-
Financial investments	-	-	-
Non-current assets held for sale and disposal groups	-	-	-
Loans and Receivables (LaR)			
Cash reserve	-	-	-
Loans and advances to banks	75	-	-
Loans and advances to customers	1,450	1,236	148
Financial investments	-	-	-
Non-current assets held for sale and disposal groups	-	-	-
Other assets	35	-	-
No IAS 39 category			
Positive fair values of hedging derivatives	-	-	-
Receivables under finance lease transactions	4	2	-
Value adjustments from the portfolio fair value hedge	-	-	-
Total	1,564	1,422	184

II. Carrying amounts of overdue but unimpaired financial assets

The table below shows the financial assets which were overdue but unimpaired as at 31 December 2017. The assets are broken down by category. Categories not shown have no overdue assets.

CARRYING AMOUNTS OF OVERDUE BUT UNIMPAIRED FINANCIAL ASSETS AS AT 31 DECEMBER 2017

(€ m)	Overdue < 3 months	Overdue 3 to 6 months	Overdue 6 to 12 months	Overdue > 12 months
31.12.2017				
Loans and Receivables (LaR)				
Loans and advances to customers	231	51	214	314
of which hedged by the second loss guarantee	28	29	192	288
Total	231	51	214	314

Payments of € 6 million on transactions with a carrying amount volume of € 110 million were received up to ten days after the reporting date of 31 December 2017. Payments are regarded as being in arrears when they are one day overdue.

The overdue, unimpaired credit portfolio is secured with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The transfers by way of security mainly comprise physical assets.

These disclosures in accordance with IAS 39 are not required for financial statements after 31 December 2018, applying IFRS 9 for the comparative period.

III. Impaired financial assets

The table below shows all impaired financial assets as at 31 December 2017. The financial assets are broken down by category.

IMPAIRED FINANCIAL ASSETS AS AT 31 DECEMBER 2018

(€ m)	Gross carrying amount of impaired financial assets	Impairment	Carrying amount of financial assets after impairment
Loans and Receivables (LaR)			
Loans and advances to customers	6,813	4,354	2,459
Available for Sale (AFS)			
Loans and advances to customers	82	38	44
Financial investments ¹⁾	208	140	68
Total	7,103	4,532	2,571

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

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

Of the total gross carrying amount of impaired financial assets of € 7,071 million in the previous year, € 5,415 million was hedged by the second loss guarantee, which relates in full to loans and advances to customers.

Further details on the second loss guarantee can be found in Note 3.

These disclosures in accordance with IAS 39 are not required for financial statements after 31 December 2018, applying IFRS 9 for the comparative period.

IV. Credit risk exposure

With the exception of Loans and advances to banks and customers, the credit risk exposure as at the reporting date corresponds to the carrying amount of financial assets as presented in Note 41, as well as the nominal value of off-balance sheet liabilities as presented in Note 48.

In the case of Loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after loan loss provisions as presented in Note 22. The maximum default risk of the loans and advances recognised at fair value through profit or loss (FVPL) (in the previous year: designated at fair value (DFV)) is not reduced by associated credit derivatives.

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

V. Collateral received

A) Collateral values of financial assets that minimise the default risk and are not subject to the impairment procedure

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments that are not subject to the impairment procedure pursuant to IFRS 9. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

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

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

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
30.06.2018				
Designated FVPL				
Loans and advances to customers	123	–	–	–
Financial investments	164	–	–	–
FVPL Other				
Loans and advances to customers	2,139	1,290	6	81
Financial investments	698	–	–	–
Non-current assets held for sale and disposal groups	10	10	–	–
Other assets	15	–	–	–
FVPL Trading				
Trading assets	3,910	515	23	619
Credit derivative under the second loss guarantee	969	–	–	–
No holding category				
Positive fair values of hedging derivatives	338	–	–	–
Value adjustments from the portfolio fair value hedge	235	–	–	–
Total assets	8,601	1,815	29	700

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)	Carrying amount	Value of collateral received		
		Real estate and registered liens	Sureties and guarantees	Other collateral
31.12.2017				
HFT				
Trading assets	3,641	329	26	422
Credit derivative under the second loss guarantee	1,014	-	-	-
DFV				
Loans and advances to customers	1,255	-	-	-
Financial investments	612	-	-	-
AFS				
Cash reserve	106	-	-	-
Loans and advances to banks	79	-	-	-
Loans and advances to customers	45	-	-	-
Financial investments	12,475	-	-	-
LaR				
Cash reserve	6,519	-	-	-
Loans and advances to banks	3,759	9	22	68
Loans and advances to customers	37,798	13,778	584	1,428
Financial investments	560	-	-	-
Non-current assets held for sale and disposal groups	26	12	-	-
Other assets	35	-	-	-
No IAS 39 category				
Positive fair values of hedging derivatives	264	-	-	-
Value adjustments from the portfolio fair value hedge	255	-	-	-
Receivables under finance leases	76	-	-	-
Contingent liabilities	1,862	101	7	142
Irrevocable loan commitments	6,367	840	64	152
Total assets	76,748	15,069	703	2,212

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank (see Note 3). The same applies with regard to the protection provided by a synthetic securitisation transaction via the SPV "Horizon 2016 S.A." as part of a guarantee granted in 2016. Ultimately, reference is made to Note 3.II.

B) Impaired financial assets and associated collateral

The following overview shows the volume and concentration of collateral held by HSH Nordbank to reduce the default risk and other loan collateralisation for impaired financial assets.

(€ m)	Value of collateral received			
	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
30.06.2018				
AC assets				
Loans and advances to customers	1,197	513	26	6
No holding category				
Contingent liabilities	73	5	2	7
Irrevocable loan commitments	57	17	–	–
Total assets	1,327	535	28	13

For loans and advances to customers in the amount of € 336 million, no impairment losses were recognised despite default due to the collateral available.

Collateral is a key instrument for managing default risks. They are included in the main procedures for managing and monitoring default risks to reduce risk. The methods and processes for the valuation and management of collateral are set out in HSH Nordbank's Collateral Guideline.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of the collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio. Only collateral listed in the collateral catalogue is included as valuable collateral. Upon initial recognition, the value of movable property and real estate recognised as collateral is determined by an appraiser who is independent of the market. Depending on the type of collateral, the recoverability and realisation options are reviewed regularly at set intervals, and more frequently in the event of considerable market fluctuations.

Significant collateral values are provided by domestic collateral providers. The creditworthiness of the collateral providers is mainly in the 1(AAA) to 1(A–) rating categories.

Information on the risk concentrations for the collateral provided can be found in the Risk Report in the Default risk section.

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

HSH Nordbank has received collateral from counterparties with a total fair value of € 854 million (31 December 2017: € 405 million). The collateral received is split up as follows: € 254 million (31 December 2017: € 405 million) relates to OTC derivatives and structured transactions. The Group received collateral in the amount of € 600 million (31 December 2017: € 0 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 254 million (31 December 2017: € 405 million). Collateral received was not resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank is obliged to return all collateral resold or pledged to the guarantor without exception.

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

D) Other collateral received

As in the previous year, no assets from the realisation of collateral were capitalised in the reporting period.

For further information regarding the guarantees received (incl. the cash collateral received in connection with the synthetic securitisation transaction), reference is made to the comments in Note 3. II..

VI. Assets that have been written off and are still subject to an enforcement measure

In the current reporting period, financial assets that are still subject to an enforcement measure were written off in the amount outstanding under contract law of € 76 million.

46. RESTRUCTURED OR MODIFIED LOANS

The following table shows the gross carrying amounts of loans and loan commitments that have been restructured or whose contractual terms and conditions have been modified in order to place the debtor

in a position to continue to service or resume servicing its capital debt despite financial difficulties.

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Non-Core Bank		Total
	Rating class 1–15	Rating class 16–18	Rating class 1–15	Rating class 16–18	
30.06.2018					
AC HTC	1,655	1,085	–	–	2,740
Loans and advances to customers	1,652	1,085	–	–	2,737
Financial investments	3	–	–	–	3
FVPL Other	38	58	–	1,365	1,461
Loans and advances to customers	38	58	–	1,365	1,461
Irrevocable and revocable loan commitments	63	6	–	24	93
Total	1,756	1,149	–	1,389	4,294

FORBEARANCE EXPOSURE

(€ m)	Core Bank		Non-Core Bank		Total
	Rating class 1–15	Rating class 16–18	Rating class 1–15	Rating class 16–18	
31.12.2017					
Loans and Receivables (LaR)	1,180	894	521	5,434	8,029
Loans and advances to customers	1,180	894	521	5,434	8,029
Irrevocable and revocable loan commitments	76	48	13	32	169
Total	1,256	942	534	5,466	8,198

For the volume of receivables shown here, which is subject to forbearance measures, loan loss provisions of € 625 million have already been set up for the portfolios measured at amortised cost (previous year for all portfolios: € 3,934 million). The cover for the forbearance exposure by the Sunrise guarantee is around 69% (previous year: around 77%).

47. NON-SUBSTANTIALLY MODIFIED FINANCIAL INSTRUMENTS

As far as modifications are concerned, a distinction is made between substantial and non-substantial modifications. Substantial modifications change a financial instrument to such an extent that it is derecognised and the general accounting rules for derecognition apply.

There has been no material non-substantial modification of financial instruments in the current reporting period.

48. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

CONTINGENT LIABILITIES

(€ m)	30.06.2018	31.12.2017
Contingent liabilities	1,849	1,862
Irrevocable loan commitments	9,197	6,367
Total	11,046	8,229

The fair value of irrevocable loan commitments with a nominal volume of € 9,197 million (31 December 2017: € 6,367 million) comes to € -35 million as at the balance sheet date (31 December 2017: € 14 million).

The litigation risks included in the contingent liabilities have not changed significantly compared with the figures reported at the end of the year.

With regard to future premium expense for the synthetic securitisation transaction, we refer to our statements in Note 3.II.

OTHER DISCLOSURES

49. RELATED PARTIES

HSH Nordbank does business with related parties and companies.

These include HSH Beteiligungs Management GmbH, Hamburg; as the direct parent company and, at the same time, the top-level parent company of HSH Nordbank AG, which prepares Group financial statements, HSH Finanzfonds AöR as the top-level parent company of the Group, hsh portfoliomanagement AöR, as well as the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each hold a stake of 50% in the two aforementioned companies. Furthermore, business relations exist with subsidiaries which are controlled but not included in the Group financial statements for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and fixed-term deposits, derivatives and securities transactions.

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

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

The guarantee amount with regard to the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR is identified as a significant transaction within the meaning of IAS 24. Please refer to Note 3 for more details.

In addition, a loan portfolio was sold to the resolution institution (hsh portfoliomanagement AöR) formed by the federal states of Hamburg and Schleswig-Holstein as part of the implementation of the EU Commission's decision of 2 May 2016.

With effect from 30 June 2016, HSH Nordbank AG transferred a portfolio of non-performing shipping loans with a volume of € 5 billion (reporting date: 31 December 2015) to hsh portfoliomanagement AöR, which belongs to the federal states. Within this context,

the Bank received the market price set by the EU Commission of € 2.4 billion from hsh portfoliomanagement AöR. The losses of € 2.6 billion incurred were settled as part of the loss settlement under the guarantee. The transaction involved first of all transferring a portfolio of transactions from HSH Nordbank AG to hsh portfoliomanagement AöR by way of a cash sub-participation relating to the loans with a contractual trust agreement, including a cash flow pass through arrangement (known as a "synthetic transfer"). After the synthetic transfer, the in rem transfer was performed on 19 May 2017 by way of partial universal succession as part of a spin-off pursuant to Section 123 (3) of the German Transformation of Companies Act (UmwG). In addition, parts of the loan portfolio were transferred to hsh portfoliomanagement AöR by way of singular succession in the year under review.

In 2016, a "guarantee and standstill agreement" was concluded between HSH Nordbank AG and hsh portfoliomanagement AöR for certain current accounts and derivatives in connection with the abovementioned loan portfolio. The "guarantee and standstill agreement" gave hsh portfoliomanagement AöR the option of making a decision on the assumption of current accounts and derivatives in connection with the abovementioned loan portfolio at a later date (purchase option). In return, any increases in risk at HSH Nordbank AG in the meantime were to be largely assumed and secured by hsh portfoliomanagement AöR. hsh portfoliomanagement AöR made use of its right under the guarantee and standstill agreement with regard to the current accounts with effect from 31 December 2016 and declared that it would not be exercising its purchase option.

In the 2017 financial year, HSH Nordbank AG and hsh portfoliomanagement AöR started new sales negotiations regarding the transfer of part of the originally designated current accounts. These negotiations were concluded in March 2018 and the transfer took place in 2018 as a result.

There are also further service relationships set out in agreements between hsh portfoliomanagement AöR and HSH Nordbank AG, e.g. the servicing of the loans transferred and the provision of IT systems, for which standard market remuneration is paid.

II. Subsidiaries

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS

(€ m)	30.06.2018	31.12.2017
Loans and advances to customers	1	10
Total	1	10

SUBSIDIARIES – LIABILITIES

(€ m)	30.06.2018	31.12.2017
Other liabilities	2	1
Total	2	1

SUBSIDIARIES – INCOME STATEMENT

(€ m)	January – June 2018	January – June 2017
Result from financial instruments categorised as FVPL	- 1	-
Other operating income	1	2
Total	-	2

III. Associates

As in the same period of the previous year, there were no transactions with associates on the balance sheet date.

IV. Joint ventures

The following tables show the transactions with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	30.06.2018	31.12.2017
Loans and advances to customers	15	16
Total	15	16

JOINT VENTURES – LIABILITIES

(€ m)	30.06.2018	31.12.2017
Liabilities to customers	2	15
Total	2	15

JOINT VENTURES – INCOME STATEMENT

(€ m)	January – June 2018	January – June 2017
Net interest income	-	14
Loan loss provisions	-	- 133
Result from financial instruments categorised as FVPL	9	- 21
Total	9	- 140

V. Other related parties and companies

The following transactions had been entered into with individuals in key positions at HSH Nordbank AG and their close relatives or companies controlled by these individuals as at the balance sheet date:

OTHER RELATED PARTIES AND COMPANIES – LIABILITIES

(€ m)	30.06.2018	31.12.2017
Liabilities to customers	1	1
Total	1	1

50. MANAGEMENT BOARD MEMBERS

Stefan Ermisch

Born in 1966

Chair

Oliver Gatzke

Born in 1968

Chief Financial Officer

Ulrik Lackschewitz

Born in 1968

Chief Risk Officer

Torsten Temp

Born in 1960

Management Board member responsible for the Market divisions

Hamburg/Kiel, 17 August 2018

Stefan Ermisch

Oliver Gatzke

Ulrik Lackschewitz

Torsten Temp

REVIEW OPINION

To HSH Nordbank AG, Hamburg and Kiel

We have reviewed the condensed interim group financial statement – comprising the group statement of financial position, the group statement of income, the group statement of comprehensive income, the group statement of changes in equity, the group cash flow statement, as well as selected group explanatory notes – and the interim management report of HSH Nordbank AG, Hamburg and Kiel, for the period from 1 January to 30 June 2018 which are part of the half-year financial report pursuant to § (Article) 115 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed interim group financial statement in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed interim group financial statement and on the interim management report based on our review.

We conducted our review of the condensed interim group financial statement and the interim management report in accordance with German generally accepted standards for the review 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 review so that we can preclude through critical evaluation, with moderate assurance, that the condensed interim group financial statement has not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim group financial statement has not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

We draw attention to the disclosures in section "Going concern assumption" of the group explanatory notes as well as the disclosures in section "Expected business development of HSH Nordbank" of the interim group management report, where the executive directors indicate that the going concern assumption for accounting and

measurement purpose,s as well as the continued survival as a going concern of HSH Nordbank AG and major group companies is based, in particular, on the share purchase agreement concluded on 28 February 2018, in which HSH Beteiligungs Management GmbH sold 94.9% of the shares in HSH Nordbank AG to various funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, Golden Tree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG (hereinafter referred to as the "bidders") being closed and implemented. This is subject, in particular, to the prerequisites that

- the competent banking supervisory authority (European Central Bank (ECB)), German Federal Financial Supervisory Authority (BaFin) and Commission de Surveillance du Secteur Financier (CSSF Luxembourg) grants the necessary approvals,
- the European Commission approves the proposed new corporate structure after performing a viability review,
- the extension of HSH Nordbank AG's membership of the guarantee scheme of the German Savings Banks Finance Group (SFG) beyond the two years stipulated in the articles of association, namely for an additional third year following the closing of the share purchase agreement, is confirmed,
- the bidders pay the portion of the purchase price attributable to them on the closing date.

If any of the conditions set out above for the closing of the share purchase agreement are not met, and if no agreement can be reached between the parties involved in each case, in particular if the EU Commission reaches the conclusion, in the course of its viability review, that the planned new corporate structure will not lead to a business model that is profitable in the long term, then the Bank 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 that the Bank is wound down as a result of the above or for other reasons, or if its rating is downgraded or other adverse developments emerge, then this could trigger outflows of short-term funds and fundamentally restrict HSH Nordbank's funding options. In the case of major unexpected fund outflows, additional measures will need to be taken by the owners and/or third parties to strengthen the liquidity situation.

It is further required that the acceptance by market participants and other relevant stakeholders necessary for the successful implementation of HSH Nordbank AG's future business model is maintained or gained.

As stated in section "Going concern assumption" of the group explanatory notes as well as in section "Expected business development of HSH Nordbank" of the interim group management report, this indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and represents a risk that the Company's ability to continue as a going concern is threatened pursuant to § (Article) 322 Abs. (paragraph) 2

Satz (sentence) 3 HGB ("Handelsgesetzbuch": German Commercial Code). Our conclusions are not modified in respect of this matter.

Hamburg, 20 August 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Lothar Schreiber	ppa. Tim Brücken
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

RESPONSIBILITY STATEMENT BY THE MANAGEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim reporting, the interim Group financial statements give a true and fair view of the earnings, net assets and financial position of the Group. Furthermore, the interim management report of the Group provides a true and fair view of the business development and performance of the Group, including the business results and situation of the HSH Nordbank Group, together with a description of the principal opportunities and risks associated with the expected development of the HSH Nordbank Group for the rest of the financial year.

Hamburg/Kiel, 17 August 2018

Stefan Ermisch

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Ulrik Lackschewitz

Torsten Temp

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IMPRINT

PRODUCTION

Inhouse produced with FIRE.sys

PRINTED BY

HSH Facility Management GmbH,
Hamburg



FORWARD-LOOKING STATEMENTS

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

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

NOTE

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

This Interim Report was published on 31 August 2018 and is available at www.hsh-nordbank.com.

This is an English translation of the original German version of the Interim Report.



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