We are building our FUTURE.

HSH NORDBANK AG FINANCIAL REPORT 2012
STRONG FOR ENTREPRENEURS

HSH NORDBANK

CONTENTS

MANAGEMENT REPORT of HSH NORDBANK AG

UNDERLYING CONDITIONS AND BUSINESS OVERVIEW

GROUP STRUCTURE AND BUSINESS OPERATIONS

HSH Nordbank AG was created in June 2003 by the merger of Hamburgische Landesbank with Landesbank Schleswig-Holstein (LB Kiel). The headquarters of the Bank are located in Hamburg and Kiel.

We are firmly rooted in our core region of Northern Germany and as a “Bank for Entrepreneurs” are a leading partner for medium-sized businesses and savings banks. Outside of our core region we concentrate on markets in which we have extensive industry expertise and recognised specialist know-how.

Our strategic business areas are combined in the Core Bank. Until 31 December 2012 the Corporate and Private Clients segment bundled our business conducted with corporate clients, real estate clients, private clients, shipping clients and clients in the energy and infrastructure industry. The product and capital markets responsibility including our cooperation with savings banks were concentrated together with the positions of the overall Bank in the Products, Capital Markets and Corporate Center segment as at the 2012 year end.

Since December 2009 the internal Restructuring Unit has been managing the winding-down of non-strategic lending and capital markets transactions that were separated in organisational terms as part of the strategic realignment and are not continued in the Core Bank.

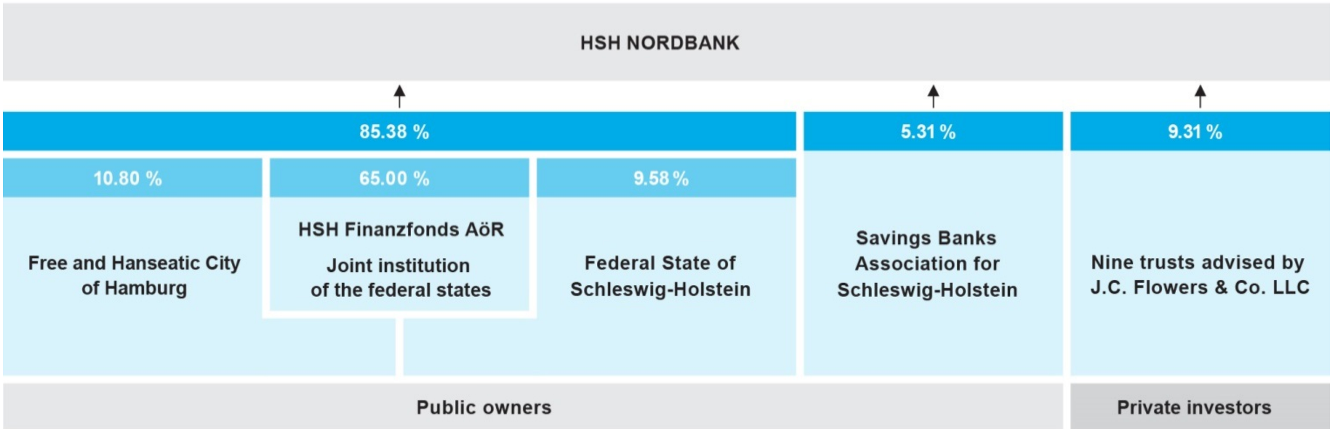
At the beginning of 2013 the assignment of divisions was adjusted in the Core Bank as part of the reorganisation of Management Board responsibilities. The Board responsibility Corporate and Private Clients was reorganised into the Shipping, Project and Real Estate Clients Board responsibility and includes in future the asset- and project-based business conducted with shipping clients, real estate clients and clients in the energy and infrastructure industry. The divisions Corporates and Private Banking were added to the new Corporates & Markets Board responsibility (formerly Products and Capital Markets). Furthermore, the newly formed Savings Banks and Institutional Clients division is assigned to this Board responsibility.

We have further reduced our branch network as part of the new focus of our business. The branches in Copenhagen and London as well as the representative office in Shanghai were closed during the past year. We will maintain our presence in Athens, Hong Kong, New York and Singapore for our foreign clients. Our branch in Luxembourg acts primarily as a booking location for the Restructuring Unit. In Germany, the Bank continues to have offices in Berlin, Dusseldorf, Hanover, Munich and Stuttgart in addition to its headquarters in Hamburg and Kiel.

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

Hamburg and Schleswig-Holstein have issued via HSH Finanzfonds AöR a guarantee in favour of HSH Nordbank that provides capital relief (second loss guarantee), which protects the bank from realised losses in a specified portfolio. More information on this can be found in the "Business overview" and "Outlook" sections.

OWNERSHIP STRUCTURE



As a member of the German Savings Banks Finance Group HSH Nordbank AG is a member of the guarantee fund of the Landesbanken and therefore is also affiliated to the joint liability scheme of the German savings banks organisation. This system secures the continued existence of the member institutions and guarantees their liquidity and solvency.

UNDERLYING ECONOMIC CONDITIONS

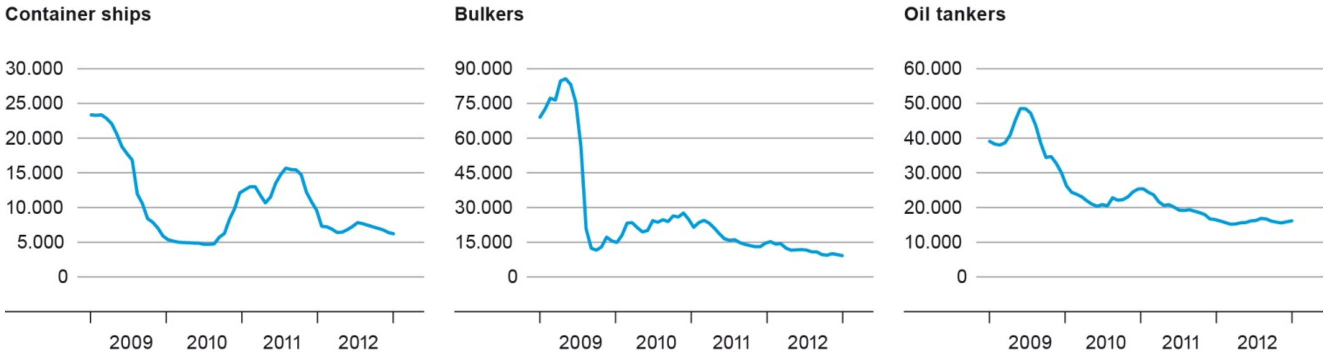
Cooling down of the global economy

Following robust global economic growth in 2011 economic momentum weakened in the past year. However, the trend varied greatly across regions. Whereas the economies in the USA and Japan grew more strongly than in the previous year, the eurozone fell back into recession. This had a clear impact on emerging economies. The export industry in China, for example, suffered from the decreasing demand in euro countries for imported goods and services. This was one of the factors for China's gross domestic product (GDP) growing by only 7.8% (after 9.3% in 2011). The slowdown in growth in China in turn had a negative impact on the other Asian countries as well as on South America.

The downturn in the global economy, and above all the deep recession in the Southern European countries, were also felt in Germany. GDP in Germany only increased by 0.7% in 2012. Domestic consumption as well as new sales markets outside the eurozone had a stabilising effect. Economic growth has again picked up speed somewhat in the second half of the year, particularly in China. In Germany the Ifo Business Climate Index at the year-end indicated that the economic situation should improve further.

The situation in the international shipping markets has continued to deteriorate significantly over the past year. Most market segments were characterised by falling or low-level freight and charter rates and decreasing ship prices. The negative trends have gained momentum again in many areas during the year. Price levels have in some cases hit all-time lows, which also put the shipowners under significant pressure.

TREND OF TIME CHARTER RATES IN SHIPPING
(Market average, USD/day)



More information on the trends in shipping as well as on the other markets key for HSH Nordbank's business activities is set out in the "Segment reporting" of the Group Management Report section.

The financial markets eased towards the end of 2012

The tensions in the financial markets initially decreased in the first months of 2012. The key factor behind this was the inflow of additional central bank money from the ECB, which improved the liquidity situation of the European banks as well as the refinancing conditions of the peripheral countries. However, there was fresh uncertainty in the financial markets during the spring. This was mainly attributable to concerns regarding the possible exit of Greece from the eurozone following the parliamentary elections held on 17 June but also regarding Spain's banking sector and future economic developments in the eurozone. As a result, the impact of the additional central bank liquidity diminished, and the European sovereign debt crisis came to a head again.

However, at the beginning of August the ECB announced a conditional scheme to purchase sovereign bonds. Within the framework of OMTs (Outright Monetary Transactions) the ECB is to purchase sovereign bonds of countries that have access to the capital markets and entered into an agreement with the European Stability Mechanism (ESM), which was set up as a permanent institution to provide assistance in the event of crises. In addition, the heads of states and governments agreed to establish a common banking supervisory authority for the eurozone. The adoption of the European Fiscal Compact, the core element of which is the introduction of a debt cap in the respective national constitutions, has also convinced many investors that the policy makers wish to retain the eurozone over the long-term. The restructuring of the banking sector in Spain also had a positive effect. The most recent measure, which has contributed to the significant reduction in the risk premiums for bonds issued by the peripheral countries, was the adoption of a new rescue package for Greece, which includes amongst other things a debt buyback by the Greek government.

During the second half of the year the focus increasingly shifted from the eurozone towards the USA, where the budget negotiations between the main political parties gave rise to the fear of a political blockade, which could have plunged the USA into recession. Against this backdrop the US Federal Reserve announced a further easing of its monetary policy. A new purchasing programme was initially agreed in September, which was directed this time at securitised mortgage loans granted by public sector providers of real estate financing.

In November the "Operation Twist" programme (purchase of long-term government bonds, sale of shorter-dated issues) due to expire at the end of the year was replaced by the announcement by the Federal Reserve Bank that a monthly amount of US dollar 45 billion of government bonds would be taken onto its balance sheet. Whereas the risk premiums for bonds issued by the periphery countries only reacted moderately to the political risks in the USA, there continued to be strong purchases of German government bonds, whereby the ten-year yield fell at times to under 1.3%. On 1 January 2013, provisional agreement was reached in the USA regarding the budgetary measures.

The movement in the euro against the US dollar tracked the ups and downs of the debt crisis. The European single currency appreciated in the first quarter of 2012 and traded significantly above 1.30. With the escalation of the crisis many investors shifted their assets from the eurozone causing the euro to reach its annual low of 1.21 in July. However, the Outright Monetary Transactions (OMT) programme of the ECB as well as the significant easing of US monetary policy caused the euro to appreciate again so that it ended the year at a level of 1.32.

The euro sovereign debt crisis, the budget dispute in the USA and global growth prospects dominated the international equity markets. Equity prices fell accordingly after an upbeat start to the year and then rallied in the summer. This was briefly interrupted in the USA by the threat of a political blockade, whereas there were hardly any setbacks in Germany. Whereas the Dow Jones Industrial increased by 7% over the year and the EuroStoxx ended the year with a growth of 14%, the Dax actually rose by around 29% during the year.

Banks are preparing themselves for a changed risk and regulatory environment

In the past year the German banking sector has continued to adapt to the increased risks prevailing in the environment of the sovereign debt crisis. On the one hand credit institutions have significantly reduced their loans and advances to countries and banks severely affected by the sovereign debt crisis. According to the 2012 Financial Stability Review issued by the Deutsche Bundesbank German banks would hardly have any direct claims on the Greek state anymore. In Spain and Italy German banks have mainly reduced their commitments to banks.

On the other hand German banks have further increased their Tier 1 capital backing in response to increased capital markets requirements and the regulatory conditions imposed by the European Banking Authority (EBA). The EBA demanded to have a core Tier 1 capital ratio of at least 9% by the end of June 2012 of the major banks in the European Economic Area. The participating German institutions have met the stringent requirements of the EBA. Banks in Spain required a significant amount of additional capital. The European Stability Mechanism (ESM) provided the first tranche to assist in their recapitalisation at the end of 2012.

The imminent introduction of the stricter regulations under Basel III also increased the pressure on banks to further increase their capital base and to reduce risk assets. The Basel III regulatory framework provides for a gradual increase in capital and liquidity requirements for banks over the coming years in order to make the international banking system more secure and better equipped to withstand crises.

The corporate and private clients business of German banks was impacted over the past year by the globally weaker economy as well as the recession in the eurozone. Some institutions were also more severely affected by the increase in risk caused by the crisis in shipping. The business situation of the banks was aided by the comparatively robust economy in Germany.

BUSINESS OVERVIEW

Adjustments to the business model well advanced

During the past year we continued to drive forward the fundamental reorganisation of HSH Nordbank, which was initiated in 2011 in the course of the concluded state aid proceedings regarding the Bank. With the consistent implementation of our strategy programme we have moved a good deal closer to achieving our objective of transforming HSH Nordbank into a focussed and sustainably profitable Bank for medium-sized enterprises (“Bank for Entrepreneurs”). At the same time the prerequisites essential for a sustained successful future of the Bank have thereby been created. However, the progress made was offset in the annual results and central key ratios as at the 2012 year-end by the effects of the sharp deterioration in market and industry conditions, particularly the considerable worsening of the shipping crisis.

Through the restructuring of the Bank we want to, firstly, increase the profitability of the client business by leveraging the potential in the business fields and, secondly, to create efficient operating structures and thereby cut costs. Optimisation of the funding and bank management functions was also focussed on in 2012. We are implementing the strategy programme as part of projects, which were well advanced by the end of 2012.

On adjusting the business model the Bank had to comply with the agreements reached with the EU Commission that had been linked to the conclusion of the EU proceedings in September 2011. These include, inter alia, the placing of a limit of € 120 billion on total assets at Group level until 2014, the focussing on core activities, disposals of equity holdings and the closing of offices abroad. The implementation of individual conditions and commitments has been monitored since the start of 2012 by an independent trustee on behalf of the EU Commission.

In the past year we further aligned our organisational structure to the focussed business model. We had already bundled the responsibility for product development in 2011 and launched an integrated relationship approach with the loan divisions. Together with intensified sales efforts, this has already had a positive impact on sales of our product range. In 2012 we concentrated previously decentralised administrative functions into central divisions of the Bank in order to further increase the efficiency and effectiveness of the entire organisation of the Bank. This applies for example to the divisions of controlling and portfolio management. A so-called lean management programme was also initiated, under which we are implementing measures to further optimise quality and processes in the divisions.

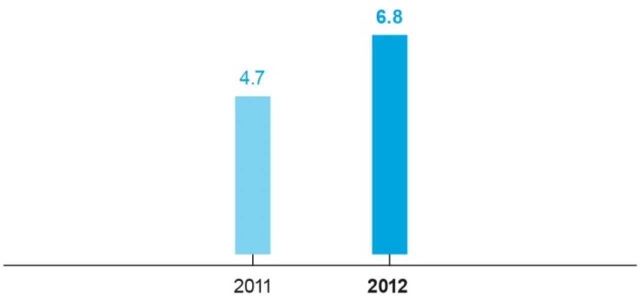
In addition, we have further developed the Bank's management processes and thereby increased their effectiveness. Through the integration of standardised key performance indicators into the Bank's systems we want to ensure a consistent operational and strategic management of the Bank at individual transaction level, at segment and at Group level in the future. An integrated controlling database was created as the basis for the comprehensive management of portfolios. The Bank set up in 2012 a central steering committee, the so-called Business Review Meeting, under the direction of the Management Board, which periodically monitors the achievement of targets by the divisions with regard to new business, income, risk, costs, liquidity and capital as well as compliance with the EU requirements. The committee also monitors the implementation status of operational measures.

We are on track to achieve our objective of significantly reducing administrative expenses in the Group by 2014 as a result of the restructuring undertaken and increases in efficiency realised last year. Advanced staff reductions in the Bank made a significant contribution to this. Headcount continued to decrease significantly and by the 2012 year-end it was possible to reduce the number of staff by more than three quarters of the total number planned. Operating expenses were also reduced as planned due to savings made in various cost items. The closing of foreign branches also eased the burden on the cost side of the Bank. Implementation of the cost targets is reviewed on an on-going basis as part of an active cost management process.

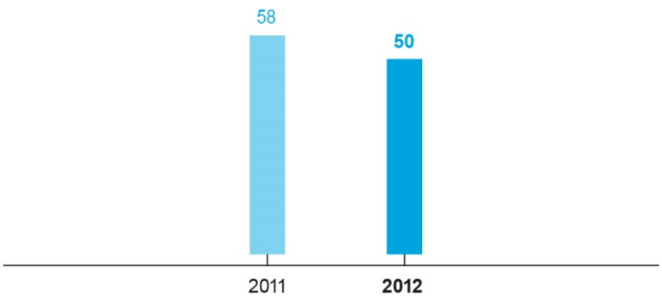
The risk-conscious expansion of client business was also successful in 2012. Despite the difficult market conditions we were able to substantially increase new business compared to the previous year. The volume increases achieved as well as cross-selling successes in new business as well as stable margins became increasingly evident in the income of the Core Bank over the course of the year. We carried out targeted initiatives in the market over the past year in order to exploit the business potential and optimised the interaction between the product and sales divisions. In addition, the quality in the Core Bank has been further improved by focusing on low risk new commitments and the reduction of the portfolio by means of portfolio adjustments. The positive trend in the new business reflects the progress made in adjusting the business model and the repositioning of the divisions in the markets. Clients are benefiting from our special expertise in the industries and sectors on which we are focusing. The starting point for exploiting further potential in the client business includes the strong market positions of the Core Bank divisions, such as the dominant position in the corporate client business in the core region as well as the position as one of the world's leading providers of ship financing.

New business developed and reduction of risk continued

NEW BUSINESS CORE BANK
(€ bn)



SEGMENT ASSETS OF RESTRUCTURING UNIT
(excl. consolidation effects), € bn



Income from the increasing new business was still overshadowed by the winding-down of risk positions accompanied by a falling loan volume at the overall Bank level. The segment assets of our Restructuring Unit, which is responsible for the winding down of the Bank's high risk legacy portfolios, were further reduced to € 50 billion in 2012. This represents a further reduction of € 8 billion compared to the previous year.

We have also made further progress in the disposal of equity holdings that no longer form part of the core business. The equity holdings portfolio intended for winding-down under the EU framework conditions has already been reduced by more than 85% to a carrying amount of around € 124 million by the end of 2012. Furthermore, we identified in the reporting year additional equity holdings that are no longer assigned to the core business and are therefore to be disposed of as well.

The Bank's funding and liquidity management was also further aligned to the requirements of the new business model and the refinancing strategy further optimised as part of the reorganisation of the Treasury division. Last year we were able to exceed our funding targets not least through the sale of bond products within the Sparkassenverbund (Savings Banks Association) and the issue of covered bonds (Pfandbriefe) on the public capital market. The asset-based US dollar funding was also further expanded. Furthermore, the implementation of new liquidity ratios, which will be applied in future as part of the introduction of the Basel III framework, was driven forward over the past year.

Increase in the second loss guarantee sought

We have initiated a series of individual measures in order to comply with the increasingly strict conditions and requirements of the capital markets concerning capital ratios. A key objective is to again increase the guarantee that provides capital relief (second loss guarantee) to the original amount of € 10 billion; it is currently € 7 billion following partial reductions in 2011. At the beginning of the year 2013 HSH Nordbank was in close contact with its shareholders. The governments of the federal states of Hamburg and Schleswig-Holstein have already approved this measure and initiated the steps necessary for its implementation. In addition, initial discussions have already been held with the EU Commission, which could classify the increase in the guarantee as a state aid situation requiring approval. More information on the planned replenishment of the guarantee is set out in the Section "Outlook" of this Management Report.

Headcount reduction implemented for the most part

As part of the focussing of our business and the creation of efficient organisational structures we initiated last year a programme to significantly reduce headcount and this had already been largely implemented by the 2012 year end. A reduction in the number of employees by about a third by 2014 compared to the end of 2010 had been agreed. Until 31 December the number of employees of HSH Nordbank AG fell to 2,542 compared to 2,965 at the end of 2011 (calculated on a full-time equivalent basis, FTE). Overall, it was possible to reduce the number of staff by more than three quarters of the total number planned for 2014 by the 2012 year-end. At the same time the positions for the target structures in the realigned business units have been successfully filled as part of an efficient selection process.

Number of employees reduced

	31.12.2012	31.12.2011
Full-time equivalents (FTE)[1]	2,542	2,965
Total number of employees[2]	2,951	3,327

Employee figures

	31.12.2012	31.12.2011
Maternity and parental leave	106	87
New employees	72	196
Part-time employees (%)	18.2	18.5
Turnover rate [3] (%)	9.7	4.2
Average age [3] (years)	43.1	41.9
Average period of employment [3] (years)	12.5	11.5

[1] Total number of employees excluding trainees, temporary staff and interns
[2] Headcount
[3] Head offices only; does not include branches or subsidiaries

Management Board of HSH Nordbank strengthened

On 1 November 2012 the Supervisory Board of the Bank appointed Constantin von Oesterreich, previously Chief Financial Officer, as the new Chairman of the Management Board. He succeeds Dr Paul Lerbinger who left the Bank at the end of October.

Furthermore, the management of HSH Nordbank was strengthened last year by the appointment of new Management Board members. Stefan Ermisch replaced Constantin von Oesterreich as Chief Financial Officer with effect from 1 December 2012. Mr Ermisch has many years of board experience at other banks. His last employment was with BayernLB, where he was, amongst other things, Chief Financial Officer, Chief Operating Officer as well as Deputy Chairman.

Edwin Wartenweiler had already been appointed as Chief Risk Officer as of 1 June 2012. Mr Wartenweiler has well over thirty years of experience in banking and is a proven expert in all loan and risk management areas relevant for the Bank.

In addition, Matthias Wittenburg was appointed as the board member responsible for the Bank's corporates & markets business. Mr Wittenburg took up his new function on 1 January 2013. He previously managed customer relationships with leading industrial companies, insurance companies and financial investors at Commerzbank as a member of the board responsible for the business segment Corporates & Markets.

Corporate governance and remuneration systems at HSH Nordbank

Against the backdrop of a changed regulatory environment, HSH Nordbank adopted a new remuneration system for members of the Management Board of the Bank already in 2009, which already takes into account all relevant regulatory requirements and has been in force since 2010. In addition, particular attention was paid to ensure that the remuneration system complied with the guarantee agreement of the federal states as well as the conditions imposed by the EU.

The limit on the fixed monetary remuneration of each board member of a maximum of € 500,000 per year as long as HSH Nordbank AG is not capable of making dividend distributions formed part of the previous remuneration system to date. In addition to the fixed salary Management Board members may earn entitlement to variable performance-based remuneration depending on the achievement of certain strategic targets as well as the Bank's financial success taking into account individual performance. This remuneration is subject to the precondition that the Bank is able to pay a dividend as at 31 December 2015 or at the latest as at 31 December 2016 and the European Commission has not instituted abuse proceedings. Only then can any rights acquired up to 2015 and 2016 with regard to a variable, performance-based remuneration be paid in three annual tranches.

In its letter dated 23 August 2012 the European Commission informed HSH Nordbank AG regarding its interpretation of the commitments made within the context of the EU state aid proceedings in respect of the remuneration of the Management Board. This includes an upper remuneration limit of € 500,000 per year that also comprises variable remuneration components provided that provisions already need to be recognised for these. Under this interpretation, the variable remuneration system to date is therefore not consistent with the EU conditions and requirements. The Supervisory Board has therefore changed the Management Board remuneration system and employment contracts. Such provisions were no longer created for the financial year 2012. The provisions recognised up to and including the 2011 financial year for variable performance-related remuneration payable when the Bank is capable of paying dividends remain in force. The Bank does not offer additional long-term incentives such as share option schemes. Further information on Management Board remuneration is set out in Note [74].

In parallel to the new rules regarding Management Board remuneration the requirements of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV) which entered into force in October 2010 were implemented below the Management Board level. The amount of the variable remuneration payable to employees is based on the new rules and is calculated as a combination of the performance of the Bank, their division and the attainment of individual performance targets. Furthermore fixed upper limits for the proportion of variable to fixed remuneration are set for all employees of the Group.

Special rules apply to those employees identified on a Group-wide basis who have a significant influence on the overall risk profile of the Bank, so-called risk takers. In accordance with the InstitutsVergV parts of their variable remuneration are paid on a deferred basis and are dependent on the sustained performance of the Bank. The remuneration system applies retrospectively to the 2011 financial year in accordance with the requirements of the InstitutsVergV. In accordance with the regulation further details will be published in a separate remuneration report on the website of HSH Nordbank.

HSH Nordbank has voluntarily adopted the German Corporate Governance Code, which it is not obliged to do as an unlisted company. The declaration of conformity within the meaning of Section 161 of the German Stock Corporation Act (AktG) is included in the Corporate Governance Report in the Annual Report of the Group. Reasons for any exceptions to individual recommendations in the Code are given in the declaration of conformity.

The members of the Supervisory Board and members of committees set up by the Supervisory Board are listed in the Notes to the financial statements (Note [76]). The Supervisory Board report, which also forms part of the Annual Report, provides information on the work performed by the Supervisory Board and its committees during the 2012 financial year.

EARNINGS, NET ASSETS AND FINANCIAL POSITION

OVERVIEW OF BUSINESS PERFORMANCE

The 2012 Annual Accounts are characterised by a difficult environment and special items

The effect on earnings of the increasing progress made with regard to new business and in implementing the strategy was offset by the adverse impact of the very difficult credit environment. In addition to the slowdown in the economic environment and market uncertainty regarding developments in the sovereign debt crisis the situation above all in the shipping industry and the real estate sector of individual European countries left clear traces in the Annual Accounts of HSH Nordbank. Overall, the environment has been considerably less favourable for our business over the course of last year than we had expected a year ago.

The impact of the difficult market conditions was reflected primarily in the legacy portfolios, which had been built up prior to the start of the global financial crisis, whereas the strategic core areas increasingly benefited from the growth in new business. Furthermore, special items and valuation effects had a significant impact on the earnings performance of the Bank. Against this backdrop we are reporting a net loss of € -391 million for 2012 compared to € -330 million in the previous year.

The effect of the growth in new business was increasingly reflected over the course of the year in the income generated by the client areas. Affected by special effects total income of the Bank increased significantly above the previous year's level.

We increased total loan loss provisions significantly in 2012 due to the tense situation in individual markets. As the loan loss provisions required related primarily to existing transactions covered by the second loss guarantee of the federal states of Hamburg and Schleswig-Holstein, utilisation of this guarantee has increased.

Total assets of the Bank decreased further by more than € 7 billion to € 136 billion as a result of the continued winding down of high risk portfolios. The reduction in risk is reflected in particular in the further portfolio decreases in the Restructuring Unit.

HSH Nordbank has met the increased regulatory requirements regarding capital adequacy as at 31 December 2012. The core Tier 1 capital ratio (Tier 1 capital ratio excluding hybrid instruments) for the Group amounted to 9.9% as at the year-end (after adoption of the Annual Accounts) and was therefore above the ratio of at least 9% stipulated by the EBA. The slight reduction compared to the previous year (31 December 2011: 10.3%) is primarily attributable to the deterioration in the risk parameters due to the economic slowdown in the reporting year that was only partially offset by positive effects. We are attempting to replenish the guarantee providing capital relief and are continuously implementing additional measures in order to ensure that the capital ratios required by the supervisory authorities and the capital markets are maintained on a sustained basis. More information on this can be found in the "Business overview" and in the "Outlook" sections.

Details on the developments and events underlying the 2012 business developments are discussed below in the sections "Earnings situation" and "Net assets and financial position".

EARNINGS SITUATION

Income statement (German Commercial Code)

€ m	31.12.2012	31.12.2011	Change absolute	Change in %
Net interest income	1,432	1,490	-58	-4
Net commission income	-198	-286	88	31
Of which: Fees for second loss guarantees	-284	-313	29	9
Of which: Fees for SoFFin guarantees	-18	-69	51	74
Net trading income	-21	-227	206	91
Administrative expenses	-667	-730	63	-9
Of which: Personnel expenses	-320	-352	32	-9
Of which: Operating expenses	-347	-378	31	-8
Other operating income	335	67	268	> 100
Operating result before risk provision/valuation	**881**	**314**	**567**	**> 100**
Loan loss provisions/valuation	-1,021	149	-1,170	> 100
Of which: Loans	-111	208	-319	> 100
Of which: Securities	127	-94	221	>- 100
Of which: Equity holdings	-125	35	-160	> 100
Of which: Additions to the fund for general banking risks	-980	-	-980	-
Operating result after risk provisions/valuation	**-140**	**463**	**-603**	**>- 100**
Extraordinary result	-44	-712	668	94
Income taxes	-364	-234	-130	56
Income from the assumption of losses	157	153	4	3
Net loss for the year	**-391**	**-330**	**-61**	**-18**

Total income characterised by asset reductions and special effects

The individual income items were characterised by the following developments in the reporting year:

Net interest income amounted to € 1,432 million compared to € 1,490 million in the previous year. At the overall bank level the on-going winding-down of high risk legacy portfolios and the associated reduction in interest-bearing loans in the Restructuring Unit again had an adverse impact on net interest income. The lower level of market interest rates also had an adverse impact on net interest income.

On the other hand, net interest income benefited from the significant increase in new business during the course of 2012, which, with the progress made concerning new loans actually disbursed, led to a rise in interest income in the core areas of the Bank. Risk-commensurate interest margins also made a contribution to this in addition to the new business volume. The positive margin effect in the Core Bank was accompanied by a negative effect in the Restructuring Unit compared to the previous year. The largest increases in new business were achieved in the energy and real estate areas. The Bank recorded a slight increase in current income from shares held in affiliated companies and equity holding interests. In contrast, income from profit pooling and profit and loss transfer agreements has declined markedly.

Net commission income of € -198 million (previous year: € -286 million) was adversely impacted by fees for government guarantees of € -302 million. However, compared to the previous year (€ -382 million), it decreased as a result of reductions in the guarantees. Since April 2009 the Bank has recognised as expense the basic premium of almost € 1.4 billion payable to the guarantors for providing the second loss guarantee. Costs for the guarantees of the Financial Market Stabilisation Fund (SoFFin) fell to only € -18 million due to reductions (previous year: € -69 million). The Bank repaid its last SoFFin guaranteed bond of € 3 billion as scheduled in July 2012. After being adjusted for the expenses for public guarantees, net commission income of € 104 million was slightly up compared to the previous year (€ 96 million). The increase in revenues from the cross-selling business in the Core Bank became noticeable here, which was strengthened on the basis of the sales measures pursued. The successes were reflected in net commission income, primarily in loan fees. Income from restructurings of individual commitments also contributed to the improved cross-selling result.

Net trading income amounted to € -21 million compared to € -227 million in the previous year. The improved result is partially attributable to special effects which had adversely impacted earnings in the previous year. In 2011 the Bank extended the valuation based on changes in credit ratings to counterparties not in severe danger of defaulting as part of the measurement of derivatives held in the trading portfolio. Exchange rate effects had a further impact on the result.

Other operating income of € 335 million (previous year: € 67 million) includes income from the repurchase of publicly placed subordinated bonds in the first quarter of the reporting year in the amount of € 261 million. The income recognised resulted from the difference between the carrying amount of the bonds and their repurchase price.

Overall, total income – comprising net interest income, net commission income, net trading income and other operating income – amounted to € 1,548 million. This represents a substantial increase compared to the previous year (€ 1,044 million).

Cost-cutting measures take effect

Administrative expenses were further reduced in the past year to € -667 million (previous year: € -730 million). The further reduction in the number of employees is reflected in the decrease in personnel expenses to € -320 million from the previous year level of € -352 million. Operating expenses decreased to € -347 million (previous year: € -378 million) due to savings made in various cost items, in particular in the IT area and concerning external consultancy services.

Risk provisions increased

An amount of € -1,021 million is reported in the risk provisions/valuation item compared to € 149 million in the previous year.

On the one hand, this trend reflects the impact of the weak macroeconomic environment and worsening crisis in the shipping industry. Accordingly, higher valuation allowances had to be recognised primarily in the shipping portfolios. In addition, higher loan loss provisions were required in the Restructuring Unit in particular for real estate loans, mainly in the Netherlands.

In addition to the valuation allowances recognised in the lending business, for the first time the future fees to be expected for the guarantee were taken into account in the loan loss provisions. This results from the expected actual drawdown under the guarantee in the years 2019 to 2025 based on our long-term loan loss provision plan, which we have revised in light of the marked deterioration in market conditions over the past year, particularly in the shipping environment. The future expected fees include the basic premium and the additional premium for the probable drawdown of the second loss guarantee. Loan loss provisions continued to be reduced by the balance sheet hedging effect of the second loss guarantee (compensation item). After deducting the future expected fees of € -351 million and the additional premium for the past reporting period (€ -287 million) loan loss provisions were reduced by € 1,635 million as result of the guarantee (compensation item). In total, loan loss provisions show a negative result of € -111 million compared to € 208 million in the previous year.

As at 31 December 2012 the guarantors, Hamburg and Schleswig-Holstein, have waived via HSH Finanzfonds AöR their claim to the additional premium in return for a debtor warrant in order to ensure an appropriate core Tier 1 capital ratio (Tier 1 capital ratio excluding hybrid instruments) that complies with the EU requirements. Income arising from the reversal of the additional premium was transferred to the fund for general banking risks in order to strengthen the Tier 1 capital. The amount allocated to the fund totalled € 980 million (previous year: € 0 million). This also includes income arising from the repurchase of subordinated bonds.

The hedging effect of the guarantee did not result in a cash draw down as at 31 December 2012. The amount retained by the Bank was utilised by actual payment defaults in the amount of € 332 million as at the 2012 year end (losses submitted for invoicing). Further information on the second loss guarantee is set out in Note 2.

The risk provision/valuation result for the securities business was significantly improved to € 127 million (previous year: € -94 million). The positive change was primarily attributable to the write-downs of government bonds recognised in the previous year, which did not occur to the same extent in the reporting year, as well as the recovery in prices of assets held in the liquidity reserve.

The risk provision/valuation result from equity holdings in the amount of € -125 million (previous year: € 35 million) is mainly attributable to write-downs of shares in affiliated companies and to expenses for loss assumptions, mainly from HSH Real Estate GmbH, which is planned to be sold in 2013.

Operating income after risk provisions/valuation decreased to € -140 million as a result of the developments described above, particularly the negative risk provision/valuation result (previous year: € 463 million).

The extraordinary result amounted to € -44 million compared to € -712 million in the previous year. The high amount disclosed in the 2011 financial year resulted from a one-off payment imposed by the EU of € 500 million payable to the federal states of Hamburg and Schleswig-Holstein as well as the increase in the measures taken in restructuring the Bank, primarily provisions for staff reductions in the Bank. In the past year, operating expenses in the IT area account for the majority of extraordinary expenses recognised.

Net loss for the year caused by difficult environment and special charges

After taking into account income tax expense of € -364 million (previous year: € -234 million) and income from loss assumptions of € 157 million (previous year: € 153 million) arising on the participation of silent partners and holders of profit participation rights in the net loss for the year or accumulated losses, the net loss of the Bank for the 2012 financial year is € -391 million (previous year: € -330 million). The increased tax expense is mainly attributable to the revised corporate planning. Lower deferred tax assets, for example on tax losses carried forward, were recognised based on the future expected earnings. An increase in additions to provisions for current taxes also adversely impacted earnings.

The results of operations for the 2012 reporting year reflect the progress made in restructuring HSH Nordbank as well as the successes achieved in the client business. However, its earnings impact were more than offset by the effects caused by the substantial deterioration in the environment and the further winding down of the interest-bearing legacy portfolios with the effect that not all of the financial targets of the Bank were met. It is evident that we are on the right track with the restructuring of the Bank and the measures introduced must be further implemented consistently in order to align HSH Nordbank for the future on a sustainable stable and successful basis.

As a result of the net loss for the year and the corresponding accumulated loss no distributions were made on silent participations and profit participation rights in 2012. The silent participations and profit participation capital also share in the net loss for the year and accumulated loss of the Bank. In order to avoid a double burden on the part of the hybrid capital creditors, the existing losses carried forward from the year 2011 in the amount of € -330 million was offset by withdrawing funds from capital reserves in the 2012 financial year.

The losses of the Bank attributable to silent participations amounted to € 153 million. The profit participation capital bore a loss of € 4 million in the 2012 financial year. This is equivalent to a reduction in the carrying amount of the silent participations and profit participation capital of 9.03%. The carrying amount of silent participations and profit participation capital was reduced in 2011 by about 7.95%, by 5.01% in 2010 and 16.40% in 2009 due to the attributed losses. The carrying amounts of the hybrid instruments were 66% of the original nominal amount due to the attributed losses.

NET ASSETS AND FINANCIAL POSITION

Balance sheet (German Commercial Code)

€ m	31.12.2012	31.12.2011	Change absolute	Change in %
Assets				
Cash reserve, debt instruments issued by public authorities, bills eligible for rediscount	6,681	1,803	4,878	> 100
Loans and advances to banks	9,758	8,898	860	10
Loans and advances to customers	77,842	88,125	-10,283	-12
Securities (total)	25,799	28,242	-2,443	-9
Trading assets	11,729	12,423	-694	-6
Equity holdings in non-affiliated companies and interests in affiliated companies	1,773	1,301	472	36
Trust assets	322	323	-1	0
Other assets	2,176	2,553	-377	-15
Total assets	**136,080**	**143,668**	**-7,588**	**-5**
Liabilities				
Liabilities to banks	31,628	27,434	4,194	15
Liabilities to customers	43,955	44,844	-889	-2
Securitised liabilities	32,989	42,313	-9,324	-22
Trading liabilities	10,874	11,398	-524	-5
Trust liabilities	322	323	-1	0
Subordinated liabilities	4,181	5,095	-914	-18
Profit participation capital	36	68	-32	-47
Fund for general banking risks	2,032	1,052	980	93
Equity	5,477	5,530	-53	-1
Other liabilities	4,586	5,611	-1,025	-18
Total liabilities	**136,080**	**143,668**	**-7,588**	**-5**
Contingent liabilities	4,569	6,335	-1,766	-28
Other obligations	5,026	6,877	-1,851	-27
Derivatives (credit equivalents)	2,844	3,005	-161	-5
Volume off-balance sheet positions	**12,439**	**16,217**	**-3,778**	**-23**
Business volume	**148,519**	**159,885**	**-11,366**	**-7**
Lending volume	**142,325**	**153,036**	**-10,711**	**-7**

Total assets decreased due to the continued winding-down of risk positions

We were able to further decrease total assets to € 136,080 million (31 December 2011: € 143,668 million). This decrease reflects the systematic reduction of high risk legacy portfolios held in our Restructuring Unit.

The continued winding-down of risk positions can be seen on the asset side, particularly in loans and advances to customers, which decreased to € 77,842 million (31 December 2011: € 88,125 million). This was attributable in particular to principal repayments in the loan portfolios of the Restructuring Unit as opposed to the encouraging trend in new business. Loans and advances to banks increased compared to the 2011 year end and amounted to € 9,758 million (31 December 2011: € 8,898 million). A reduction in loans and advances to banks that are due on demand was more than offset by an increase in collateralised money market transactions. The cash reserve increased significantly from € 1,803 million to € 6,681 million compared to the previous year-end. This is attributable inter alia to the increase in deposits placed at the ECB as part of the management of the liquidity position. Securities held decreased from € 28,242 million to € 25,799 million. This is due amongst other things to continued winding-down of the credit investment portfolio. Trading assets amounted to € 11,729 million as at the balance sheet date (31 December 2011: € 12,423 million). The reduction is mainly attributable to the decrease in securities held in the trading portfolio.

On the liability side of the balance sheet liabilities to banks rose significantly from € 27,434 million to € 31,628 million. An increase in the volume of refinancing transactions with central banks and repo transactions was responsible for this development. The decrease in liabilities to customers to € 43,955 million (31 December 2011: € 44,844 million) reflects principal repayments in the area of loan notes, which was accompanied by the higher level of fixed and call deposits from corporate and private clients.

Securitised liabilities totalled € 32,989 million (31 December 2011: € 42,313 million). This substantial reduction is attributable in part to the maturity of issues guaranteed by SoFFin and other issues maturing.

Subordinated liabilities as well as profit participation capital decreased mainly as a result of the repurchase of own subordinated bonds in the first quarter of 2012 as well as of maturities. The fund for general banking risks was increased by the transfer of income, which arose from the waiver by the guarantors of the additional premium and was used to strengthen Tier 1 capital. Furthermore, income resulting from the redemption of subordinated bonds was also added to the fund for general banking risks.

Equity disclosed on the balance sheet decreased slightly to € 5,477 million as at the 2012 year end (31 December 2011: € 5,530 million). In the first quarter of 2012 the share capital was increased by the re-investment of the one-off payment made to the federal states of Hamburg and Schleswig-Holstein that was recognised through profit or loss in the 2011 financial statements; however, this was offset by the net loss for the year disclosed in the 2012.

Decrease in business volume

Business volume decreased to € 148,519 million (31 December 2011: € 159,885 million). In addition to the effect due to the reduced total assets the decrease was in particular attributable to the fall in contingent liabilities to € 4,569 million (31 December 2011: € 6,335 million) and irrevocable loan commitments to € 5,026 million (31 December 2011: € 6,877 million).

Tier 1 capital ratio (incl. market risk positions) of 11.8% achieved for HSH Nordbank AG

Regulatory capital ratios (after approval of the annual financial statements)

%	31.12.2012	31.12.2011
Equity ratio (solvency coefficient)	18.9	20.3
Total ratio/Regulatory capital ratio	18.0	19.2
Tier 1 capital ratio	12.6	13.5
Tier 1 capital ratio (including market risk positions)	11.8	12.5
Core Tier 1 capital ratio (incl. market risk positions)	9.4	9.2

Regulatory figures *

%	31.12.2012	31.12.2011
Equity ratio (solvency coefficient)	17.7	20.0
Total ratio/Regulatory capital ratio	16.9	18.9
Tier 1 capital ratio	11.7	13.6
Tier 1 capital ratio (including market risk positions)	11.0	12.5
Core Tier 1 capital ratio (incl. market risk positions)	8.4	8.9

Regulatory capital in accordance with KWG (German Banking Act) for solvency purposes and regulatory capital requirements pursuant to the German Solvency Regulation (SolvV)*

€ bn	31.12.2012	31.12.2011
Regulatory capital pursuant to Section 3 (1) Sentence 1 in conjunction with Section 2 (6) Sentence 1 SolvV	10.5	9.3
Of which: Tier 1 capital for solvency purposes	6.8	6.1
Total risk assets (including market risks and operational risk)	62.3	49.2
Of which: Risk assets counterparty default risk	55.2	41.8

*) Amounts before adoption of the annual financial statements of HSH Nordbank AG

HSH Nordbank met the regulatory requirements for capital adequacy as at 31 December 2012. The Tier 1 capital ratio including market risk positions for HSH Nordbank AG was 11.8% as at the 2012 year end (31 December 2011: 12.5%). The core Tier 1 capital ratio for HSH Nordbank AG was 9.4% as at the year-end (31 December 2011: 9.2%). The figures take into account the adoption of the 2012 Annual Accounts.

The increase in risk assets had a material impact on the Tier 1 capital ratios over the past year. This resulted from deterioration in the risk parameters (e. g. higher probabilities of default) due to the deterioration in the economic environment, particularly in the shipping industry. This development could only be partially offset by the continued winding-down of high risk legacy portfolios as well as the depreciation of the US dollar compared to the previous reporting date.

The increase in Tier 1 capital had a positive impact on the capital ratios. On the one hand, this reflected the capital increase of € 500 million executed at the beginning of 2012, under which the one-off payment made to the federal states of Hamburg and Schleswig-Holstein was reinvested in the Bank. On the other hand, the repurchase of subordinated bonds as well as the receivables waiver by the guarantor in return for a debtor warrant for the additional premium had a positive effect. Further details on the receivables waiver in return for a debtor warrant are set out in the Notes to the financial statements, Note [2].

The figures reflect the relieving effect of the second loss guarantee on the risk assets.

Refinancing activities expanded

We were able to strengthen the Bank's refinancing base over the past year despite the difficult capital markets environment and to successfully implement the issue plan for 2012 through using a series of different funding sources.

In view of our strong roots in the Sparkassenverbund (Savings Banks Association) the sale of bonds to savings banks and their customers again made a significant contribution in 2012 to the refinancing of our business. We were also able to substantially increase the volume of covered bonds (Pfandbriefe) placed. We leveraged the positive environment for German Pfandbriefe in 2012 and placed on the public capital markets two mortgage-backed Pfandbriefe amounting to € 500 million in each case with maturities of five and four years, respectively. There was a wide demand for the issues among both domestic and foreign institutional investors. The Bank issued further Pfandbriefe as private placements, some of which in foreign currencies.

We have also further expanded our asset-based funding. This instrument has become increasingly important to us particularly with regard to the refinancing of our foreign currency business. In the past year we entered into a series of US dollar transactions including two bilateral repo transactions amounting to US dollar 500 million and 450 million, respectively. The derivative foreign currency funding through EUR/USD basis swaps was reduced by these transactions on a targeted basis. Detailed information on the Bank's derivative business is set out in the Notes to the financial statements, Note [69].

On an overall basis we were able to substantially decrease the average maturity compared to the previous year at still attractive funding costs and strengthen our refinancing profile in this way.

In addition to the successful issue activity fixed-term and demand deposits from corporate clients, banks and other institutional investors were increased in the reporting year. Initiatives targeted at core clients in the corporate client area made a marked contribution to this.

Detailed information on the liquidity and risk situation of HSH Nordbank is set out in the Risk Report section of this Management Report.

Events after the balance sheet date

At the beginning of 2013 HSH Nordbank was in close contact with its owners regarding the desired replenishment of the guarantee providing capital relief (second loss guarantee). The governments of the federal states of Hamburg and Schleswig-Holstein have already approved this measure and initiated the steps necessary for its implementation. Initial discussions were held with the EU Commission, which could classify the increase in the guarantee as a state aid situation requiring approval. Additional information on this topic is set out in the "Business overview" and "Outlook" sections.

No other material events impacting the financial position, net assets and earnings occurred after the balance sheet date.

OUTLOOK

The following section should be read in conjunction with the other chapters in this Management Report. The forward-looking statements contained herein are based on assumptions and conclusions based on information currently available to us. The statements are based on a series of assumptions that relate to future events and are also incorporated in our corporate planning. Occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are outside our control. Therefore actual results may differ materially from the following forward-looking statements. In this outlook we describe in greater detail the assumptions made by us in our corporate planning process.

Our estimates regarding the long-term trend in loan loss provisions as well as the planning for payment defaults and, consequently, the actual drawdown of the second loss guarantee are subject to significant uncertainty due to the very long planning horizon. For example, this applies to the movement in key market parameters such as freight and charter rates as well as the US dollar exchange rate. These uncertainty factors can exert a greater influence than expected on future developments. Developments over the past years have shown that the ability of banks to make forecasts in a volatile environment is limited. In fact, the economy has developed worse than expected resulting in a further downturn in the shipping markets being characterised by overcapacity.

The continuation of the debt crisis in Europe cannot be ruled out for the future, which could lead to a weakening of the markets and the euro. This in turn could result in additional impairment having to be recognised in the Bank's high risk portfolios. Uncertain developments regarding portfolio runoffs, market and risk parameters as well as the regulatory environment are particular factors that can result in future risks and rewards for the capital ratios.

ANTICIPATED UNDERLYING CONDITIONS

World economy is picking up slightly

We are assuming that growth of the world economy will pick up slightly. China is a key pillar for this, where the most recent economic indicators suggest that the expansion rate has stabilised. Tax increases and spending cuts are dampening the trend of economic recovery in the USA. Growth this year is likely to be at a level similar to that in 2012.

We are anticipating that there will be a gradual upturn in the eurozone in the second half of the year, which should result in a marginal increase in growth over the year as a whole. This should be based, inter alia, on better refinancing conditions for enterprises and banks as well as a more robust global economy. Economic growth in Germany should be above average compared to most other European countries. The German economy is benefiting from a particularly high level of demand from emerging economies and has room for budgetary manoeuvre in contrast to other member states.

We expect that, despite probable setbacks, further reform steps will be taken with regard to the euro sovereign debt crisis at the level of the countries affected as well as the relevant decision-making institutions of the eurozone. Investor confidence should gradually return again as a result of this.

Against the backdrop of only a slow strengthening of the economy we are assuming that the situation for international maritime shipping will not improve significantly for the time being. We are expecting the first signs of a recovery in the container and bulker markets to appear in 2014 at the earliest, the situation for crude oil tankers will probably only improve in the year 2015.

Monetary policy, particularly in the USA and Japan, is likely to continue to be marked by on-going liquidity measures, although discussions are being held in the USA regarding an early end to such measures. Against the backdrop of moderate inflation assumptions and financial markets that continue to be stabilised the ECB will probably maintain its expansionary course. The policy of central banks as well as further developments in the sovereign debt crisis should also have a material impact on the movement of the euro in 2013. We expect that the EUR/US dollar exchange rate will move sideways from the end of 2012. The slow improvement in the economic outlook and increasing confidence in the markets on further progress being made with regard to the euro sovereign debt crisis should result in the gradual increase in the yields on 10 year US and German government bonds over the coming years.

Whereas the refinancing situation should improve for banks in this environment, the overall economic environment and the increasing requirements relating to capital and liquidity will remain a challenge. The future earnings situation is also likely to be affected by the intense competition in the deposit and lending business. Furthermore, costs will arise as a result of the ever more intensive regulatory requirements for the entire banking industry, such as in connection with the implementation of the requirements of the European Banking Authority (EBA), introduction of Basel III as well as through contributions to the restructuring fund. In view of the difficult underlying conditions the institutions are therefore still faced with the task of having to continually review their business models and adjust them to new requirements.

ANTICIPATED BUSINESS SITUATION

Restructuring of HSH Nordbank accompanied by additional challenges

In 2013 we will continue with the restructuring of the Bank on the basis of the evident progress achieved since the conclusion of the EU state aid proceedings in 2011. Our objective remains the positioning of HSH Nordbank as a focussed and sustainably profitable "Bank for Entrepreneurs". Despite the challenging market environment we want to make progress in achieving this objective through the continued implementation of our strategy.

We want to follow up in 2013 on the market successes achieved in the past year in new business and further expand our commitment in the target markets. Substantial progress was made in 2012 with regard to the quantity and quality of new business. This applies in particular to the core business areas of energy and real estate. We want to continuously increase the profitability of client business over the coming years through the intensified sales of the entire product range, targeted sales initiatives and risk-commensurate pricing. At the same time we intend to further improve the risk profile of the Core Bank by concentrating on qualitatively high value and low risk business and the effective management of existing loan portfolios.

In addition to increasing client business in the Core Bank we are continuing to drive forward the winding-down of risk portfolios in the Restructuring Unit. The on-going reduction of interest-bearing legacy portfolios will adversely impact the Bank's profitability as expected, but at the same time will gradually improve our risk and liquidity situation in accordance with our strategy.

The realignment of the organisational structure and processes to the new business model is already well advanced. Based on this we are continuing to consistently implement the agreed cost savings and all necessary steps to create an efficient organisation. The personnel reduction programme, which is progressing so far according to plan and will be fully completed by 2014, is making a significant contribution to this.

In view of the marked deterioration in the underlying conditions, particularly in the shipping industry, we adjusted our loan loss provision planning starting in the third quarter 2012. We see on this basis a need for a substantial increase in loan loss provisions over the long term. Our loan loss provision planning is based on valuation models that also take into account the regulatory environment, risk parameters over time as well as the Bank's experience in critical situations in addition to portfolio developments and key macroeconomic data.

As part of this planning process we expect that the tense situation in the shipping industry and in other markets will lead to a substantial increase in loan loss provisions in the legacy portfolios in 2013. A key factor underlying the risk assessment in the shipping area is the currently very low level of freight and charter rates, which is not sufficient at the present time to cover the operating costs of shipping companies. In anticipation of slowly recovering markets we are assuming that the need for loan loss provisions in 2014 will be lower compared to 2013. If loan loss provisions are recognised in the portfolio covered by the second loss guarantee, the adverse impact will be offset for the most part by the balance sheet hedging effect of the guarantee. However, loan loss provisions for portfolios not covered by the guarantee are recognised in full through profit or loss.

Based on the remeasurement of credit risk we are assuming in our loan loss provision planning that the payment defaults in the portfolio covered by the guarantee will exceed the retained amount of the Bank of € 3.2 billion from 2019. This is due to the fact that the loan loss provisions created since the existence of the guarantee have already been fully recognised through profit or loss – especially in 2009 and 2010. Actual payments under the second loss guarantee are expected to be received for the first time from 2019. Based on our expectations these will total € 1.3 billion up to 2025 taking into account the first loss piece to be borne by the Bank itself. Details on the loan loss provision planning and expected payment defaults are set out in the "Default risk" section in the Risk Report ("Planning for loan loss provisions and losses").

Plans to strengthen the capital base

The Bank has decided to take measures to strengthen the Tier 1 capital ratios in order to also meet in future the increased risks in the legacy portfolios, the changed regulatory framework and the requirements of the European

Banking Authority as well as the capital markets and rating agencies. Besides internal individual measures the focus is primarily on the Bank's objective of increasing the guarantee to its original level of € 10 billion, in order to be able to report an adequate capital ratio for the long term. We have therefore taken the replenishment of the guarantee to € 10 billion into account in the corporate planning. After we closed 2012 with a core Tier 1 capital ratio of 9.9% at Group level, we are planning to achieve a core Tier 1 capital ratio of at least 10% at Group level taking the replenishment of the guarantee for 2013 into account.

An appropriate amendment to the guarantee agreement is required in order to replenish the guarantee facility, as this is not provided for in the current guarantee agreement. Furthermore, the amended guarantee agreement is to ensure that a valid capital protection clause that is in accordance with the EU requirements is fully effective under the IFRS rules for determining capital applicable from 2014.

The Bank was in close contact with its shareholders regarding this at the beginning of the year 2013. The governments of the federal states of Hamburg und Schleswig-Holstein have already approved these measures. Initial discussions were held with the EU Commission, which could classify the increase in the guarantee as a state aid situation requiring approval. Further details on the capital protection clause and the guarantee agreement are set out in the Notes to the financial statements, Note [2].

We are adopting a diversified funding strategy to meet the structural challenges on the refinancing side – including against the backdrop of the expiry of the guarantor liability. We will continue to implement this in line with the planned new business of the Bank. A focus of our refinancing remains the proven orientation towards the German savings banks sector, which is not affected for the most part by events in the capital markets. We will also focus on the issuing of covered bonds (Pfandbriefe) and uncovered bonds aimed at institutional investor groups – as private placements as well as on the capital market. An increase in asset-based transactions, to which we are attaching greater importance mainly in the refinancing of the US dollar asset business, represents a further funding potential. At the same time we want to further reduce the proportion of the US dollar funding carried out via derivatives. Furthermore, deposit business continues to be an important pillar that is to be strengthened further with the Bank's corporate clients in particular.

In January 2013 the rating agencies, Moody's and Fitch, issued statements on the long- and short-term ratings of the Bank. Whereas Fitch confirmed the long-term rating of the Bank at A- with stable outlook, Moody's has announced that it will reconsider the most recently confirmed rating of Baa2 once the targeted measures for strengthening capital have been completed. Moody's is assuming that the long-term rating of the Bank will still be in the investment grade area even after another review has been carried out. Nevertheless, the assessments of the rating agencies confirm the challenges relating to a diversified strategy for long-term funding via the capital markets as well as the great importance of the support provided by the federal states and the implementation of effective measures to ensure appropriate capital ratios.

Net result

In view of the above-described charges relating to the legacy portfolios of the Restructuring Unit as well as the increased guarantee expense (base and additional premiums) resulting from the planned replenishment of the guarantee facility, we expect to disclose a loss for 2013 as well as 2014 under the accounting principles of the German Commercial Code (HGB). Based on current estimates, the results for 2015, 2016 and in part 2017 will be needed in order to replenish the hybrid capital decreased by accumulated loss participations. Against this backdrop it is expected that coupon payments on silent participations and profit participation capital will be paid again for the 2017 financial year.

The on-going restructuring of the Bank and the increasing success achieved in the client business of the Core Bank are making us all the more determined to pursue the course adopted. On this basis we are confident that, despite all the above-mentioned challenges, we can address these from a strong position, continue to successfully implement the restructuring measures and position HSH Nordbank in the relevant markets on a sustained profitable basis.

Going concern

Accounting and measurement are carried out on the basis of the assumption of a going concern. It is thereby presumed that the guarantee facility providing the capital relief is replenished with the support from the shareholder group in order to ensure that the capital ratios required for the Bank by the supervisory authorities are met on a sustained basis. The assumption made relating to the Bank's ability to continue as a going concern is based on the agreement reached by the governments of the federal states of Hamburg and Schleswig-Holstein regarding the increase in the guarantee being confirmed by the parliaments of both federal states and the EU Commission initially approves the increase in the guarantee until a final decision is made.

Furthermore, the guarantee agreement is to be adjusted in such a way that the capital protection clause remains fully effective even after the method for determining capital is converted to IFRS. If the EU Commission determines that the replenishment of the guarantee providing the capital relief or a change in the guarantee agreement constitutes a new state aid situation that is subject to approval, it is essential that final EU approval be obtained and such approval is only tied to conditions that can be implemented within the framework of an economically viable business plan. Furthermore, the regulatory effectiveness of the strengthening of the capital ratios achieved by the increase in the guarantee should not be jeopardised. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank's business model be preserved even in the event of potential new conditions being imposed.

RISK REPORT

RISKS WITHIN HSH NORDBANK GROUP

HSH Nordbank manages its risks on a uniform basis under the global head principle. All management instruments, including risk reporting to the Management Board and the Risk Committee – a committee under the Supervisory Board – follow this principle. In the same manner, they ensure that the Bank's risk-bearing capacity is based on the Group. As the presentation of risks relevant to HSH Nordbank cannot be meaningfully separated for individual legal entities, we consider below the risks of the Group, for example of HSH Nordbank AG as well as subsidiaries identified as relevant for purposes of risk management.

RISK MANAGEMENT SYSTEM

PRINCIPLES OF RISK MANAGEMENT

Active risk management represents a core component of the overall bank management at HSH Nordbank. Against this backdrop the Bank has developed the risk culture and the methods and procedures applied in risk management further on a systematic basis.

HSH Nordbank defines risk as the threat that unfavourable future developments may adversely affect the Bank's assets, earnings or liquidity position. Material risks within the meaning of MaRisk are default risk, market risk, operational risk, liquidity risk, strategic risk and reputation risk. The individual elements of risk management constitute a system in their entirety to identify, analyse, evaluate, manage, continuous monitor and report on risks.

There are clear rules in the Bank concerning risk management responsibilities. The overall responsibility for risk management in the Bank lies with the Overall Management Board. This also includes the methods and procedures to be employed for purposes of risk measurement, management and monitoring.

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

Taking the material risk types into account, the risk strategy presents the organisational and strategic orientation of risk management of HSH Nordbank. It includes the development of all material business activities planned in the business strategy from a strategic risk perspective and taking particular account of the risk-bearing capacity and liquidity. It is set out in more detail in specific strategies for default risk, liquidity risk, market risk and operational risk. The Risk Strategy is reviewed at least once a year, adjusted where necessary and approved by the Management Board.

It is also discussed with the Risk Committee, a body of the Supervisory Board. The Risk Strategy is supplemented by guidelines for granting loans (Credit Standards) and Investment Guidelines which contain detailed rules and regulations concerning the individual business areas of the Bank.

The major rules on the methods, processes and internal organisation used for risk management are documented in the Credit Manual of HSH Nordbank, in separate process descriptions for the individual risk types as well as in individual illustrations of the internal organisation and are published throughout the Bank. The Management Board and the Risk Committee are informed of the risk situation of the Group by means of a comprehensive quarterly Risk Report. As an internal winding-down unit, the Restructuring Unit is fully integrated into the Group's risk management process. The risk methods and processes of the Core Bank apply to the Restructuring Unit accordingly.

ORGANISATION OF RISK MANAGEMENT

The organisation of risk management at HSH Nordbank is aligned to the requirements of the business model and takes regulatory requirements into account.

The Overall Management Board adopts the risk strategy of the Group on an annual basis as part of its overall responsibilities. As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling, including risk monitoring, as well as for the back office functions of the Core Bank. In this context, he is responsible for the divisions Group Risk Management, Credit Risk Management, Loan and Collateral Management, Restructuring and Operations, into which the tasks of the back office are integrated, as well as for the Compliance division.

Group Risk Management develops the methods and procedure for measuring, managing and monitoring risks and is responsible for a significant number of tasks of operative portfolio management. In so doing, it ensures that the material risks of the Group are transparent and manageable. The methods and procedures applied as well as the key ratios determined are periodically reviewed by Group Risk Management for appropriateness and plausibility.

Among the tasks of Credit Risk Management are the preparation of the risk analysis, including the determination of the internal rating and the drawing up of the credit applications for Core Bank business as well as the structuring of the processes and regulations for the lending business of the whole Bank. Loan and Collateral Management is responsible in particular for the settlement and administration of the lending business as well as for loan collateral. Responsibility for the restructuring cases of the Core Bank lies with the Restructuring division.

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

The Restructuring Unit (RU), which is established as a back office department in terms of structure and procedures, is responsible for the positions of the non-strategic business areas and for specific risk positions. Central responsibility for the risk-oriented and loss-minimising winding down of the credit investment portfolio is also included among its tasks. The Restructuring Unit independently takes all decisions necessary in respect of the positions transferred to it. This responsibility also includes restructuring and workout cases. The Restructuring Unit is also responsible for the processing and taking of decisions regarding workout cases in the Core Bank.

Risk reporting for the Restructuring Unit is generally carried out by means of the management and reporting systems of the Group Risk Management division. In addition to the regular risk reporting, an extended winding down and management reporting at portfolio level takes place for the Restructuring Unit.

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

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

The Group Finance and Financial Controlling division is responsible for the overall management of the Bank including the overall planning activities.

The Compliance division monitors compliance with the requirements of the Bank with respect to securities compliance, anti-money laundering, financial sanctions and prevention of fraudulent activities under Section 25c of the German Banking Act (KWG). Compliance reports to the Management Board and to the Audit Committee as the responsible body of the Supervisory Board on the results of its control and monitoring activities on an annual basis.

The Legal division monitors the legal risks of the Bank as an independent department and is the contact point for all legal questions. It provides the Management Board with information on material legal risks and disputes on a regular basis.

Internal Audit reviews the effectiveness and appropriateness of risk management and the internal control system from a risk-oriented and process-independent perspective as well as the correctness in principle of all activities and processes. It includes the Core Bank, the Restructuring Unit, outsourcing and equity holdings in its review. It plays an accompanying role in important projects while maintaining its independence and avoiding any conflicts of interest.

Business areas are managed in line with uniform Group standards on the basis of a global head principle. Based on this the heads of the individual divisions as the respective Global Heads are responsible on a worldwide basis for the strategy of the business areas, administrative functions and services assigned to them. The Global Heads are supported by the head of the respective foreign branch in the implementation of the strategy on site in the foreign branch. The global head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

The Bank has stipulated rules under which formalised audit processes are gone through prior to entering into transactions in new products or new markets. This should ensure that the products are properly considered under risk aspects in the relevant systems and reflected in the relevant processes and that transactions in new products or new markets are only entered into with the approval of the Management Board.

As part of the Group-wide risk management process the material subsidiaries are also taken into account in the management and controlling of the individual risk types.

PORTFOLIO MANAGEMENT BY A CENTRAL COMMITTEE STRUCTURE

One of the tasks of the Asset Liability Committee (ALCO) is the management of the risk-bearing capacity, limiting of risk concentrations as well as the management of the use of the limited resources liquidity/funding, balance sheet volume, RWA and economic capital. The ALCO is composed of the Overall Management Board as well as the heads of divisions Strategic Treasury (Management), Group Risk Management, Group Finance and Financial Controlling and Capital Markets. The basis for decision-making are, among other things, the current and expected business development for the Bank, the current utilisation of the relevant management limits as well as the liquidity development report, which is prepared in a manner consistent with the Bank's business planning and is updated periodically. This places the Bank in the position to react flexibly to market trends and to allocate resources as needed.

Business area analyses regularly performed by Group Risk Management form an important basis for the central credit portfolio management at HSH Nordbank. Detailed expectations regarding the possible movement in individual asset classes and sub-portfolios are developed up on the basis of thorough analyses of past trends and forward-looking market and portfolio assessments. In this context, particular importance is attached to risk concentrations. The recommended course of action derived from the results of the analyses is submitted to the Board for a decision. Implementation of these recommendations supports the achievement of the Bank's business objectives. The implementation of the decisions is backed up by appropriate controlling procedures.

The central early warning system used to identify adverse trends for the Bank on a timely basis is another component of portfolio management. This early warning system was enhanced during the reporting period both in terms of procedure and content. For example, it was possible to further improve the management of the relevant loan portfolio further by means of the implementation of additional early warning signals .

Since 2012 the so-called "business review meeting" under the direction of the Management Board and with management involvement has been monitoring on a quarterly basis the achievement of targets by the business units with regard to new business, income, risk, costs, capital and liquidity as well as compliance with the EU requirements. The analysis is used as a basis for identifying any plan variances and initiating any possible measures at an early stage such as the strategic reallocation of resources.

The Transaction Committee is responsible for the operational management of the use of resources in the lending business at the level of material individual transactions. It decides independently on the allocation of these resources. In doing so, the focus is also placed on the continuous improvement in the portfolio quality through the active management of new business. Members of this committee entitled to vote are the heads of Group Risk Management (chair) and Strategic Treasury in addition to the heads of the market departments and the management level of the Restructuring Unit. Decisions can only be made unanimously. In individual cases – for example in relation to the use of resources or utilisation of management limits – transactions together with a corresponding risk assessment are forwarded to the ALCO for a decision.

INTERNAL CONTROL SYSTEM

Bank-wide internal control system

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

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

- prioritisation of processes to be revised (annually)
- updating of the process, risk and control documentation
- assessment of the appropriateness of the controls
- assessment of the effectiveness of the controls (testing)
- determination of measures to be taken with regard to weaknesses identified in the controls
- final assessment after implementation of the measure (re-testing).

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

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

In order to ensure that the system is functioning on a sustained basis, the process is closely monitored by means of continuous communication and governance throughout the Bank. The ICS expertise in the operational departments is built up through a series of training measures so that the tools for process management and ICS can be applied on an independent basis in the individual divisions of the Bank.

The priorities of the main processes of the Bank for running the control cycle are defined annually. Overall approx. 85% of the main processes were included in the ICS cycle at the end of the year 2012. For the majority of these prioritised main processes the milestones planned for the reporting year were achieved in accordance with the ICS cycle. The first run of the control cycle was thus completed following the restructuring of the ICS in 2009/2010. Due to the restructuring measures taken and/or the non-application of processes the control cycle was interrupted in the reporting year for approx. 8% of the relevant controls. It is planned to again include these processes in the control cycle for 2013. The ICS management processes for material functions outsourced to external service providers were developed further in the year under review. Overall, further progress was made in the reduction of operational risk. For 2013 the Bank is planning to integrate main processes not previously covered into the ICS procedure.

Subsidiaries of HSH Nordbank were also classified in 2012 as to the materiality of their respective processes for the Bank's ICS. The result of this was that the majority of subsidiaries were classified as immaterial. The focus for 2013 will be on the continued integration of the relevant processes of subsidiaries with the highest materiality classification into the ICS control cycle scheme of the Bank.

Internal control system with regard to the accounting process

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

The accounting process is reviewed on a regular basis by the responsible member of staff in charge of the process and adjusted to the current framework conditions and requirements. The focus is on the identification of material risks and the implementation of measures to prevent these. In addition the accounting process is audited by the Internal Audit division from a process-independent perspective. The documentation of the processes was expanded in the reporting year, for example concerning accounting for the net trading income and the reconciliation of intercompany balances. Additional measures were also implemented to reduce risk; for example, manual controls were replaced by automated, technical processes.

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

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

REGULATORY REQUIREMENTS

HSH Nordbank determines the amount of regulatory capital backing required for default, market and operational risks on the basis of the German Solvency Regulation (SolvV). In this context the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. This means that the Bank takes consistent parameters into account for regulatory reporting and internal default risk management purposes. The amounts allocated to market risk positions are determined in accordance with the pre-defined or optional standard procedures. We take account of operational risk under the standard approach. All limits applicable in this respect were maintained at all times during the reporting year. Regulatory figures are set out in chapter "Net assets and financial position". The future requirements resulting from the Basel III rules and regulations, in particular the Capital Requirements Directive (CRD) IV and the Capital Requirements Regulation (CRR) are implemented within the framework of projects. For example, the implementation of new liquidity ratios was driven forward in the reporting year.

In December 2012 the Federal Financial Supervisory Authority (BaFin) issued a new version of MaRisk which were mainly revised against the backdrop of various international projects concerning supervisory law. The regulation regarding the capital planning process, the strengthening of the risk controlling and compliance function as well as the requirements concerning a liquidity transfer price system are of particular importance. The new MaRisk entered into force on 1 January 2013. The new requirements contained therein, whose aim is not just to clarify existing rules, must be implemented by the banks by the end of 2013. The Bank has taken measures to ensure that MaRisk is implemented in due time.

In accordance with the requirements of Section 26a of the German Banking Act (KWG) and the German Solvency Regulation respectively, we have been publishing material qualitative and quantitative information on equity capital, risks incurred, risk measurement procedures and risk management in a separate disclosure report. As an institution that uses the IRB Advanced Approach, particular requirements apply to HSH Nordbank. The document provides more information than statements made in this Annual Report on the basis of the accounting principles applied, as it provides a comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The reports are available on our website, www.hsh-nordbank.de, under “Investor Relations”. With the publication of the disclosure reports HSH Nordbank complies with the third pillar of Basel II (market discipline).

HSH Nordbank maintains a central data storage system, which takes into account requirements of the German Solvency Regulation, for the purposes of analysing, monitoring and reporting risks. In particular this includes the providing of data and information for the regulatory reporting and disclosure under Basel II.

RISK-BEARING CAPACITY

HSH has integrated a capital adequacy process (ICAAP) into its risk management pursuant to MaRisk in order to monitor and safeguard its risk-bearing capacity on a sustained basis. Risk-bearing capacity is managed in conjunction with equity capital and the contribution margin.

The economic capital required to cover expected and unexpected losses (overall risk) is regularly compared to the available amount of risk coverage potential. This comparison is made within an integrated limit system that forms the basis of Group-wide economic limits on all types of risk material for 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 basis 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, derivatives, equity holdings and the lending business as well as effects from the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. The risk coverage potential has been reduced by the second loss guarantee by the amount retained by HSH Nordbank of € 3.2 billion.

As at 31 December 2012, risk coverage potential amounted to € 10.1 billion (31 December 2011: € 9.2 billion). In the first quarter of 2012 capital was increased by € 500 million as planned by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, which resulted in a corresponding increase in the risk coverage potential. This measure allowed the one-off payment made to the federal states in 2011 in accordance with the EU conditions to be reinvested into the Bank as the same amount of capital. The successful repurchase in February 2012 of two subordinated bonds issued by HSH Nordbank resulted in a reduction in the risk coverage potential.

The risk tolerance of HSH Nordbank is determined as part of the annual preparation of the risk strategy.

Amongst other things this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global limit). The buffer serves to cover any potential increase in the capital required in the event of adverse developments for the Bank as well as any non-quantified risks. The global limit is broken down into limits for individual risk types within the framework of the risk strategy.

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 for unexpected losses is determined monthly for default, liquidity and market risks in a methodical consistent manner with a confidence level of 99.9% and a risk horizon of one year. Operational risks are determined in accordance with the Standardised Approach as defined in the German Solvency Regulation (SolvV). The economic capital requirements for the individual risk types are aggregated to an overall economic risk. In doing so, no risk-reducing correlations are utilised.

In the case of losses arising from default risk, we make a distinction between the expected and unexpected loss. The expected loss is equivalent to the default or loss in value due to a change in creditworthiness which is expected within one year on a given probability of default (PD), loss given default (LGD) and exposure at default (EaD) for a borrower. In addition to the loan amount outstanding, the EaD also takes into account the expected drawdown on contingent liabilities and commitments. The maximum amount, by which an actual loss can exceed the expected loss with a specified probability (99.9%) within a specified time period (1 year) is described as the unexpected loss. HSH Nordbank uses a modified IRBA approach to determine the unexpected loss, which is based, for example, on the analysis of the individual positions of subsidiaries classified as economically important and which waives the grandfathering provision regarding equity holdings. PD, LGD and EaD are also relevant risk parameters in this context. Economic capital required is determined for internal steering purposes on the basis of the calculation of the equity capital backing in accordance with SolvV taking due account of any adjustments that are justified on economic grounds, e.g. exposures classified as being in default.

Since 31 March 2012 institution-specific asset correlations have been reflected in the determination of the economic capital required for default risk. The correlations specified in the German Solvency Regulation for the IRB Advanced Approach had previously been applied, which are less suitable for the individual portfolios of an institution. The economic capital required for so-called credit valuation adjustments (CVA) was estimated for the first time at the end of 2012 in order to also take into account valuation adjustments for OTC derivatives caused by credit considerations; this resulted ceteris paribus in an increase of € 0.4 billion in the capital required. The economic capital required for default risk as at the reporting date amounted to € 2.6 billion (31 December 2011: € 2.1 billion).

As part of the risk-bearing capacity concept, market risk (value-at-risk), which is determined on a daily basis at a confidence level of 99.0% and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a confidence level of 99.9% and a risk horizon of one year. The capital requirements for items of the Core Bank's portfolio and the Restructuring Unit subject to market risk are determined using a uniform liquidation horizon of 250 trading days. In doing so, the diversification effects between the Core Bank and Restructuring Unit are taken into account. Total economic capital required for market risk decreased compared to 31 December 2011 by € 0.2 billion to € 0.9 billion as at 31 December 2012.

HSH Nordbank uses a value-at-risk approach for quantifying liquidity maturity transformation risk. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs on the liquidity required by the Bank. The liquidity value-at-risk (LVaR) as a measurement of this risk decreased by € 0.2 billion to € 0.3 billion compared to the 2011 year end. This is a result, inter alia, of a methodological improvement made to the LVaR calculation in September 2012, which led ceteris paribus to a reduction in the LVaR of just under € 0.1 billion. As part of this enhancement the range of possible refinancing sources was expanded inter alia (e.g. to include client deposits, asset-based transactions) and improved market data was used. Insolvency risk, which is in principle the more important aspect of liquidity risk as compared with the liquidity maturity transformation risk, is backed by a buffer of liquid funds. Information on managing the insolvency risk, among other things, is included in the section “Liquidity risk”.

Operational risks are determined in accordance with the Standardised Approach as defined in the German Solvency Regulation (SolvV). The corresponding economic capital required amounted to € 0.3 billion as at 31 December 2012 (31 December 2011: € 0.3 billion).

As a result of the effects described above, overall economic risk increased by € 0.2 billion compared to the end of 2011 and amounted to € 4.2 billion as at the reporting date (31 December 2011: € 4.0 billion). The utilisation of risk coverage potential amounted to 42% as at the reporting date. The risk-bearing capacity was accordingly secured.

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

Risk-bearing capacity of the Group

€ bn		31.12.2012	31.12.2011
Economic risk coverage potential[1]		**10.1**	**9.2**
Economic capital required		**4.2**	**4.0**
Of which:	for default risks[2]	2.6	2.1
	for market risks	0.9	1.1
	for liquidity risks	0.3	0.5
	for operational risks	0.3	0.3
Risk coverage potential buffer		**5.9**	**5.2**
Utilisation of risk coverage potential (%)		**42**	**43**

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

We regularly conduct a macro-economic stress test across all risk types in order to be in a better position to assess the effects of potential crises on the overall risk position of HSH Nordbank in addition to the normal case assessment. Lower risk coverage potential is assumed on the one hand for purposes of computing risk-bearing capacity, which in particular results from the assumption of an increased expected loss. On the other hand, we simulate the increase in the economic capital required that would arise on special scenarios for default, market and liquidity risks, which assume a massive deterioration in the risk parameters compared to the actual situation in each case. As at the reporting date, economic capital required was supported by sufficient risk coverage potential even in this stress scenario.

DEFAULT RISK

HSH Nordbank breaks down its default risk into credit, country, equity holding and settlement risk. In addition to the traditional credit risk, credit risk also includes counterparty and issuer risk. Settlement risk consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due, have not been met by both parties. Advance performance risk arises where the Bank has performed its contractual obligations but consideration from the contracting party is still outstanding. All elements of default risk referred to are taken into account within the context of the management of equity capital. For risk concentrations and equity holding risks additional management measures are in place.

The organisation of and methods applied in default risk management are being constantly improved in order to reflect changes in market conditions and new regulatory requirements.

ORGANISATION OF DEFAULT RISK MANAGEMENT

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

The Credit Risk Management division is responsible for the risk analysis for the lending business of the Core Bank including the preparation and setting of the internal rating and drafting of the credit applications. This does not include the risk analysis for the highly structured business which is performed by the respective market department – closely supported by back office departments. Furthermore, the organisation of the bodies of rules for the lending business, including the related processes, is the responsibility of the Credit Risk Management division. The Loan Collateral Management division is responsible in particular for the settlement of new lending business, the administration of the existing portfolio as well as the valuation and monitoring of collateral.

Lending decisions in the Core Bank are made jointly by the respective market department and back office. A decision cannot be made without back office approval. As a back office department of the Core Bank, the Restructuring division independently makes its decisions based on the dual control principle. As a matter of principle, the competence levels are based on nominal amounts and the internal rating category.

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

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

The expertise for winding down the portfolios is consolidated in the Restructuring Unit, which is set up as a back office unit from an organisational and processing perspective. The Restructuring Unit independently takes all decisions necessary in respect of the positions transferred to it. This responsibility also includes restructuring and workout cases. It is also responsible for the processing and taking of decisions regarding workout cases in the Core Bank.

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

The Bank has defined valuable collateral in order to differentiate between collateralised and non-collateralised loans. The focus is placed on meeting the requirements of the German Solvency Regulation (SolvV) (e.g. availability of a market value, realisation options, non-correlation to the collateralised loan, legal enforceability, maturity match). The range of approved collateral can be expanded following an assessment carried out by a team independent of the market divisions consisting of specialists from the Credit Risk Management, Group Risk Management and Legal divisions.

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

The relevant subsidiaries – HSH Nordbank Securities S.A. and HSH Real Estate Group – are especially included in the risk reporting in order to ensure that default risk is controlled throughout the Group.

DEFAULT RISK MANAGEMENT

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

There is a significant reduction in the economic capital required for default risk after taking into account the second loss guarantee made available by the federal states of Hamburg and Schleswig-Holstein. HSH Nordbank manages both the guaranteed and non-guaranteed portfolio in accordance with regulatory and economic principles.

Default risk exposure

The loan amount outstanding represents the sum of loan receivables, securities, equity holdings, derivative financial instruments and other off-balance sheet transactions such as irrevocable, undrawn loan commitments that are at risk. The total loan amount outstanding was € 137,004 million as at 31 December 2012.

The loan amount outstanding broken down by internal rating categories is presented in the following table. The loan amount outstanding with an investment grade rating (rating category 1 [AAAA] to 5) accounts for € 74,208 million or 54% of the total exposure (previous year: € 76,181 million or 53%). The loan amount outstanding for investment grade exposures amounts to € 51,516 million or 64% (previous year: € 48,832 million or 62%) for the Core Bank and € 22,692 million or 40% (previous year: € 27,349 million or 42%) for the Restructuring Unit. Transactions, for which there is no internal or external rating available, are reflected in the “Other” line item. These mainly relate to loans and advances of our consolidated equity holdings to third parties.

Default risk structure by rating category

€ m	**Core Bank**	**Restructuring Unit**	**Total 2012**	Core Bank	Restructuring Unit	Total 2011
1 (AAAA) to 1 (AA+)	18,559	10,539	29,098	12,333	12,551	24,884
1 (AA) to 1 (A-)	13,741	5,137	18,878	16,009	6,773	22,782
2 to 5	19,216	7,016	26,232	20,490	8,025	28,515
6 to 9	15,697	8,069	23,766	17,337	8,703	26,040
10 to 12	3,839	3,107	6,946	4,399	6,475	10,874
13 to 15	3,385	6,686	10,071	2,592	6,985	9,577
16 to 18	4,494	15,909	20,403	4,146	15,483	19,629
Other	1,226	384	1,610	1,288	391	1,679
Total	**80,157**	**56,847**	**137,004**	**78,594**	**65,386**	**143,980**

The loan amount outstanding broken down by sectors important for the Bank is presented in the following table.

Default risk structure by sector

€ m	**Core Bank**	**Restructuring Unit**	**Total 2012**	Core Bank	Restructuring Unit	Total 2011
Industry	9,296	3,486	12,782	9,354	4,624	13,978
Shipping	17,722	10,909	28,631	20,354	11,629	31,983
Trade and transportation	5,637	3,746	9,383	5,915	4,623	10,538
Credit institutions	11,026	4,306	15,332	11,742	5,632	17,374
Other financial institutions	2,528	9,761	12,289	4,322	11,251	15,573
Land and buildings	8,639	11,379	20,018	8,476	12,562	21,038
Other services	8,082	4,510	12,592	8,200	5,325	13,525
Public sector	15,537	7,572	23,109	8,378	8,355	16,733
Private households	1,648	1,175	2,823	1,814	1,371	3,185
Other	42	3	45	39	14	53
Total	**80,157**	**56,847**	**137,004**	**78,594**	**65,386**	**143,980**

The following table shows the loan amount outstanding broken down by residual maturities:

Default risk structure by residual maturity

€ m	**Core Bank**	**Restructuring Unit**	**Total 2012**	Core Bank	Restructuring Unit	Total 2011
Up to 3 months	12,620	5,273	17,893	12,103	4,208	16,311
> 3 months to 6 months	3,434	1,214	4,648	2,484	1,731	4,215
> 6 months to 1 year	5,154	3,207	8,361	6,375	3,640	10,015
> 1 year to 5 years	32,453	24,878	57,331	30,776	27,701	58,477
> 5 years to 10 years	16,684	10,929	27,613	15,500	15,162	30,662
> 10 years	9,812	11,346	21,158	11,356	12,944	24,300
Total	**80,157**	**56,847**	**137,004**	**78,594**	**65,386**	**143,980**

Rating procedure/LGD

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

The RSU is responsible for new development, consistent validation and further development of the rating systems in accordance with the regulatory quality requirements and for the operation of the rating modules in a standard IT environment. The RSU is supported in methodology and expertise by specialists from the participating banks. In addition to the rating modules supported by the RSU, HSH Nordbank also uses rating systems that are provided, maintained and enhanced by S Rating. HSH Nordbank is in charge of the shipping and leveraged finance rating modules. It is also jointly responsible for the international real estate as well as the country and transfer risk rating modules.

In order to determine the expected drawdown for continent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as exposure at default (EaD). HSH Nordbank uses a differentiated LGD methodology for all rating procedures to forecast loss given default (LGD). Item-specific collateral recovery rates and borrower-specific recovery rates are estimated based on historic loss information. The respective default amount expected is determined from the EaD using the LGD.

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

The bank, corporate clients, international sub-sovereigns, country and transfer risk, insurance companies, leveraged finance, leasing and funds rating modules used by HSH Nordbank, as well as the standard rating used for smaller domestic corporate clients, are based on the so-called scorecard methods. Within the framework of different scorecard approaches, quantitative and qualitative characteristics and factors are identified and, according to these, borrowers can be assigned to different rating categories. The scorecard approach can be used only if there is a sufficient number of relatively homogenous borrowers.

As this precondition is often not met with regard to special financing, simulation techniques are primarily used in this case. For example, special financings in the shipping, real estate, projects and aircraft areas are assessed with the help of cash flow simulation models. Revenues from the object financed represent the primary source for reducing the liability. The cash flow of an object is simulated using scenarios with different macroeconomic and industry-specific conditions that simulate the future development of factors such as rents, vacancies and charter rates. The result is an individual probability of default for each borrower and hence an allocation to a concrete rating category.

The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings. The internal guidelines are adapted continuously to new methodological developments and validations.

Management of default risk in pricing and actual costing

HSH Nordbank applies a uniform method across the Bank for the pricing of lending transactions through calculating the present value of the expected and unexpected losses arising on default risk positions taking into account, where necessary, any currency transfer risk. This calculation reflects the overall contribution margin scheme. In addition to liquidity and standard processing costs, the rating, LGD and CCF risk parameters determined internally on an individual transaction basis are incorporated in the pricing. In the same way, an actual costing (profit centre accounting) is made for all transactions on a monthly basis. Based on the current risk parameters of the individual transactions, costs and the resulting contribution margins are determined.

Stress tests

HSH Nordbank carries out regular stress tests to determine the economic capital required for default risk. For this, the risk parameters used to calculate the economic capital required are varied, for example by changing the expected probability of default and the default ratios. The existing macroeconomic scenarios were refined in the reporting year.

In 2012 inverse stress tests were also carried out as planned on default risk. On the one hand the scenario-based approach applied in the previous year was retained for this purpose and on the other hand additional sensitivity analyses were carried out.

Risk concentrations

Within the framework of regular business area analyses potential risk concentrations regarding regions, industrial sectors and borrower units for example and their systematic reduction are monitored among other things. At the end of 2012 the material risk concentrations of HSH Nordbank were on the one hand in the shipping portfolios of the Core Bank and Restructuring Unit which accounted for 22% of the overall portfolio and, on the other, in the US dollar business which accounted for 32%. Additional information on business area analyses may be found in the chapter “Portfolio management by a central committee structure”.

In addition, limits are set for risk concentrations at the country level, which are explained in the following “Country risk” section. In the event that a limit is fully utilised the decision regarding each new business transaction rests with the Overall Management Board. The Management Board was informed within the framework of the quarterly Risk Report of all cases where the limit was exceeded at the level of borrower units and countries and of the status of the key measures introduced.

Risk concentrations at the counterparty level are limited under supervisory law within the framework of large exposures in accordance with Section 13a and 13b KWG. The regulatory limits for borrower and risk units are monitored in accordance with Section 19 (2) KWG by the internal large risk management, which also includes internal lines in addition to drawdowns and external commitments outstanding.

In addition, there are limits on classic lending and trading transactions. In managing and setting limits for counterparty risk as part of the monitoring of trading lines the potential future exposure on currency and interest rate derivatives is recalculated daily for each client on the basis of a 95% quantile and compared to the respective trading limit.

A surcharge to be applied to the economic capital required for default risk is also determined in order to reflect concentrations in the risk-bearing capacity (so-called granularity adjustment).

Country risk

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

Country risk limitation is an additional management dimension within the management of risk concentrations. Main parameters for recording country risk are the rating and the LGD of the transfer risk-relevant country. Country ratings and country LGDs are based on a methodology that was developed by the RSU as part of the joint project of the Landesbanken.

Country limits are set for country risk concentrations at the Group level. Utilisation of the limits is monitored continuously and centrally by the country risk management.

The “Foreign exposure by region“ table provides an overview of the breakdown of foreign exposure by region, which reached € 70,147 million as at 31 December 2012 compared to € 77,665 million in the previous year. Foreign exposure is defined as the nominal exposure on lending and trading transactions taking into account collateral relevant to transfer risk. The item “Other” includes for example, ABS and funds that cannot be clearly allocated to a country or region.

Foreign exposure by region

Loan amount outstanding

€ m	**Core Bank**	**Restructuring Unit**	**Total 2012**	Core Bank	Restructuring Unit	Total 2011
Western Europe	19,767	21,215	40,982	20,793	23,866	44,659
of which: eurozone countries	12,294	11,431	23,725	11,192	12,458	23,650
Central and Eastern Europe	1,467	840	2,307	1,533	900	2,433
of which: eurozone countries	91	161	252	101	164	265
Africa	918	406	1,324	1,103	410	1,513
North America	6,594	8,768	15,362	6,298	10,850	17,148
Latin America	901	935	1,836	1,266	1,232	2,498
Middle East	83	1,119	1,202	178	1,085	1,263
Asia-Pacific region	3,095	3,206	6,301	3,294	4,147	7,441
International organisations	784	23	807	104	10	114
Other	3	23	26	8	588	596
Total	**33,612**	**36,535**	**70,147**	**34,577**	**43,088**	**77,665**

Due to the deterioration in their fiscal and economic data, a number of European countries are subject to increased monitoring. These include in particular the Euro member states Greece, Ireland, Italy, Portugal and Spain.

The following table shows the loan amounts outstanding of the exposures in the individual European countries mentioned above. The values include the volume of loan receivables, securities, derivative financial instruments and guarantees at risk before valuation allowances, not determined at fair value and not taking into account pro rata interest. The loan amount outstanding for these countries totalled € 7,171 million as at 31 December 2012.

Loan amount outstanding in selected european countries

	Country		Banks		Corporates/Others		Total	
€ m	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Greece	7	258	-	-	1,780	1,256	1,787	1,514
Irelande	-	-	158	354	411	486	569	840
Italy	565	598	122	221	821	831	1,508	1,650
Portugal	280	297	5	24	68	73	353	394
Spain	228	233	1,332	1,320	1,394	1,490	2,954	3,043
Total	**1,080**	**1,386**	**1,617**	**1,919**	**4,474**	**4,136**	**7,171**	**7,441**

The following table shows the carrying amounts of our exposure to the selected European countries. The amounts are determined taking any impairment losses into account and include accrued interest. The carrying amount for these countries totalled € 6,369 million as at the reporting date.

Carrying amount in selected european countries

€ m	Country 2012	Country 2011	Banks 2012	Banks 2011	Corporates/Others 2012	Corporates/Others 2011	Total 2012	Total 2011
Greece	2	71	-	-	1,351	1,126	1,353	1,197
Irelande	-	-	155	348	318	385	473	733
Italy	523	546	124	210	736	709	1,383	1,465
Portugal	281	323	5	24	51	62	337	409
Spain	177	181	1,333	1,342	1,313	1,436	2,823	2,959
Total	**983**	**1,121**	**1,617**	**1,924**	**3,769**	**3,718**	**6,369**	**6,763**

In order to present risk in a conservative light, a first-to-default credit linked note (CLN) is reported in full at its loan amount outstanding of € 50 million in the corresponding figures for Italy, Portugal and Spain. Contrary to this, from a balance sheet perspective, the carrying amount of this CLN of € 50 million is taken into account for Portugal only, since the worst rating of the countries stated above is assigned to Portugal.

Note [72] includes more information on the selected European countries.

Equity holding risk

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

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

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

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

Regular reporting on business development and the economic situation of the companies is performed in terms of significance for the Bank at varying intervals and levels of detail. Moreover, the articles of association are formulated so as to ensure that the most intensive management possible can be exercised for the benefit of HSH Nordbank. In the case of particularly important companies, the creation of supervisory bodies with representatives of the Bank as members is of particular interest.

Loan loss provisions

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

For purposes of risk provisioning, we calculate the exposure at default from the amount of loans and advances less the net present value of all payments still expected to be received. The expected incoming payments comprise in particular all expected interest and redemption payments as well as payments from the liquidation of collateral, with any liquidation costs taken into account.

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

The continued winding down of risk positions in the Restructuring Unit is reflected in loans and advances to customers. This trend reflects the impact of the weak macroeconomic environment and worsening crisis in the shipping industry. Accordingly, higher valuation allowances had to be recognised primarily in the shipping portfolios. In addition, higher loan loss provisions were required in the Restructuring Unit primarily for real estate loans, mainly in the Netherlands. After deducting the increased compensation item resulting from the balance sheet hedging effect of the second loss guarantee the total loan loss provisions of the Bank decreased. The following table provides an overview of total loan loss provisions.

Total loan loss provisions

€ m	**31.12.2012**	31.12.2011
Loans and advances to customers	77,842	88,125
Loans and advances to banks	9,758	8,898
Volume of impaired loans	13,830	12,933
Individual valuation allowances for loans and advances to customers	-4,920	-4,274
General loan loss provisions for loans and advances to customers	-616	-289
Individual valuation allowances for loans and advances to banks	-133	-187
General loan loss provisions for loans and advances to banks	-10	-3
Loan loss provisions for balance sheet items	**-5,679**	**-4,753**
Provisions for individual risks in the lending business	-388	-320
Provisions for contingent liabilities (general loan loss provisions) in the lending business	-61	-11
Loan loss provisions for off-balance sheet items	**-449**	**-331**
Total loan loss provisions (before compensation item)	**-6,128**	**-5,084**
Compensation item	2,778	1,145
Total loan loss provisions (including compensation item)	**-3,350**	**-3,939**

The loss rate in the Bank amounted to 0.35% in the year under review (previous year: 0.39%). The loss rate of the Bank is calculated based on the actual amounts in default as a ratio of the lending volume. The total of the actual amounts in default is calculated from the utilisation of the individual valuation allowances plus direct write-downs less income from recoveries on loans and advances previously written-off. For the year 2012 the total amount in default is € 500 million (previous year: € 594 million) and the lending volume stands at some € 142,325 million (previous year: € 153,036 million).

Loan loss provisions for the Bank in the form of individual valuation allowances and provisions for default risks amounted to € -5,441.3 million as at 31 December 2012 (previous year: € -4,781.1 million) corresponding to a ratio of 3.82% in relation to the lending volume (previous year: 3.12%). General loan loss provisions (including country-specific general loan loss provisions) amounted to € -686 million (previous year: € -303 million).

Planning for loan loss provisions and losses

Loan loss provisions are planned using models that take account of portfolio movements, underlying macroeconomic data, the regulatory environment, risk parameter trends over time as well as past experience gained by the Bank under critical market conditions. From the perspective of the Bank a more appropriate loan loss provision plan is derived from this economic approach than would have been possible on the basis of historical default data alone. This is due, inter alia, to the extensive experience in processing problem loans, the quarterly loan loss provision process and the restructurings and realisation of collateral that have been carried out.

We make a methodological distinction between exposures classified as being in default and non-default exposures on the one hand and portfolios covered by the second loss guarantee, portfolios not covered by the guarantee as well as new business on the other.

The so-called expected loss resulting from the probability of default and loss given default in the event of a loan default is simulated for non-default exposures over a period of several years at the individual transaction level using transaction-specific parameters. Forecasts of future economic developments are also incorporated as part of the scenario analyses and thus of the assumed risk parameter trends. The amount of the allocations to the loan loss provisions is determined based on the historical relationship of the individual valuation allowances, general loan loss provisions or portfolio valuation allowances respectively to the expected loss.

The loan loss provision determined as part of the quarterly loan loss provision process is applied to exposures classified as being in default. In the case of exposures in default, for which a general loan loss provision or portfolio valuation allowance has been recognised, the probability of a change from a general loan loss provision or portfolio valuation allowance to an individual valuation allowance or classification as a non-default exposure is determined on the basis of historical empirical values. In the case of exposures, for which an individual valuation allowance has been recognised, annual allocations, reversals and utilisation are determined in relation to the total loan loss provisions based on analyses prepared in previous years and also taking due account of the scenario underlying the plan, and the movement in the loan loss provisions is modelled taking account of other planning assumptions.

The expected required level of loan loss provisions for new business is determined on the basis of the new business volume plan as well as on historically observed risk parameters or those stipulated as part of the new business strategy (rating, loss given default).

External expert valuations are applied to securities positions covered by the guarantee. Furthermore, an analysis of the expected loss over a time horizon of several years is taken into account for certain positions in accordance with the approach applied in the lending business.

An essential building block for planning the loan loss provisions are the portfolio estimates made by top management as well as the persons operationally responsible for the restructuring and workout of problem loans. The cases with the largest loan loss provisions as well as those with foreseeable changes and requiring the recognition of new provisions are regularly discussed. This enables the Bank to closely monitor current loan loss provision trends and to provide an outlook for the following quarters for these sub-portfolios. The Bank is continuing to assume that, with the stabilisation of the macroeconomic environment in 2015 following a period of several years processing problem loans, all material risks on exposures with an existing specific loan loss provision are identified and processed in the loan loss provisions as well as that, subsequently allocations will solely result from reclassifications from the non-default portfolio into the default categories or from the first-time recognition of specific loan loss provisions on exposures already in default.

The planning of loan loss provisions for the guaranteed portfolio is relevant for the utilisation of the guarantee and the amount of the total loss. The utilisation of the loan loss provisions to be invoiced is increased annually by the utilisation under the guarantee taking account of unwinding effects and the individually retained amounts.

It is assumed for the expected invoicing of losses arising in the lending business that losses of about 70% will be invoiced in the following year. The Bank is also assuming lower receipts on invoiced receivables on a historical comparison. The Bank assumes that invoicing takes place in line with the maturity structure for the invoicing of losses of impairments in the guaranteed securities portfolio forecasted based on external expert reports.

The expected losses total € 4.5 billion on this basis.

MARKET RISK

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

ORGANISATION OF MARKET RISK MANAGEMENT

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

Market risk was actively managed in the Capital Markets division in the year under review. The Asset Liability Committee (ALCO) is responsible for selected large-volume strategic positions exposed to market risk. Daily market risk reports regularly keep the Management Board and the trading divisions informed on the extent of existing market risks and current utilisation of limits.

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

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

HSH Nordbank Securities S.A. is taken into account as the relevant subsidiary within the Group-wide market risk management process. Risk limits are set and risks monitored centrally by HSH Nordbank AG.

MARKET RISK MANAGEMENT

Market risk measurement and limitation

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

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

The main market risks at HSH Nordbank are interest rate risk (including credit spread risk) and foreign exchange risk. In addition to these risk types, the VaR of HSH Nordbank also covers equity and commodity risk for both the trading book and the banking book. The individual market risk types are not restricted by separate limits. Limitation is applied within the VaR limit for the overall market risk of the Bank. Limits are set for the VaR for the different reporting units for the purposes of managing market risk, whereas losses incurred are restricted through stop loss limits. There are clearly defined processes for limit adjustment and breach.

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

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

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

Market risk measurement enhanced

One focus of the enhancements made in the reporting year was on the measurement of credit spread risk. The credit spread of a bond is a premium payable for the default risk of an issuer. The credit spread risk represents the potential unfavourable future development of the value of an item due to a change in the spread. The integration of the credit spread risk on third party issues held in certain valuation units into the daily market risk measurement was progressed in 2012 according to plan and implemented for the most part. This involves valuation units with structured products, in which the underlying is hedged by a hedging transaction. However, the credit spread risk on these hedged items (government bonds) is not hedged and has been taken into account based on a periodic estimate in the course of risk measurement to date. It is planned to progress the integration of these valuation units into the daily VaR calculation further in 2013. The measurement of the credit spread risk on securitisations was also refined.

The periodic estimate of the residual risk for corporate bonds and covered bonds (Pfandbriefe) was updated in 2012 as planned. This showed that the effect of this specific credit spread risk on the overall market risk can still be classified as immaterial.

The basis risk constitutes the risk of a potential loss or profit resulting from changes in the proportion of prices or interest rates on similar financial products within a portfolio. HSH Nordbank identifies material basis risks by means of a regular analysis process. In addition to the interest basis risk the foreign exchange basis risk for the main currencies has also been reflected in the daily market risk measurement since March 2012.

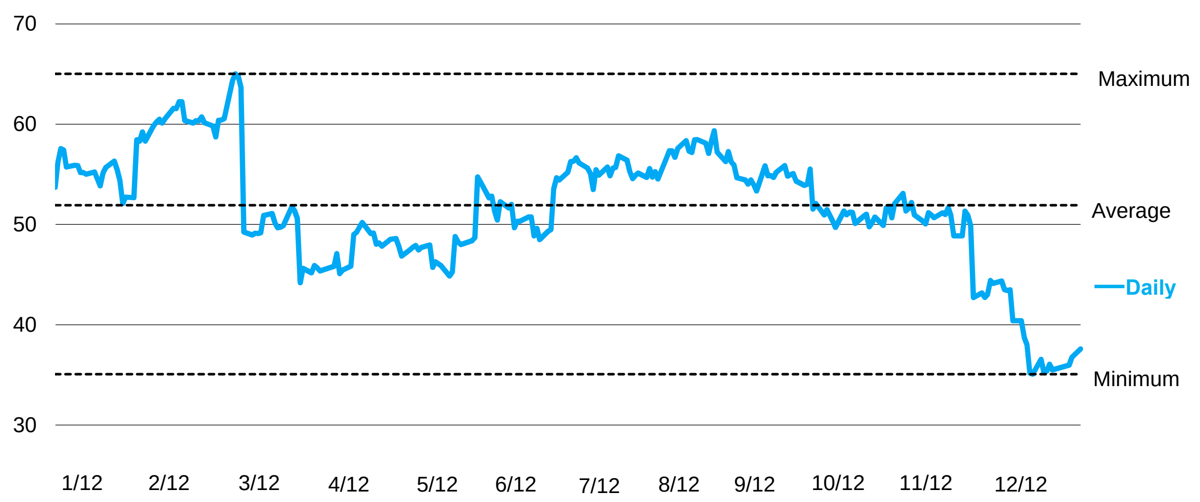
In additions there were also improvements in the measurement and calculation of risk for certain products in 2012, which did however not have any significant effects on the overall VaR.

Daily value-at-risk during the year under review

The following chart illustrates the movement in the daily VaR for the total trading and banking book positions of HSH Nordbank over the course of 2012. The market risk fluctuated between € 35 million and € 65 million with the VaR of the trading book positions amounting to € 1 million as at 31 December 2012, while that of the banking book transactions amounted to € 38 million. On the last trading day in 2012, the total VaR of the Bank amounted to € 38 million, while the VaR limit for restricting market risk amounted to € 75 million. The utilisation of the limit was therefore 50%. As part of the risk-bearing capacity management, the VaR is scaled up to the amount of € 0.9 billion in the framework of aggregating the individual risk types to the overall risk.

Daily value-at-risk in the course of 2012

€ m



In March 2012, the reported interest rate risk increased substantially due to the various methodological enhancements made to the measurement of market risk – the planned integration of foreign exchange basis risk for the main currencies as part of the daily calculation of VaR was implemented amongst other things. However, the overall VaR decreased on this date by approximately € 14 million due to diversification effects.

The significant reduction in the overall VaR in November and December 2012 is primarily attributable to the methodology-related elimination of data of the corresponding previous year period from the historical observation period of the last 250 trading days.

The "Daily value-at-risk of the Group" table shows the VaR for the entire trading and banking book positions. The maximum and minimum represent the range over which the respective risk amount moved in the course of the year under review. The overall risk is determined by aggregating the individual types of market risk. The market risk of the Group is determined in full in HSH Nordbank AG, taking account of the Group-wide correlations. Market risk arising on derivative transactions is included in the amounts disclosed. The volatility risk arising on the option positions is also included here.

Daily value-at-risk of the Group

€ m	Interest rate risk[1] 2012	2011	Credit spread risk[1] 2012	2011	Foreign exchange risk 2012	2011	Equity risk 2012	2011	Commodity risk 2012	2011	Total[2] 2012	2011
Average	33.2	9.7	53.0	37.1	18.2	11.7	2.0	2.4	0.5	0.3	51.9	41.2
Maximum	46.9	13.7	71.3	41.6	27.6	23.4	3.9	3.5	1.5	1.0	65.0	54.5
Minimum	5.7	5.5	37.6	30.4	1.4	4.6	0.8	2.0	0.2	0.1	35.1	33.0
Period end amount	38.0	7.6	44.6	38.2	1.4	23.4	3.4	2.3	0.3	0.6	37.6	54.5
of which: Core bank	35.8	13.6	8.3	5.9	4.9	2.4	0.5	1.0	0.3	0.6	34.3	14.4
of which: Restructuring Unit	9.3	13.2	39.7	31.2	4.5	25.0	3.1	1.6	0.0	0.0	48.7	58.0

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

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

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

The market risk that results on derivative positions from the change in the market's assessment of the creditworthiness of the counterparties amounted to € 6.0 million as at the reporting date. This risk is not included in the VaR amounts disclosed for the Group.

Backtesting

The Bank performs regular backtests to verify the appropriateness of our VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecasted using historical simulation. Based on the assumption of the confidence level of 99% applied by the Bank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. There were more than four outliers from time to time at the start of 2012 due to a methodological change to the backtesting. However, following the change in methodology made in March 2012, the number of outliers was again in the uncritical area in the reporting year, thereby confirming the Bank's market risk model. The results of backtesting are taken into account in the on-going development of our VaR methodology.

Stress tests

In addition to the limit-based management of the daily VaR, at least weakly stress tests are performed that analyse the effects of unusual market fluctuations on the net present value of the Bank's positions. At the start of the reporting year a new stress test concept was implemented against the backdrop of the 3rd MaRisk amendment that is now aimed at taking greater account of the stress test results in risk management and a clear focus on hypothetical scenarios.

We make a distinction between standardised, historical and hypothetical scenarios. Whereas standardised scenarios are defined for specific risk types (e.g. shift in or rotation of the interest rate curve), historical and hypothetical stress tests apply across risk types. In this regard historical scenarios actually map correlations between risk factors that occurred in the past, whereas hypothetical scenarios are based on fictitious changes in risk factors. With regard to the hypothetical scenarios it is also distinguished between economic scenarios that simulate a downturn in the macro-economic environment and portfolio-specific scenarios that can represent a potential threat for the value of individual sub-portfolios of the

Bank. The hypothetical scenarios are periodically adjusted depending on changes in the market environment.

For special analyses of the interest rate risk of our banking book positions we continually determine the change in present value on an interest rate shock of +/-200 bps. In doing so, the requirements for the determination of the effects of a sudden and unexpected interest rate change were implemented with respect to positions held in the banking book. At the end of 2012 the negative interest rate shock with a potential loss of € -141 million represented the most unfavourable scenario for the Bank. With 1.4% this result was therefore clearly below the regulatory alert threshold of 20% of regulatory capital.

The potential loss under the scenario of an extreme increase in credit spreads amounted to € -831 million as at 31 December 2012. In this stress test the spread curves are shifted according to their rating category. Spread shifts between +30 (AAA rating) and +1,500 basis points (CCC rating) are applied to the curves.

At the end of 2012, the potential loss under the scenario of an appreciation of the euro against all other currencies amounted to € -43 million. A uniform appreciation of the euro of 15% is assumed in determining the change in present value arising from this stress test. The movement in the USD is the significant factor influencing the result of the stress test, as only smaller positions are held in other currencies. A corresponding depreciation in the euro does not represent a stress scenario for HSH Nordbank at the end of 2012 from a market risk perspective, as this would result in a profit.

Furthermore, the market risks in the reporting year were also an integral part of the inverse stress tests analyses on a regular basis.

Instruments for managing market risk as part of hedge accounting

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

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

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into risk of insolvency and liquidity maturity transformation risk. The risk of insolvency refers to the danger of the Bank not being able to meet its own payment obligations or refinancing requirements as they fall due, or not to the extent required. Liquidity maturity transformation risk refers to the risk that a loss will result from a mismatch in the contractual maturities of assets and liabilities, the so-called liquidity maturity transformation position, and from the change in the Bank's refinancing surcharge. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept and is discussed in the section 'Risk-bearing capacity'. The Bank uses various instruments to measure, manage and limit its liquidity risks.

ORGANISATION OF LIQUIDITY RISK MANAGEMENT

Strategic liquidity management is the responsibility of the Strategic Treasury division. The objective of liquidity management is to ensure the solvency of the Bank at all times, in all locations and in all currencies. The Capital Markets division is responsible for funding and marketing.

The Group Risk Management division is responsible for the methods used to measure and limit liquidity risk within the Group. In addition it measures risk and monitors limits as part of the daily reporting of liquidity risk. This supports Strategic Treasury in managing liquidity for all time buckets and enables it to counter possible risks at an early stage.

The Asset Liability Committee assumes the tasks of strategic management of the resources liquidity/funding, balance sheet capacity, RWA and economic capital. The Transaction Committee allocates resources within certain volume limits to individual transactions in the sense of an active portfolio management.

Within the Group controlling of liquidity risks HSH Nordbank Securities S.A. and the HSH Real Estate Group are integrated as relevant subsidiaries into the Group-wide examination of liquidity risk.

The Bank has a contingency plan which contains a catalogue of measures and regulated procedures and responsibilities should a liquidity crisis occur. Furthermore, early warning indicators are taken into account in the emergency plan.

LIQUIDITY RISK MANAGEMENT

Measurement of liquidity risk

The transactions of the Bank impacting liquidity are presented as cash flows and the resultant inflows and outflows allocated to time buckets (liquidity development report) for the purposes of measuring insolvency risk or funding requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant time buckets. There are two types of gaps: individual gaps for 1 to 14 days that are used to show concentrations of outflows and cumulative gaps from 1 day to 12 months to map future liquidity requirements. They are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the respective limit for insolvency risk. Utilisation of the limits is monitored on a daily basis. The net liquidity position, which shows the extent of the insolvency risk, is determined as the net amount from the gaps and the respective liquidity potential.

Liquidity development reports are prepared daily at the level of the Group, overall bank, foreign branches and relevant subsidiaries. In addition to the total business recorded in the statement of financial position, loan commitments already granted, guarantees, pre-value dated transactions and other off-balance sheet transactions are incorporated in the report. In order to better consider economic maturities flow scenarios are used for some items. In so doing any possible residual amounts from deposits and current accounts as well as the time to liquidate assets and the amounts, for example, are modelled conservatively as a matter of principle. These liquidity development reports reflect the current market situation as a base scenario (normal case assessment). In addition to calculating the liquidity development report in euro equivalents, a separate liquidity development report is prepared daily for all US dollar transactions. In this way we support adequate management of our US dollar position.

In addition to the normal case liquidity development report, which is compiled on the assumption of business developments in a normal market environment, the Bank also compiles the results of a market liquidity stress test on a daily basis in the form of a stressed liquidity development report (stress case assessment) in order to reflect critical market developments. The stress case includes, for example, difficult refinancing conditions and additional cash flows under stress assumptions.

HSH Nordbank quantifies its liquidity maturity transformation risk by means of a VaR approach. The liquidity-value-at-risk (LVaR) is calculated through historical simulation (confidence level 99.9%) of the liquidity spread and its present value effect on transactions, which would necessary theoretically in order to immediately close the current maturity transformation position. In doing so, it is assumed that these hypothetical close-out transactions could actually be effected in the market and that full funding is therefore possible.

Limiting and monitoring liquidity risk

Limits are set for the individual gaps as well as the cumulative gaps for the first 14 days as part of insolvency risk management. Furthermore, limits are set for cumulative gaps for numerous other time buckets up to twelve months.

Insolvency risk is in principle limited by the ability of HSH Nordbank to exhaust its total liquidity potential. This liquidity potential comprises different elements, the total of which represents the total limit. The liquidity potential (limit) represents the respective ceiling for cumulative gaps of individual maturities and is composed of a securities portfolio held as a crisis precaution measure (liquidity buffer), further highly liquid and liquid securities, according to how liquid they are, unsecured funding options, secured funding potential from the issue of Pfandbriefe and industrial loans eligible for refinancing with central banks. In addition, the long-term funding potential from illiquid assets used as collateral is also taken into account.

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

Group Risk Management calculates and monitors limit utilisation daily and reports the results to the Management Board and responsible divisions. In the event that limits are exceeded ALCO determines appropriate measures as proposed by Strategic Treasury that are implemented by the Capital Markets division. Implementation of the measures is monitored by Group Risk Management.

The LVaR for the liquidity maturity transformation risk is determined each month by Group Risk Management and reported to the Management Board and management responsible for it. Limits are set at Group level and are an integral part of the risk-bearing capacity concept.

Group Risk Management informs the Management Board and the responsible divisions on a monthly basis in aggregate form with regard to the overall assessment of the liquidity position of the Group. In addition to information on the market and funding situation this report also contains in particular limit utilisations in the normal case and stress case and in stress scenarios for insolvency risk, as well as analyses on risk concentrations.

Liquidity management

The Bank prepares a long-term liquidity plan for the strategic management of the liquidity resource over the long-term. The short-term liquidity base is operationally managed by the Capital Markets division by means of general parameters specified by the Strategic Treasury division. In addition to the regulatory requirements the liquidity development report is used amongst other things as the basis for determining these parameters. Any change to the individual parameters or the framework requirements is decided by the ALCO. This places the Bank in the position to react flexibly to market developments.

The collateral pool consisting of our securities and loans was also managed and enhanced by Strategic Treasury in 2012 in order to be able to utilise the potential for secured funding in the best possible manner.

Backtesting

In our backtesting we review the modelling of products with stochastic cash flows in the liquidity development report on the basis of statistical evaluations of historical cash flows. The selection of the relevant products is based on the product volume and its risk content in terms of uncertainty in previous modelling.

In the year under review, we have carried out backtesting of the funding potential, the liquidity potential relating to securities and the modelling of time deposits with rights of termination inter alia. The increase in the redemption of own issues and promissory notes by the Bank during the course of 2012 resulted in corresponding adjustments being made to the modelling assumptions for these products in the liquidity development reports. Furthermore, we have subjected the modelling assumptions applied to products and limits to another backtest for the stress scenario of a rating downgrade by two notches following the downgrade made by Moody's in November 2011. This showed that the assumptions used in this scenario were selected very conservatively.

Stress tests

Our regular stress tests for insolvency risk include unusual scenarios and their impact on the liquidity situation of the Group in the risk assessment. When determining these scenarios, the risk and significant parameters were determined for all types of transactions included in the liquidity development report, which change the cash flow profile in the respective stress case. For example, inflows are lower or occur later or outflows are higher or occur earlier than expected.

The selection of our stress tests is the result of an analysis of historical events and hypothetical scenarios. As part on the on-going enhancement process the knowledge obtained on the rating downgrade of HSH Nordbank in 2011 was also incorporated into the modelling and/or the definition of parameters in the reporting year. Within the different stress modelling market specific scenarios (e.g. severe economic downturn), institution specific scenarios (e.g. rating downgrade of HSH Nordbank AG) as well as a combined scenario (severe economic downturn and rating downgrade) are assessed on the basis of current market developments. In each of these scenarios it is assumed, for example, that new lending business will continue to some extent and that loans and advances to customers maturing must be extended and refinanced on an increasing basis while the rollover of liabilities is partially cut back or is quite impossible and as a result a financing gap is created. Furthermore increased drawdowns on loan commitments issued and the early redemption of own issues and securitised liabilities among other things are incorporated in the modelling. The stress test results are reported to the Management Board and the responsible divisions on at least a monthly basis.

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

Within the framework of a stress test for the liquidity maturity transformation risk we analyse how the LVaR moves on increasing liquidity spreads. The methodology for this stress test was further developed in the reporting year. The change in the liquidity spread resulting from the macroeconomic approach, under which the relevant stress volatilities are derived from the economic forecasts, is now used to derive the scenario parameters. The stress LVaR serves as an indicator for the sensitivity of the LVaR to an increase in the spread/liquidity costs and constitutes an additional piece of management information.

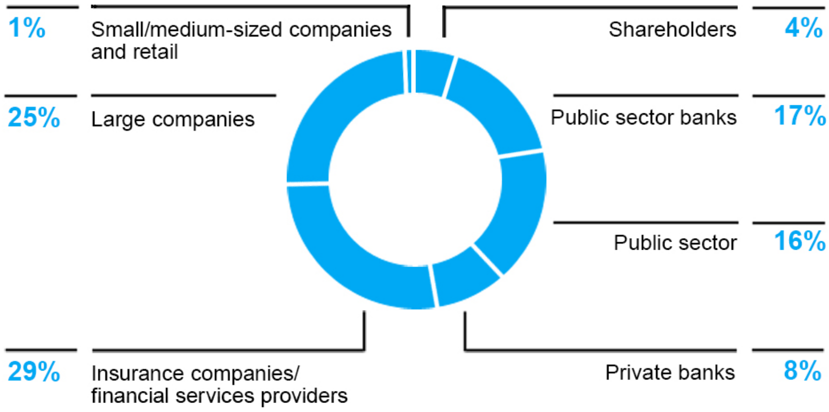
Furthermore, events that could have a critical impact on the Bank's solvency were analysed in the reporting year within the framework of the periodic implementation of inverse stress tests.

Risk concentrations

Risk concentrations occur in liquidity risk in several ways. Concentrations of both asset and liability products can increase liquidity risk. In addition to the existing management system for concentrations of asset instruments HSH Nordbank has therefore established a monitoring system for concentrations of liability instruments. Special emphasis is placed on deposits that are analysed and reported on with regard to the depositor structure (investor, sectors), maturities (original and residual maturities) and currencies.

Depositor structure as at 31 December 2012

%



Various quantitative measures (e.g. concentration curve, Herfindahl index and relationship ratios) are calculated for the purposes of analysing risk concentrations. Furthermore, an analysis is performed not only of the structure but especially on the risk content in order to be able to derive efficient management incentives from the quantitative measures in combination with a qualitative discussion. For example, the residual maturities of deposits together with historically derived prolongation ratios, which also apply in the liquidity development report, are reflected in the analysis of the largest depositors.

In addition to the analysis of the depositor structure, liquidity concentrations are examined with regard to macroeconomic factors. This shows that liquidity situation is still strongly dependent on the movement in the US dollar. This is due to the large amount of US dollar assets that are refinanced through cross-currency swaps among other things. On depreciation in the EUR/USD exchange rate the increase in the cash collateral to be provided on foreign currency derivatives will represent a burden on liquidity. For the purposes of analysing the dependency on the US dollar, sensitivity analyses are therefore carried out regularly for cash collateral. In addition a US dollar stress test of the liquidity development report is performed.

Stable liquidity situation despite a difficult market environment

Developments in the financial markets were also determined in 2012 by the sustained sovereign debt crisis in Europe. Following a short initial period of stabilisation caused by the additional liquidity provided by the ECB unease returned to the financial markets. This was mainly attributable to concerns regarding the possible exit of Greece from the eurozone but also regarding Spain's banking sector and future economic developments in the eurozone. As a result, the impact of the additional central bank liquidity diminished, and the European sovereign debt crisis came to a head again. Amongst other things, the programme for purchasing government bonds has convinced many investors that the politicians would like to stick to the eurozone over the long-term. The restructuring of the banking sector in Spain had a positive effect. The adoption of a new rescue package for Greece was the most recent measure that contributed to a significant reduction in the risk premiums for bonds issued by the periphery countries. The relaxing of the monetary policy of the US Federal Reserve Bank over the course of the year also resulted in a significant reduction in the yields on German government bonds.

It was possible to further improve the Bank's liquidity position in the area of short- and medium-term maturities. The measures focussed on increased efforts to obtain new deposits and funding. For example, we successfully placed a five-year and a four-year mortgage Pfandbrief in the year under review in the amount of € 500 million each within the framework of two benchmark issues. In addition to further issues structured as private placements the clear increase in time and demand deposits from corporate clients and institutional investors as well as successes achieved in obtaining receivable based funding also contributed to the improvement in the liquidity situation.

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 December 2012 as well as the end of 2011. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes the liquidity buffer required under supervisory law.

Limit on cumulative liquidity gaps

Utilisation of liquidity potential

	Normal Case		Stress Case	
%	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
1st day	7	0	11	6
7th day	0	28	2	48
14th day	1	29	10	39
3rd week	11	50	23	65
4th week	15	54	30	71
2nd month	46	66	68	90
3rd month	71	74	95	103
6th month	76	73	111	110
9th month	79	77	125	126
12th month	81	74	134	131

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

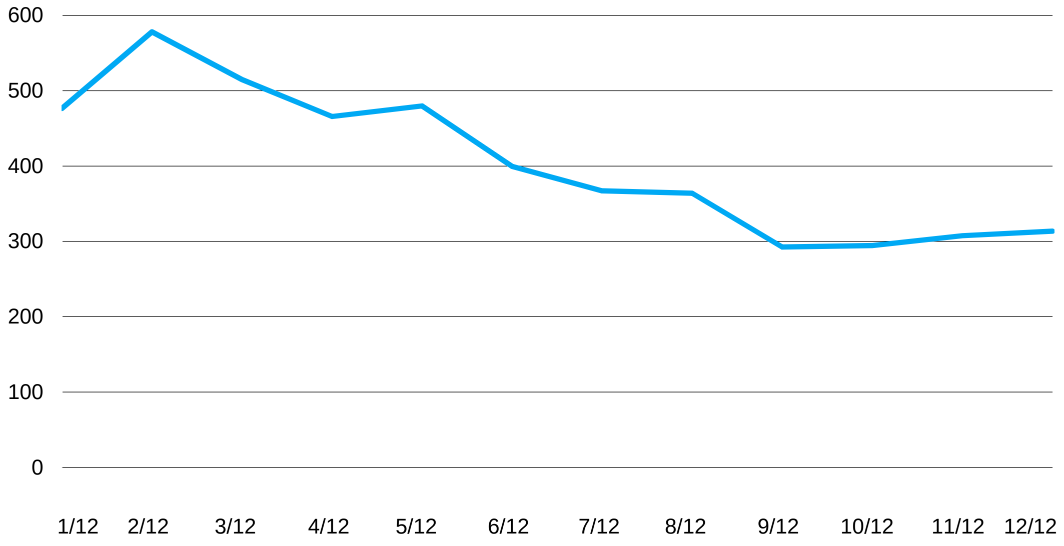
In the normal case assessment the liquidity potential had a peak utilisation of 81% in the 12th month as at the reporting date. All limits within the survival period of twelve months defined by the Bank were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was also not exceeded within the minimum survival period of one month established taking Minimum Requirements for Risk Management (MaRisk) into account. In fact, the liquidity potential as at the end of 2012 is even maintained for a period of four months. Compared to the end of the year 2011, utilisation levels have been significantly reduced in part due to the measures implemented in the case of maturities of up to three months particularly relevant for insolvency risk. Critical limit utilisation levels were recorded neither in the normal case nor in the stress case liquidity development report in the course of the period under review.

The results of the market-specific and Bank-specific stress scenarios and the combined scenario determined in addition to the stress case liquidity development report show as at December 2012 the liquidity requirement of HSH Nordbank was covered for two months up to twelve months despite the strict worst case assumptions for each scenario. A minimum survival period of one month is thereby maintained in all scenarios. The results show that the Bank is suitably prepared for the crisis scenarios assessed.

In the year under review, the LVaR as an expression of the liquidity maturity transformation risk moved on a monthly basis between € 292 million and € 578 million. It amounted to € 314 million as at 31 December 2012. In September 2012 a methodological improvement was made to the LVaR calculation process that resulted in a reduction of € 55 million in the LVaR. As part of this enhancement the range of possible refinancing sources was expanded inter alia (e.g. to include client deposits, asset-based transactions) and improved market data was used.

Liquidity-value-at-risk in the course of 2012

€ m



The liquidity position of HSH Nordbank remains stable. The Bank successfully implemented its issuance plan in the reporting year, while deposits displayed a positive trend. The placement of the mortgage Pfandbriefe in the first half of 2012 also contributed to this. Despite this success, access to capital markets remains limited so that the future funding and rating continue to represent some of the significant challenges facing the Bank. The section "Business developments" contains further information on the Bank's funding situation.

Liquidity ratio of HSH Nordbank AG

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.65 and 2.14, our liquidity ratio remained above the regulatory minimum value of 1.0 at all times throughout the reporting period. The average value for 2012 was 1.79 (previous year: 1.79).

Liquidity ratio (LiqV)

Month-end figures

	2012	2011
January	1.75	1.83
February	1.86	1.77
March	1.82	1.70
April	2.14	1.61
May	1.81	1.66
June	1.65	1.70
July	1.76	1.91
August	1.77	1.91
September	1.65	1.89
October	1.69	1.81
November	1.68	1.74
December	1.89	1.92

OPERATIONAL RISK

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

ORGANISATION OF OPERATIONAL RISK MANAGEMENT

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

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

The "OpRisk Committee", a Bank-wide steering committee established in the reporting year to deal with operational and other risks, provides support to the Overall Management Board in the implementation of the OpRisk Strategy under the chairmanship of the Chief Risk Officer. The objective of the interdisciplinary OpRisk Committee is to promote dialogue between the persons involved at all hierarchy levels and to determine appropriate measures for reducing operational risk.

The HSH Nordbank Securities Group, the HSH Real Estate Group, HSH Facility Management GmbH, HSH Security GmbH as well as HSH Kunden- und Kontenservice GmbH have been identified as relevant subsidiaries and integrated into the Group-wide assessment of operational risk.

OPERATIONAL RISK MANAGEMENT

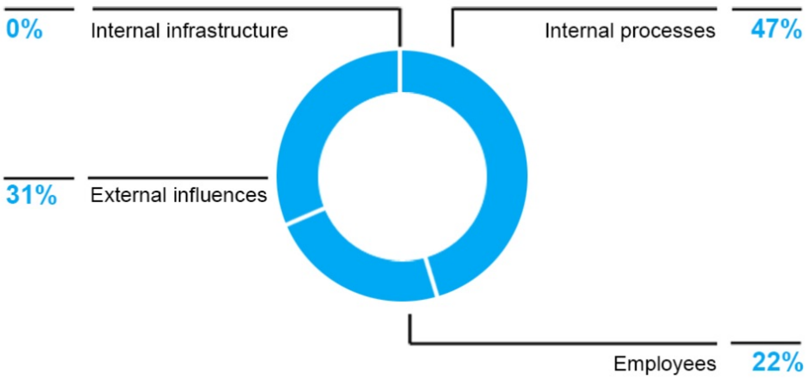
The identification, analysis, evaluation and monitoring of operational risk and the promotion of a corresponding risk culture in the Group represents an important success factor for HSH Nordbank. Different procedures and instruments are used in this process.

Loss event database

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

The central loss event database includes all loss events with a gross loss of at least € 2,500 and since 2012 all material near-loss events. The largest individual gross loss in the year under review occurred in the category Internal processes.

Share of risk categories in gross operational losses 2012
%



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

Risk inventory

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

The 2012 risk inventory was also performed against the backdrop of the restructuring of the Bank and the agreed reduction in staff. In order to counter the resultant operational risk, the Bank has introduced measures which, on the one hand, retain important knowhow carriers and on the other hand ensure a proper implementation of the restructuring process.

Control of measures

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

Risk indicators

The Bank started to identify risk indicators and their integration in the OpRisk reporting in the reporting year. The indicators are selected based on the estimated risk situation and are periodically reviewed to ensure that they are up-to-date. The aim is to identify risks at an early stage by means of the on-going and comparative analysis of loss events and risk indicators and their causes are to be prevented.

Legal risk

In accordance with the German Solvency Regulation (SolvV), legal risk also falls under operational risk. Legal risk includes economic risks arising as a result of non-compliance or not full compliance with regulations or with the framework defined by case law, in particular commercial law, tax law and company law. 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 not yet been finalised for the years 2003 to 2012. The Legal and Taxes divisions are responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff. A structured process with clear requirements and responsibilities servers to ensure that the Bank's contracts and agreements are kept up-to-date.

Compliance risk

Compliance risk comprises legal and regulatory sanctions or financial losses caused by non-compliance with certain laws, regulations and guidelines as well as organisational standards and codes of conduct. The Compliance division at HSH Nordbank is responsible for managing risks with regard to the German Securities Trading Act and related standards, the fraud prevention under Section 25c KWG, anti-money laundering and international financial sanctions.

The Code of Conduct summarises all behavioural requirements for compliance, which are set out in detail in internal instructions. It applies to all employees, managers and the Management Board of HSH Nordbank AG, is trained in special sessions and is a mandatory part of the agreement of personal goals. In 2012 the Bank received notification of suspicious cases of misconduct via internal reporting channels and the so-called 'whistleblowing office' and forwarded these to the responsible internal and external bodies. Furthermore, the whistleblowing office is staffed by independent ombudsmen from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and enables anonymous reporting of suspicious cases.

During the year under review, several enhancements were made with regard to the individual compliance topics.

OTHER MATERIAL RISKS

Among other material risks of HSH Nordbank are strategic risk and reputation risk.

STRATEGIC RISK

Strategic risk is the risk of a financial loss being incurred as a result of long-term decisions which are erroneous or based on incorrect assumptions, particularly with respect to the performance of individual areas of business or the banking sector as a whole.

The strategic realignment of HSH Nordbank was successfully continued during the year under review against the backdrop of the conclusion of the EU proceedings. The strategic risk of the Bank was further reduced in the year under review through concentrating on the core business areas, the separation and active winding down of risk-bearing and non-strategic portfolios in the Restructuring Unit, the consolidation of the international network of locations and with the sale of numerous equity holdings in line with the conditions imposed and the commitments of the Bank.

REPUTATION RISK

The reputation risk is the risk of direct or indirect loss caused by damage to the Bank's reputation and related opportunity costs. Damage to reputation means a public loss of confidence in the Bank or a loss of esteem of the Bank from the viewpoint of individual stakeholders (e.g. capital markets, clients, shareholders, investors, the general public, employees).

Firstly, damage to reputation can be directly caused by the behaviour of internal staff, external stakeholders or by social environment as a whole. This can give rise to further negative repercussions for the Bank. Secondly, reputation risk in terms of a consequential risk can arise indirectly as a result of the occurrence of a loss in another risk type.

HSH Nordbank manages reputation risk particularly by means of preventive measures via the review of specific transactions on the one hand and via process-related rules on the other in order to prevent the occurrence of reputational damage to the extent possible. Accordingly, reputation risk also forms an integral part of our risk strategy.

SUMMARY AND OUTLOOK

The 2012 financial year was characterised by the continuing winding-down of high-risk, non-strategic lending and capital markets transactions held in the Restructuring Unit portfolio as well as by the progress made in implementing the new "Bank for Entrepreneurs" business model. This is reflected in the reduction in the loan amounts outstanding on default risk exposures in the Restructuring Unit and the increase in new exposures in the Bank's strategic core areas.

The risk-bearing capacity of HSH Nordbank was maintained at all times during the year under review with a maximum utilisation of the risk coverage potential of 42%. The on-going reduction of risk positions as part of the implementation of the EU conditions made a positive contribution to this. In the future we expect a sustained strengthening of our risk-bearing capacity as a result of the planned replenishment of the capital relieving guarantee facility to its original amount of € 10 billion. There are still some uncertainties caused by risk concentrations in the shipping portfolios and the US dollar business of the Bank. The overcapacity in large sections of the shipping markets and the euro sovereign debt crisis are having a negative impact in this regard.

In the reporting year the Bank established a central steering body in the form of the so-called Business Review Meeting, which periodically reviews the achievement of objectives by the divisions particularly with regard the optimal allocation of resources and having due regard to the EU conditions, and initiates the required action where necessary.

As in the past reporting year, the Bank will also further enhance its risk management system in 2013. The emphasis will continue to be placed on supporting the focussed business model through improving the methods and procedures applied to manage and control the material risk types.

The implementation of the new supervisory requirements will be another focus of our activities in 2013. The Bank has taken appropriate measures to ensure that all provisions of the new Minimum Requirements for Risk Management (MaRisk) are complied with in due time by the end of 2013. The future requirements resulting from the Basel III set of rules and which will probably gradually enter into force from 2014 will be implemented within the framework of projects.

The risk and bank management systems described in this report are aligned to take account of risk on a systematic basis. This also applies to our expectations regarding future market and business developments. We believe that we have appropriately presented the opportunities and risks inherent in the future development of our business activities, among others in the "Outlook" and in this Risk Report. Accordingly, we assume that the risk-bearing capacity and solvency of HSH Nordbank will also be maintained on a sustained basis in the future based on the measures already initiated.

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

In accordance with Section 312 of the German Securities Act (AktG), the Management Board of HSH Nordbank AG is obliged to submit a report on relations with affiliated companies (Dependent Company Report) for the financial year 2012.

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

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

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

Hamburg/Kiel, 21 March 2013

von Oesterreich

Ermisch

Temp

Wartenweiler

Wittenburg

ANNUAL ACCOUNTS of HSH NORDBANK AG

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2012

Assets

€ k

	(Note)				31.12.2012	31.12.2011
1. Cash reserve						
a) Cash on hand				13,499		10,259
b) Balances with central banks				6,342,323		1,478,410
thereof:					**6,355,822**	**1,488,669**
with Deutsche Bundesbank		6,043,228				
	(previous year	761,456)				
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks						
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions				325,134		314,615
thereof:						
eligible for refinancing at the Deutschen Bundesbank		317,691				
	(previous year	305,698)			**325,134**	**314,615**
3. Loans and advances to banks	**(5, 6, 22-26)**					
a) Payable on demand				4,117,642		5,211,815
b) Other loans and advances				5,639,958		3,685,750
					9,757,600	**8,897,565**
4. Loans and advances to customers	**(5, 6, 23-26)**				**77,842,063**	**88,125,235**
thereof:						
secured by mortgages		13,724,146				
	(previous year	15,091,161)				
public-sector loans		7,415,296				
	(previous year	7,850,533)				
secured by ship mortgages		10,826,369				
	(previous year	13,890,478)				
5. Debentures and other fixed-interest securities	**(8, 23-26, 28, 29, 37)**					
a) Money market instruments						
aa) from other issuers			103,413			105,136
				103,413		
b) Bonds and debentures						
ba) from public-sector issuers			6,298,975			4,367,618
thereof:						
eligible as collateral at the Deutsche Bundesbank	(previous year	5,700,697 3,709,084)				
bb) from other issuers			15,161,709			18,802,939
thereof:				21,460,684		
eligible as collateral at the Deutsche Bundesbank	(previous year	8,965,627 11,746,616)				
c) Own debentures				3,862,783		4,520,424
Nominal value		3,873,504			**25,426,880**	**27,796,117**
	(previous year	4,558,168)				
To be carried forward					**119,707,499**	**126,622,201**

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2012

Assets

€ k

	(Note)				31.12.2012	31.12.2011
	Carried forward				**119,707,499**	**126,622,201**
6. Shares and other non-fixed-interest securities	**(8, 25, 28, 29, 30, 37)**				**372,205**	**445,188**
6a. Trading portfolio	**(9, 25, 27)**				**11,728,438**	**12,423,095**
7. Equity holdings in non-affiliated companies	**(14, 28, 37, 66)**				**169,483**	**201,114**
thereof: in banks		44,087				
	(previous year	45,501)				
8. Interests in affiliated companies	**(14, 28, 37, 66)**				**1,603,148**	**1,099,800**
thereof: in banks		65,500				
	(previous year	48,400)				
in financial services institutions		189				
	(previous year	193)				
9. Trust assets	**(31)**				**322,256**	**323,343**
thereof: trust loans		14,369				
	(previous year	17,022)				
10. Intangible fixed assets	**(15, 37)**					
a) Industrial property rights acquired inhouse and similar rights and assets				3,425		1,734
b) Licences, industrial property rights and assets as well as licenses to use such rights and assets purchased				22,559		32,839
					25,984	**34,573**
11. Tangible fixed assets	**(16, 37)**				**109,590**	**43,204**
12. Other assets	**(32)**				**530,861**	**853,671**
13. Deferred income	**(5, 18, 33)**				**205,433**	**183,977**
14. Deferred assets	**(17, 34)**				**1,303,676**	**1,438,087**
Total assets					**136,078,573**	**143,668,253**

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2012

Liabilities

€ k

	(Note)				31.12.2012	31.12.2011
1. Liabilities to banks	**(18, 38-41)**					
a) Payable on demand				1,078,750		785,820
b) With agreed maturities or notice periods				30,549,002		26,648,817
					31,627,752	**27,434,637**
2. Liabilities to customers	**(18, 39-41)**					
a) Savings deposits						
aa) with agreed notice period of three months			58,734			59,864
ab) with agreed notice period of more than three months			2,250			2,857
				60,984		62,721
b) Other liabilities						
ba) Payable on demand			9,081,255			8,262,814
bb) With agreed maturities or notice periods			34,812,261			36,518,176
				43,893,516		44,780,990
					43,954,500	**44,843,711**
3. Securitised liabilities	**(18, 40, 41, 69)**					
a) Debentures issued				32,468,105		42,137,032
b) Other securitised liabilities				521,327		176,485
thereof: money market instruments		506,172			**32,989,432**	**42,313,517**
	(previous year	79,698)				
3a. Trading portfolio	**(9, 42)**				**10,873,502**	**11,397,792**
4. Trust liabilities	**(43)**				**322,256**	**323,343**
thereof: trust loans		14,369				
	(previous year	17,022)				
5. Other liabilities	**(44)**				**2,225,534**	**3,419,448**
6. Deferred income	**(5, 18, 45)**				**225,473**	**253,742**
6a. Deferred tax liabilities	**(17, 46)**				**488,064**	**359,555**
7. Provisions	**(19)**					
a) Provisions for pensions and similar obligations				660,214		600,398
b) Tax provisions				92,393		909
c) Other provisions	**(47)**			893,951		977,002
					1,646,558	**1,578,309**
8. Subordinated debt	**(48)**				**4,180,774**	**5,095,100**
9. Profit participation capital	**(49)**				**35,571**	**67,610**
thereof: maturing in less than two years		18,284				
	(previous year	28,506)				
10. Funds for general banking risks	**(50)**				**2,032,075**	**1,051,693**
of which special items under Section 340e (4) HGB		-				
	(previous year	-)				
To be carried forward					**130,601,491**	**138,138,457**

BALANCE SHEET OF HSH NORDBANK AG AS AT 31 DECEMBER 2012

Liabilities

€ k

	(Note)			**31.12.2012**	31.12.2011
	Carried forward			**130,601,491**	**138,138,457**
11. Equity capital	**(51)**				
a) Subscribed capital					
aa) Share capital		3,018,225			2,635,083
ab) Silent participations		1,545,177			1,707,377
			4,563,402		4,342,460
b) Capital reserves			595,804		809,380
c) Retained earnings					
Other retained earnings		708,391	708,391		708,391
d) Accumulated loss			-390,515		-330,435
				5,477,082	**5,529,796**
Total liabilities				**136,078,573**	**143,668,253**
1. Contingent liabilities	**(62)**				
a) Liabilities from guarantee and indemnity agreements				**4,568,887**	**6,334,965**
2. Other commitments	**(62)**				
a) Irrevocable loan commitments				**5,025,942**	**6,877,394**

INCOME STATEMENT OF HSH NORDBANK AG

for the period of 1 January to 31 December 2012

€ k

	(Note)			**31.12.2012**	31.12.2011
1. Interest income from	**(52, 53)**				
a) lending and money market transactions		7,039,614			8,874,609
b) fixed-interest securities and book-entry securities		675,035			757,469
			7,714,649		9,632,078
2. Interest expenses			6,560,727		8,432,825
				1,153,922	**1,199,253**
3. Current income from	**(52)**				
a) shares and other non-fixed-interest securities			128,956		155,369
b) equity holdings in non-affiliated companies			14,602		39,800
c) interests in affiliated companies			103,459		47,757
				247,017	**242,926**
4. Income from profit pooling, profit transfer or partial profit transfer agreements	**(52)**			**30,896**	**48,287**
5. Commission income	**(52, 54)**		189,039		171,916
6. Commission expenses	**(54)**		386,761		457,865
				-197,722	**-285,949**
7. Net expenses from the trading portfolio	**(52)**			**20,821**	**226,676**
8. Other operating income	**(52, 55)**			**676,294**	**233,858**
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		255,227			288,504
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		64,670			63,731
			319,897		352,235
thereof: for retirement pensions	30,725 (previous year 27,297)				
b) Other administrative expenses	**(56)**		328,418		354,683
				648,315	**706,918**
10. Depreciation, amortisation and impairments on intangible fixed assets and tangible fixed assets				**18,652**	**23,600**
11. Other operating expenses	**(57)**			**340,310**	**166,664**
12. Income from additions to loans and advances and certain securities as well as from the reversal of provisions in the lending business				**119,601**	**235,051**
To be carried forward				**1,001,910**	**549,568**

INCOME STATEMENT OF HSH NORDBANK AG

for the period of 1 January to 31 December 2012

€ k

	(Note)			31.12.2012	31.12.2011
	Carried forward			1,001,910	549,568
13. Additions to the fund for general banking risks				980,382	-
14. Income from additions to equity holdings in non-affiliated and affiliated companies and securities treated as fixed assets				99,728	47,644
15. Expenses from the transfer of losses				60,287	38,937
16. Profit on ordinary activities				-138,487	462,987
17. Extraordinary income			9,080		39,201
18. Extraordinary expenses			53,281		751,319
19. Extraordinary result	(58)			-44,201	-712,118
20. Income tax expenses	(59)		363,269		234,264
21. Other taxes not shown under item 11			1,557		481
				364,826	234,745
22. Income from the assumption of losses	(60)			156,999	153,441
23. Annual net loss				-390,515	-330,435
24. Loss carried over from the previous year				-330,435	-219,049
25. Withdrawals from the capital reserve				330,435	219,049
26. Accumulated loss				-390,515	-330,435

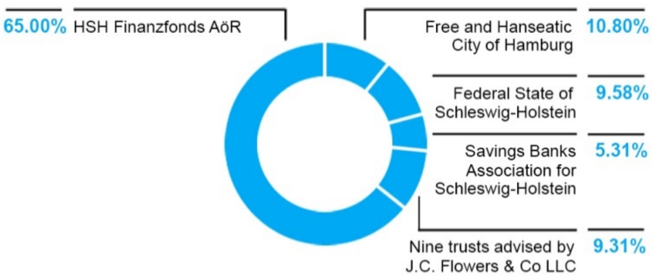
NOTES FOR THE 2011 FINANCIAL YEAR

GENERAL INFORMATION AND NOTES

1. HSH Nordbank AG and its shareholders

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

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



2. Provision of a guarantee facility

BASICS OF THE EFFECT OF THE SECOND LOSS GUARANTEE

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

The guarantor guarantees actual rating-related defaults on debt instruments selected based on certain defined criteria that form part of the assets of HSH Nordbank AG and two subsidiaries. A first loss piece in the amount of € 3.2 billion remains with the Bank as the guarantee holder. HSH Nordbank AG and the guarantor can jointly agree to reduce the Bank's first loss piece.

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

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee case for the full amount. HSH Nordbank AG may reduce the guarantee to € 4 billion between 1 January 2010 and the end of 2013 through partial cancellations of no more than € 3 billion per year. The guarantee may be cancelled in full from 2014 onwards.

In 2011 the guarantee was reduced by a total of € 3 billion to € 7 billion now. No reduction occurred in the year under review.

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

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

The compensation item is reduced by the additional premium imposed by the EU Commission in the amount of 3.85% p.a. on the losses actually invoiced. This additional premium is only paid in the case of an actual drawdown of the guarantee. Accordingly, the right to dispose on the part of the HSH Finanzfonds AöR with respect to this claim is first applicable in such cases. Until an actual drawdown of the guarantee it only represents a contingent liability of the Bank with a corresponding right of recourse to HSH Finanzfonds AöR. In the event of a drawdown this additional premium bears interest at the 3 month EURIBOR rate (so-called claim for compensation of interest). The additional premium plus any interest is payable until 31 December 2019 at the latest.

The obligation resulting from this additional premium is calculated based on the outstanding guarantee facility not yet cancelled. Drawdowns do not reduce the calculation basis of the premium. The premium of 3.85% on the currently existing guarantee volume of € 7 billion is payable retrospectively with effect from 1 April 2009 and is to be paid to a blocked account held by HSH Finanzfonds AöR at HSH Nordbank. As long as the invoiced losses do not exceed € 3.2 billion, HSH Finanzfonds AöR is not entitled to payment. Payments of € 752 million were made at the agreed payment dates for the years 2009 to 2011. A payment of € 274 million to be made on the 7 March 2013 payment date is to be recognised for the 2012 financial year.

The probability of an actual drawdown of the second loss guarantee as determined by the Bank specifies the probability that actual losses will exceed the first loss piece of the Bank by at least one euro. If it is more likely than not that the guarantee will be drawn down, the premiums to be paid in the future also need to be recognised (on a present value basis) as loan collateral expense, as, according to the guarantee agreement, drawdowns do not reduce the basis for calculating the guarantee premiums.

Insofar as the obligation to pay the additional premium would have the effect of decreasing the Tier 1 capital ratio (both from an ex-post and ex-ante perspective) without hybrid capital (common equity ratio) of HSH Nordbank to below 10% (minimum common equity ratio) or of increasing an already existing shortfall, the guarantor is obliged to waive the portion of the entitlement that would result in the ratio falling below the minimum common equity ratio against the issue of a debtor warrant (so-called capital protection clause).

If, during the restructuring and workout programme, measures consistent with the guarantee are implemented in respect of hedged commitments that conflict with recognition of the hedging instrument in the financial statements as a financial guarantee under IAS 39.9, commitments may be transferred to a partial guarantee 2 under the framework agreement subject to approval from the trustee appointed by the guarantor.

The hedging effect of the partial guarantee 2 amounted to € 5 million as at 31 December 2012. An additional premium of € 0.7 million was payable on this amount.

ACCOUNTING IMPACT OF THE SECOND LOSS GUARANTEE IN THE 2012 FINANCIAL YEAR

The guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR which had a hedging effect for the first time as at 31 December 2010, amounted to € 2,903 million as at 31 December 2012.

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion. Future expected fees (base and additional premium) for the second loss guarantee were recognised for the first time in the reporting period in loan loss provisions on the basis of this. These amounted to € 349 million at the end of the 2012 financial year and are offset against the compensation item. € 224 million is attributable to future additional premium (ex-ante additional premium) and € 125 million to future base premium (ex-ante base premium).

The common equity ratio has fallen below the benchmark of 10% during the 2012 financial year with the effect that the Federal States of Hamburg and Schleswig-Holstein have partially waived via HSH Finanzfonds AöR their entitlement to the additional premium (ex-post and ex-ante) in return for a debtor warrant being granted. The deferred entitlement to the additional premium is reinstated during the duration of the debtor warrant by the respective amount by which the minimum common equity ratio is exceeded.

The Bank has recognised income of € 652 million in this context, which is included in the compensation item.

This means that € 2,903 million were initially offset in loans and advances to customers as at 31 December 2012. An additional premium of 3.85% was calculated on this amount for the period between 1 April 2009 to 31 December 2012 and an amount of € 425 million recognised as an expense in loan loss provisions (€ 287 million of which are attributable to the financial year 2012). A claim for compensation of interest of € 3 million was determined for this amount. The ex-ante additional premium of € 224 million as well as the ex-ante base premium of € 125 million were also recognised through profit or loss. As settlement would be made on a net basis with HSH Finanzfonds AöR in the event of an actual drawdown of the guarantee, the compensation item and the attributable additional postings under the additional premium (ex-post and ex-ante), claim for compensation of interest, the base premium (ex-ante) and the debt waiver are netted. The compensation item amounts to € 2,778 million net.

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

3. Deposit guarantee fund, guarantee obligation (Gewährträgerhaftung) and maintenance obligation (Anstaltslast)

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

The transitional agreement reached in the understanding with the EU Commission dated 17 July 2001 on the expiration of the maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) mechanisms on 18 July 2005 also applies to HSH Nordbank AG pursuant to Section 2 of the treaty signed by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on 4 February 2003 concerning the merger of the predecessor institutions. Liabilities entered into on or before 18 July 2001 are therefore covered by the guarantee obligation, regardless of their maturities.

The guarantee obligation likewise covers liabilities created after this date but before 18 July 2005 if they do not mature after 31 December 2015.
As previous owner of Landesbank Schleswig-Holstein Girozentrale, Landesbank Baden-Württemberg, Stuttgart is liable within the scope of the guarantee obligation described above for the liabilities agreed upon prior to its withdrawal effective 23 May 2003 and transferred to HSH Nordbank AG by way of the merger. Westdeutsche Landesbank, Düsseldorf, and/or its legal successor are liable for liabilities entered into before the expiry of the guarantee obligation.

4. Accounting standards applied

We prepared the annual financial statements and the management report of HSH Nordbank AG as at 31 December 2012 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association - IDW.

ACCOUNTING AND VALUATION PRINCIPLES

Assumption of going concern

Accounting and valuation are based on the assumption that the Bank is a going concern. In this context it is particularly presumed that the guarantee facility providing the capital relief is replenished with the support from the shareholder group in order to ensure that the capital ratios required for the Bank by the supervisory authorities are met on a sustained basis. The assumption made relating to the Bank's ability to continue as a going concern is based on the agreement reached by the governments of the Federal States of Hamburg and Schleswig-Holstein regarding the increase in the guarantee being confirmed by the parliaments of both Federal States and the initial approval of the EU Commission to increase the guarantee until a final decision is made. Furthermore, the guarantee agreement is to be adjusted in such a way that the capital protection clause remains fully effective even after the method for determining capital is converted to IFRS. If the EU Commission determines that the replenishment of the guarantee providing the capital relief or a change in the guarantee agreement constitutes a new state aid situation that is subject to approval, it is essential that final EU approval be obtained and such approval is only tied to conditions that can be implemented within the framework of a sound economic business strategy. Furthermore, the regulatory effectiveness of the strengthening of the capital ratios achieved by the increase in the guarantee should not be jeopardised. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank AG's business model be preserved even in the event of potential new conditions being imposed.

Changes in accounting policies and measurement bases

The method used to determine general loan loss provisions was changed during the reporting period (cf. Note 6).

5. Loans and advances

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

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

6. Valuation allowances and provisions in the lending business (loan loss provisions)

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

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

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

Finally, we create general loan loss provisions in accordance with the German commercial law for the remaining loan exposures not accounted for in the first two steps, but still involving latent risks. We have changed the method used to determine general loan loss provisions during the reporting period. We have determined general loan loss provisions since 31 December 2012 taking due account of current developments in the economic environment using the expected loss approach, as the latent risks are appropriately taken into account on this basis. The portfolio valuation allowances are determined on the basis of the regulatory calculation parameters under Basel II, i.e. probability of default (PD) and loss given default (LGD). The loss identification period factor (LIP) used in the calculation represents the interval between the occurrence of a loss event and its becoming known and serves to derive the losses that actually occured from the expected loss. We recognise general loan loss provisions for loans and advances, contingent liabilities and irrevocable loan commitments to customers. As a result of this change in methodology the general loan loss provisions increased by € 373 million compared to the previous methodology applied. However, they continue to be determined for tax purposes in accordance with the bulletin of the Federal Ministry of Finance dated 10 January 1994.

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

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

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

7. Determining fair value

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

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

The mark-to-matrix method is used to determine fair value where no market price is available under the mark-to-market method. Fair value is determined on the basis of prices prevailing at a point in time shortly before the valuation date. Alternatively, transaction prices may be used, i.e. prices from a recent, genuine transaction. If fair value cannot be determined from the market or transaction prices of the financial instrument, it is either derived from the prices of comparable financial instruments or a model valuation is carried out using parameters that are almost completely observable in the market. Alternatively, quality-assured market data from suitable price agencies or validated prices of market partners (arrangers) are used.

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

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

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

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

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

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

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

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

8. Securities

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

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

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

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

Interest resulting from the Bank's own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits on securities held in the investment portfolio are allocated to Net income from financial investments (item 14 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to Credit risk income/expense (item 12 in the income statement).

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

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

9. Financial instruments in the trading portfolio

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

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

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

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

For every year in which HSH Nordbank AG reports Net income for the trading portfolio, we will state 10% of such net income under the special item "Funds for general banking risks" (liability item 10). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or as far as the item exceeds 50% of the average of the past five years net income in the trading portfolio. Expenses from the addition to and income from the reversal of the item are stated respectively under the net income or net expense of the trading portfolio. No amounts from the net result of the trading portfolio were added to the special item during the financial year just expired.

10. Derivative financial instruments

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

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

As at 31 December 2012, accounting for internal derivatives resulted in interest income in the amount of € 3,061 million (previous year: € 3,851 million) and interest expense in the amount of € 2,685 million (previous year: € 3,250 million), other operating income of € 78 million (previous year: € 20 million) and other operating expense of € 85 million (previous year: € 20 million). Reverse effects are reported in the net income of the trading portfolio.

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

To the extent a margin system is used in the case of financial instruments, the initial margin payments are recognised as assets or liabilities. Variation margin payments relating to the trading portfolio are recognised for income purposes directly in trading portfolio net income or loss. Variation margins outside of the trading portfolio are recognised as assets or liabilities.

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

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

11. Structured products

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

12. Hedge accounting via valuation units

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

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

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

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

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

Amount of hedged items and hedging instruments included in valuation units

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

Hedged items

€ k	**31.12.2012** Micro valuation units	**31.12.2012** Portfolio valuation units	31.12.2011 Micro valuation units	31.12.2011 Portfolio valuation units
Assets				
Loans and advances to banks	73,198	-	77,211	-
Loans and advances to customers	907,053	-	907,175	-
Debentures and other fixed-interest securities	2,048,540	9,483,015	2,649,698	7,317,555
Liabilities				
Liabilities to banks	243,827	-	360,609	-
Liabilities to customers	2,831,773	-	3,610,809	-
Securitised liabilities	3,226,076	-	3,684,923	-
Positive market values of derivatives	370,275	-	443,582	-
Negative market values of derivatives	654,017	-	484,020	-

Hedging instruments

€ k	**31.12.2012** Micro valuation units	**31.12.2012** Portfolio valuation units	31.12.2011 Micro valuation units	31.12.2011 Portfolio valuation units
Positive market values of derivatives	1,421,593	2,491	1,245,507	4,408
Negative market values of derivatives	1,578,389	792,260	1,556,616	475,304

In relation to the underlying nominal values, interest rate risk is being hedged in approximately 90% of the valuation units. The other risks largely involve currency and equity risks.

Amount of the risks hedged in valuation units

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

Hedged items

€ k	31.12.2012 Micro valuation units Positive change in value	Negative change in value	Portfolio valuation units Positive change in value	Negative change in value	31.12.2011 Micro valuation units Positive change in value	Negative change in value	Portfolio valuation units Positive change in value	Negative change in value
Assets								
Loans and advances to banks	5,266	-	-	-	5,313	-	-	-
Loans and advances to customers	315,945	642	-	-	256,707	742	-	-
Debentures and other fixed-interest securities	674,737	-	500,490	-	586,844	-	294,493	-
Liabilities								
Liabilities to banks	200	12,594	-	-	400	13,623	-	-
Liabilities to customers	11	369,921	-	-	342	313,342	-	-
Securitised liabilities	15	145,207	-	-	53	173,010	-	-
Derivatives	188,748	106,102	-	-	193,832	68,085	-	-

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

13. Accounting for interest-related financial instruments held in the banking book

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

If a negative balance arises on comparing the present values to the carrying amounts, this amount is recognised in the income statement as a provision for contingent losses, which is disclosed under Other provisions on the balance sheet. Based on the results of the calculation no provisions needed to be created as at 31 December 2012.

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

14. Equity holdings in non-affiliated companies and interests in affiliated companies

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

15. Intangible fixed assets

We account for internally-developed and purchased software under intangible fixed assets. Internally-developed software is valued in the amount of production costs incurred in its development. Production costs include expenses directly attributable to the development of the software (so-called development costs). Expenses which cannot be directly allocated to the development of the software (so-called research costs) are not included in production costs but rather are expensed against income for the year incurred. During the financial year, research costs in the amount of € 0 million and development costs in the amount of € 1 million, were incurred in connection with the development of software.

Purchased software is valued at acquisition cost.

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

16. Tangible fixed assets

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

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

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

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

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

17. Deferred taxes

Deferred taxes are calculated based on the different carrying amounts of assets and liabilities in the balance sheet drawn up for accounting and tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax expenses or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the realisation of the tax benefit from the losses carried forward is expected to occur within the next five years. For purposes of calculating deferred tax effects, tax rates applicable in 2012 to the legal entities were used. The overall Bank is subject to an overall tax rate of 31.69%. Deferred taxes are not discounted in accordance with the regulations. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a gross basis (asset item 14 and liability item 6a).

18. Liabilities

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

19. Provisions

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

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

	31.12.2012	31.12.2011
Salary growth	2.0%	2.0%
Personnel growth	0.5%	0.5%
Pension growth		
Employment contract 1/old pension provision rules	individual	individual
New pension provision rules	2.0%	2.0%
Employment contract 4	2.0%	2.0%
Staff turnover		
Age 30	6.0%	6.0%
Age 30–55	Linear decline to zero	Linear decline to zero
Age above 56	0.0%	0.0%
Retirement age	Pursuant to the 2007 AGAnpassG	Pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted using the applicable average market interest rate which results from the assumption of a residual maturity of 15 years. The discount rate applied as at the balance sheet date was 5.05% p.a. (previous year: 5.14% p.a.).

Assets, whose sole purpose is the fulfilment of pension obligations and to which no other creditors have access (fund assets) are recognised at their fair value of € 6 million (previous year: € 32 million), which is also equivalent to the acquisition cost of the assets. Fund assets in the same amount have been offset against provisions for pensions and similar obligations. The amount required to meet the resultant liability was € 9 million as at 31 December 2012 (previous year: € 32 million). Please refer to Note 7 for information concerning the determination of fair value.

20. Currency translation

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

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

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

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

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

21. Accounting treatment applied to the restructuring

Following the conclusion of the EU state aid proceedings in 2011 HSH Nordbank AG is legally obliged to implement the key points set out in the catalogue of conditions and commitments. If this has resulted in obligations or pending obligations for the Bank, from which the Bank cannot escape, a provision has been recognised in accordance with the regulations of Section 249 (1) Sentence 1 HGB in conjunction with Section 253 (1) Sentence 2 and Section 253 (2) HGB. The Bank discloses provisions for announced personnel measures as well as provisions for administrative cost measures under Other provisions.

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

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

NOTES ON BALANCE SHEET ASSETS

22. Loans and advances to associated savings banks

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

€ k	**31.12.2012**	31.12.2011
Loans and advances to associated savings banks	561,255	664,060

23. Affiliated companies

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

€ k	**31.12.2012**	31.12.2011
Loans and advances to banks	1,429,659	766,348
Loans and advances to customers	926,565	1,616,283
Debentures and other fixed-interest securities		
Bonds and debentures	330,603	1,693,743

24. Non-affiliated companies

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

€ k	**31.12.2012**	31.12.2011
Loans and advances to banks	2,551	156
Loans and advances to customers	580,072	1,244,011

25. Subordinated assets

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

€ k	**31.12.2012**	31.12.2011
Loans and advances to banks		
Other receivables	69,598	69,701
Loans and advances to customers	290,270	254,823
Debentures and other fixed-interest securities		
Bonds and debentures	408,016	440,431
Trading portfolio	-	2,072

26. Residual maturities

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

€ k	31.12.2012	31.12.2011
Loans and advances to banks		
Other receivables		
Up to 3 months	3,144,808	1,151,977
Between 3 months and 1 year	245,119	171,742
Between 1 year and 5 years	1,610,952	1,767,168
More than 5 years	639,079	594,863
Loans and advances to customers		
Up to 3 months	14,523,046	16,269,526
Between 3 months and 1 year	11,394,125	12,522,676
Between 1 year and 5 years	32,989,889	36,773,405
More than 5 years	18,935,003	22,559,628
Debentures and other fixed-interest securities		
Due in the following year	3,229,392	3,243,694

27. Trading portfolio (assets)

The trading portfolio is comprised of the following:

€ k	31.12.2012	31.12.2011
Derivative financial instruments	10,845,559	10,423,384
Loans and advances	31,035	11,542
Debentures and other fixed-interest securities	844,871	1,985,442
Shares and other non-fixed-interest securities	5,176	10,391
Other assets	4,858	247
Risk discount	-3,061	-7,911
Total	**11,728,438**	**12,423,095**

28. Negotiable securities

€ k	Listed		Unlisted		Total	
	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Debentures and other fixed-interest securities	23,539,515	24,312,400	1,887,365	3,483,717	25,426,880	27,796,117
Shares and other non-fixed-interest securities	8,040	17,663	328,192	385,654	336,232	403,317
Equity holdings in non-affiliated companies	2,712	4,677	21,291	13,422	24,003	18,099
Interests in affiliated companies	-	-	41,200	130,011	41,200	130,011

29. Negotiable securities not valued using the lower-of-cost-or-market principle

€ k	**31.12.2012**	31.12.2011
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	9,841,000	10,330,479
Carrying amount of securities reported above their fair value	6,227,776	7,641,076
Market value of securities reported above their fair value	5,729,802	6,745,507
Unrealised losses	497,974	895,569
of which unrealised losses from securities which are not part of a valuation unit	457,302	786,496
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	344,831	235,450
Carrying amount of securities reported above their fair value	201,210	214,906
Market value of securities reported above their fair value	193,539	208,378
Unrealised losses	7,671	6,528

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

As at 31 December 2012, unrealised losses related to securities contained in valuation units, which are not to be allocated to the hedged risk (mostly from the creditworthiness of the issuer), amounted to € 404 million. Due to valuation based on the moderate lower-of-cost-or-market principle, the hedged risk is not recorded. These also include securities which would show an unrealised loss without taking a valuation unit into account.

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

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

€ k	Securities rating	31.12.2012	31.12.2011
No “trigger events” have occurred		**146,297**	**323,925**
	Rating investment grade or better	142,954	317,079
	Rating lower than investment grade	3,343	6,846
“Trigger events” have occurred		**359,504**	**571,645**
	Rating investment grade or better	231,410	444,975
	Rating lower than investment grade	128,094	126,670
Total		**505,801**	**895,570**

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

30. Investment assets

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

€ k Name of the fund	Investment objectives	Carrying amount	Unit value within the meaning of Section 36 InvG	Difference	Distributions in the financial year
Nord/LB AM 89 Beeke	Special funds (mixed assets)	8,996	8,996	-	130
RE-Fundmaster	Special funds (mixed assets)	14,867	13,572	-1,295	752

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

31. Trust assets

Trust assets are comprised of the following balance sheet items:

€ k	31.12.2012	31.12.2011
Loans and advances to banks	990	990
Loans and advances to customers	321,266	322,353
Total	**322,256**	**323,343**

32. Other assets

The major components of other assets are:

€ k	31.12.2012	31.12.2011
Adjustment item for currency translation	279,123	141,716
Receivables on fiscal authorities	103,226	193,108
Receivables from profit and loss transfer agreements and from dividends	57,487	335,203
Premiums paid from options trading and from interest limitation agreements	21,898	85,862

33. Prepaid expenses

The major items disclosed here are:

€ k	31.12.2012	31.12.2011
Prepaid expenses from interest rate swaps, swaptions and options	62,534	42,617
Discount accruals from issuing business	99,281	84,870
Premium accruals from claims	14,919	17,098
Discount accruals from liabilities	12,436	18,047

34. Deferred tax assets

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

€ k	31.12.2012	31.12.2011
Assets		
Loans and advances to customers	635,554	505,424
Debentures and other fixed-interest securities	33,771	155,590
Trading portfolio	76,556	103,680
Equity holdings in non-affiliated companies	16,683	-
Interests in affiliated companies	16	-
Tangible fixed assets	8,972	2,794
Other assets	133,555	109,125
Deferred income	3,252	3,983
Liabilities		
Other liabilities	619	-
Deferred income	7,598	8,536
Provisions	231,704	279,573
Losses carried forward	155,396	269,382
Total	**1,303,676**	**1,438,087**

35. Genuine repurchase agreements

As a borrower in genuine repurchase agreements, we have sold assets with a carrying amount of € 5,849 million (previous year: € 3,243 million) and simultaneously contracted to repurchase the same assets. The assets continue to be carried on our balance sheet; the consideration received in return for the assets is reported under the corresponding liability items.

36. Assets transferred as collateral

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

€ k	31.12.2012	31.12.2011
Assets transferred as collateral, thereof for	14,330,546	9,566,004
Liabilities to banks	9,814,603	3,716,126
Liabilities to customers	169,632	207,300
Trading portfolio (liabilities)	4,311,278	5,642,578
Contingent liabilities	35,033	-

37. Statement of changes in fixed assets

€ k	Historical cost of acquisition 01.01.2012	Additions[1] 2012	Disposals[1] 2012	Transfers 2012	Cumulative deprecia-tions[1] 31.12.2012	Writeups/ Depreciation 2012	**Carrying amount 31.12.2012**	Carrying amount 31.12.2011
Securities	13,191,265	1,184,830	3,842,445	-11,163	344,995	74,553	10,177,492	12,412,386
Equity holdings in non-affiliated companies	422,559	11,798	118,441	23,496	169,929	5,737	169,483	201,114
Interests in affiliated companies	1,829,630	1,000,269	439,251	30	787,530	84,979	1,603,148	1,099,800
Land and buildings	20,776	80,407	15,320	-	2,630	408	83,233	13,535
Plant and equipment	69,075	1,604	5,834	-	51,966	4,921	12,879	16,160
Assets under construction	-	1,005	-	-	-	-	1,005	-
Leasing assets	24,246	-	527	-	11,246	749	12,473	13,509
Intangible fixed assets	194,451	4,702	27,753	-	145,416	12,573	25,984	34,573
Total	**15,752,002**	**2,284,615**	**4,449,571**	**12,363**	**1,513,712**	**183,920**	**12,085,697**	**13,791,077**

[1] Including exchange rate changes for assets denominated in foreign currencies.
[2] A carrying amount of € k 30 was transferred from Equity holdings in non-affiliated companies to interests in affiliated companies. Furthermore, € k 11,163 was reclassified from Securities to Equity holdings in non-affiliated companies and € k 12,363 from Other assets to Equity holdings in non-affiliated companies.

Real estate includes land and buildings used for the Bank's own business activities at a carrying amount of € 81 million (previous year: € 8 million).

NOTES ON BALANCE SHEET LIABILITIES

38. Liabilities to associated savings banks

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

€ k	**31.12.2012**	31.12.2011
Liabilities to associated savings banks	539,290	926,256

39. Affiliated companies

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

€ k	**31.12.2012**	31.12.2011
Liabilities to banks	1,608,823	2,651,177
Liabilities to customers	3,157,608	4,642,989

40. Non-affiliated companies

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

€ k	31.12.2012	31.12.2011
Liabilities to banks	1,161	8,639
Liabilities to customers	148,543	112,160

41. Residual maturities

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

€ k	31.12.2012	31.12.2011
Liabilities to banks		
with agreed maturity or notice period		
Up to 3 months	11,513,945	10,644,261
Between 3 months and 1 year	4,530,110	4,910,408
Between 1 year and 5 years	12,672,146	9,118,213
More than 5 years	1,832,801	1,975,935
Liabilities to customers		
Savings deposits with agreed notice period of more than 3 months		
Between 3 months and 1 year	1,081	1,597
Between 1 year and 5 years	1,169	1,260
Other liabilities with agreed maturity or notice period		
Up to 3 months	12,483,506	11,731,737
Between 3 months and 1 year	4,346,967	3,511,263
Between 1 year and 5 years	9,910,768	11,317,103
More than 5 years	8,071,020	9,958,073
Securitised liabilities		
Debentures issued		
Due in the following year	7,922,337	15,071,011
Other securitised liabilities		
Up to 3 months	491,007	176,485
Between 3 months and 1 year	30,320	-

42. Trading portfolio (liabilities)

The trading portfolio is comprised of the following:

€ k	31.12.2012	31.12.2011
Derivative financial instruments	10,872,018	11,397,660
Liabilities	1,484	132
Total	**10,873,502**	**11,397,792**

43. Trust liabilities

Trust liabilities are reported under the following balance sheet items:

€ k	31.12.2012	31.12.2011
Liabilities to banks	1,288	1,338
Liabilities to customers	320,968	322,005
Total	322,256	**323,343**

44. Other liabilities

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

€ k	31.12.2012	31.12.2011
Security deposits for assumption of debt	974,096	1,095,523
Adjustment item for currency valuation	391,235	940,876
Pro rata interest on subordinated debt, profit participation rights and silent participations	334,305	368,256
Principal repayments received in advance	176,706	176,867
Outstanding payments for the second loss guarantee	71,555	71,555
Liabilities from profit and loss transfer agreements and dividends	60,615	39,366
Premiums received from options trading and interest limitation agreements	37,387	89,866
Liability to HSH Finanzfonds AöR from one-off payment (cf. Note 2)	-	500,000

45. Deferred income

The major components of deferred income are the following:

€ k	31.12.2012	31.12.2011
Deferred income from interest rate swaps, swaptions and options	79,297	102,941
Deferrals from advance loan fees	70,482	53,739
Discount deferrals from receivables	23,578	36,590
Premium deferrals from issuing business	12,277	12,426

46. Deferred tax liabilities

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

€ k	**31.12.2012**	31.12.2011
Assets		
Loans and advances to customers	473,190	345,739
Equity holdings in non-affiliated companies	13,789	13,816
Tangible assets	1,085	-
Total	**488,064**	**359,555**

47. Other provisions

Other provisions primarily relate to the following items:

€ k	**31.12.2012**	31.12.2011
Provisions in the lending business	449,065	331,116
Provisions for restructuring measures	132,672	233,826
Provisions for litigation risks and costs	82,015	106,164
Provisions for securities trading and financial derivatives	74,391	157,779
Provisions for personnel expenses	60,401	69,537
Provisions for interest on corporate tax and trade tax	28,045	-
Provisions for invoices outstanding	28,750	35,225
Assumption of costs of associated companies and discretionary benefits in the customer business	14,238	14,914
Provisions for archiving costs	5,500	6,071

€ 87 million (previous year: € 184 million) of the provisions for restructuring measures relate to personnel expenses and € 46 million (previous year: € 50 million) to operating expenses.

48. Subordinated debt

Subordinated debt was issued in the form of promissory notes, registered or bearer bonds and is denominated in EUR, JPY and USD. The original maturities range from just under three years to 40 years and interest rates from 0.39% p.a. to 6.51% p. a.

Individual items exceeding 10% of total subordinated debt:

€ m	Currency	Interest rate	Maturity	Cancellation possibilities
430	EUR	3M-Euribor + 0,84%	14.02.2017	Issuer cancellation right[1]
498	EUR	3M-Euribor + 0,3%	14.02.2017	Issuer cancellation right[1]

[1] Initially until the expiry of the third TARGET business day before 14 February 2012, thereafter quarterly on 14 May, 14 August, 14 November and 14 February with a notice period of 3 TARGET business days in each case.

The terms and conditions for subordinated debt meet the requirements of Section 10 (5a) German Banking Act (KWG) for recognition as liable capital. Subordinated debt in the amount of € 109 million (previous year: € 131 million) will mature in less than two years.

For the 2012 financial year, interest expense arising from subordinated debt amounted to € 116 million (previous year: € 152 million).

49. Profit participation capital

The claims of profit participation certificate holders to repayment of capital are subordinate to other claims. The other terms and conditions of profit participation capital are also such as to meet the requirements of Section 10 (5) of the German Banking Act (KWG) for recognition as liable capital. Profit participation capital in the amount of € 18 million (previous year: € 29 million) will mature in less than two years.

Registered profit participation certificates with a total nominal value of € 54 million have original maturities between 13 and 17 years and bear interest between 6.55% p.a. and 7.35% p.a. Payment of interest on the profit participation capital is tied to the distributable profits of HSH Nordbank AG. No current interest was payable for the 2012 financial year due to the net loss.

The profit participation rights bear a loss of € 4 million for the 2012 financial year.

50. Fund for general banking risks

An amount of € 980 million was allocated to the fund for general banking risks in accordance with Section 340g of the German Commercial Code (HGB) during the reporting period. These allocations result mainly from income arising from the waiver by HSH Finanzfonds AöR of the additional premium in connection with the provision of the guarantee facility and were used to strengthen Tier 1 capital (cf. Note 2). Furthermore, income of € 260 million resulting from the repurchase of subordinated bonds was added to the Fund for general banking risks in accordance with Section 340g of the German Commercial Code (HGB).

51. Equity capital

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

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

As at the reporting date, HSH Finanzfonds AöR, Hamburg, was the largest shareholder with 65.00% of the voting rights (previous year: 59.92%). The voting rights held by the Free and Hanseatic City of Hamburg including the indirect share held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH amounted to 10.80% (previous year: 12.37%). The Federal State of Schleswig-Holstein holds voting rights of 9.58% (previous year: 10.97%). The share of voting rights held by the Sparkassen- und Giroverband für Schleswig-Holstein (Savings Bank Association for Schleswig-Holstein) equals 5.31% (previous year: 6.08%). As at 31 December 2012, the nine groups of investors advised by J.C. Flowers & Co. LLC held 9.31% (previous year: 10.66%) of the voting rights.

On 18 January 2012 the Annual General Meeting of HSH Nordbank AG resolved to increase capital by means of a mixture of cash and non-cash contributions, whereby the share capital is increased by between a minimum amount of € 383,141,760.00 and a maximum amount of € 639,419,820.00 to between a minimum amount of € 3,018,224,530.00 and a maximum amount of € 3,274,502,590.00 through the issue of a minimum of 38,314,176 up to a maximum of 63,941,982 new registered shares with each share representing € 10.00 of the share capital. A total of 38,314,176 of the new registered shares in a nominal amount of € 383,141,760.00 is issued to HSH Finanzfonds AöR. HSH Finanzfonds AöR transferred in the form of a non-cash contribution the claim against the Bank for the making of a one-off payment in the amount of € 500 million arising from the agreement regarding the one-off payment concluded between HSH Finanzfonds AöR and HSH Nordbank AG on 12 December 2011 (cf. Note 2). This transfer became effective on the day on which the implementation of the capital increase was entered in the last of the two commercial registers of the Bank in Hamburg and Kiel. The amount of € 116,858,240.00 by which the share capital is exceeded is transferred into the capital reserve in accordance with Section 272 (2) No. 1 of the German Commercial Code (HGB). Up to 25,627,806 registered shares were offered for purchase to all other shareholders at an issue price of € 13.05 per share. However, no shareholder has exercised this subscription right to purchase new shares in exchange for a cash contribution.

The capital increase became effective on 20 February 2012 with the entry of the capital increase in the commercial registers of Hamburg and Kiel.

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

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

The terms and conditions for silent participations are such that they meet the requirements of Section 10 (4) German Banking Act (KWG) for recognition as Tier 1 capital. Among other things, the terms and conditions provide for the repayment of the silent participations as subordinate to other liabilities.

If a net loss is incurred for the current financial year, no distributions related to the silent participations can be made. In addition, these equity instruments must participate in the net loss for the year. For the 2012 financial year, the silent participations shared in the Bank's loss to the amount of € 153 million (previous year: € 147 million). The silent participations have been placed on the international capital markets (€ 1,068 million) as well as with the Bank's domestic institutional investors (€ 477 million).

NOTES ON THE INCOME STATEMENT

52. Breakdown of income items by geographical markets

€ k	Germany 2012	Rest of Europe 2012	Asia 2012	America 2012	Germany 2011	Rest of Europe 2011	Asia 2011	America 2011
Interest income	6,998,627	527,163	80,920	107,939	8,296,889	729,282	79,956	525,951
Current income from shares and other non-fixed-interest securities, equity holdings in non-affiliated companies and interests in affiliated companies	235,287	11,730	-	-	218,295	8,643	-	15,988
Income from profit pooling, profit transfer or partial profit transfer agreements	30,896	-	-	-	48,287	-	-	-
Commission income	170,719	12,689	1,714	3,917	142,544	14,227	1,947	13,198
Net income from the trading portfolio	-38,887	4,768	-3,167	16,465	-206,628	9,066	-7,913	-21,201
Other operating income	633,910	35,792	2,073	4,519	210,904	15,183	2,355	5,416

53. Net interest income

Net interest income includes € 43 million (previous year: € 43 million) of net interest expenses from the discounting/compounding of provisions.

Net interest income also includes one-time expenses from the disposal of promissory notes in the amount of € 22 million (previous year: gains of € 3 million).

54. Net commission income

Net commission income is comprised of the following:

€ k	**2012**	2011
Lending business	74,112	52,642
Payment transactions and foreign business, documentary business	18,910	19,876
Securities business	-682	-1,696
Guarantee business	-286,452	-356,804
Other	-3,610	33
Total	**-197,722**	**-285,949**

Net commission income for the year ended 31 December 2012 includes expenses for the guarantee from HSH Finanzfonds AöR in the amount of € 284 million (previous year: € 314 million) as well as for the guarantee facility from the Financial Market Stabilisation Fund (SoFFin) in the amount of € 18 million (previous year: € 69 million).

55. Other operating income

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

€ k	**2012**	2011
Gains on the redemption of subordinated issues	261,172	-
Income from option premiums received as well as compensation payments received for options held in the non-trading portfolio	140,588	43,310
Income from the reversal of other provisions	66,303	39,113
Income from the reversal of provisions for contingent losses from valuation units (cf. Note 12)	61,222	91,585
Cost allocations and reimbursement of expenses	57,706	29,705
Proceeds from the migration of an equity holding	27,661	-
Income from interest on receivables from the tax office	23,892	4,568
Income on currency translations for positions in the non-trading portfolio	10,202	275
Rental income	4,939	2,928
Income from leasing transactions	1,947	1,728

56. Fees for work by the statutory auditors

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

57. Other operating expenses

Other operating expenses primarily include the following items:

€ k	**2012**	2011
Expenses relating to option premiums paid as well as compensation payments for options held in the investment portfolio	167,146	48,842
Interest expenses pursuant to Section 233 AO	53,382	8,134
Expenses from the creation of provisions for contingent losses for valuation units (cf. Note 12)	37,774	30,803
Expenses incurred in connection with the acquisition of buildings	34,377	-
Expenses from the creation of provisions for litigation costs	14,688	6,757
Expenses for payment of damages	13,563	2,145
Expenses from additions to other provisions	7,436	18,643
Expenses from the currency translation of positions in the non-trading portfolio	4,550	28,805
Expenses in connection with the sale of a participation	-	13,500

58. Extraordinary result

The Extraordinary result includes restructuring expenses connected to the strategic realignment of the Bank in the amount of € 53 million (previous year: € 251 million). These were offset by income arising from the reversal of restructuring provisions in the amount of € 9 million (previous year: € 39 million). Please refer to Note 21 for information concerning the accounting treatment applied to the restructuring.

In the previous year the one-off payment made to the guarantor of the second loss guarantee in the amount of € 500 million was disclosed under extraordinary expenses (cf. Note 2).

Income arising from the recognition of deferred tax assets of € 7 million is attributable to the restructuring provisions recorded in extraordinary expense in the reporting year and the related increase in the assessment basis for deferred tax assets.

59. Income taxes

Income tax expense comprises the following:

€ k	2012	2011
Deferred income taxes	262,282	215,725
Deferred income taxes on temporary differences	148,295	191,756
Deferred income taxes on loss carryforwards	113,987	23,969
Current income taxes	100,987	18,539
Total	**363,269**	**234,264**

The income tax expense is primarily attributable to the revaluation of deferred taxes based on the revised corporate planning. Lower deferred tax assets have been recognised as a result of the earnings projections for the future. An increase in additions to provisions for current taxes has also adversely impacted earnings.

60. Income from the assumption of losses

Income from the assumption of losses resulted from the participation in losses on the part of profit participation capital (€ 4 million, previous year: € 6 million) as well as from participation in losses on the part of silent participations (€ 153 million, previous year: € 147 million).

61. Non-distributable amounts

A total of € 819 million (previous year: € 1,080 million) of the reserves available for distribution are barred from being distributed. Of this amount, € 2 million (previous year: 1 million) relates to the recognition of internally generated intangible fixed assets less the deferred tax liabilities created in relation thereto. € 817 million (previous year: € 1,079 million) represents the amount by which the deferred tax assets recognised on the balance sheet exceed the other deferred tax liabilities

OTHER NOTES

62. Leasing business

Assets related to the leasing business include € 121 million (previous year: € 133 million) shown under Loans and advances to customers and € 12 million (previous year: € 14 million) shown under Tangible fixed assets. Liabilities from the leasing business are reported at € 51 million (previous year: € 56 million) under Liabilities to customers.

63. Contingent liabilities and other commitments

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

As was the case in the previous year, there are no placement or underwriting commitments in place as at 31 December 2012.

Please refer to Note 2 for more details.

64. Letters of comfort

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

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

In connection with the transfer of employment contracts and the possible obligation to make severance payments in this regard to HSH Debt Advisory ApS and HSH Restructuring Advisory ApS, subsidiaries of HSH Nordbank AG located in Copenhagen, HSH Nordbank AG has stated that it will provide the companies with adequate funding to meet their assumed present and future obligations under the severance agreements at all times. This could result in a total maximum obligation of € 3 million.

65. Other financial obligations

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

There are shareholder liabilities of € 20 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 26 million). These liabilities are due to affiliated companies.

With respect to the equity interest in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, there is an additional funding obligation not exceeding € 17 million (previous year: € 17 million).

The maximum funding obligation that would result from membership of the Haftungsverbund (joint liability scheme) of the Sparkassen-Finanzgruppe, if a case occurs where support is needed, is € 83 million (previous year: € 39 million). If the resources of the savings bank guarantee fund are insufficient for the financial rescue, the additional funding can be claimed immediately.

Further obligations in the amount of € 87 million (previous year € 183 million) result from long-term leases for land and buildings used for business purposes. Additional obligations amounting to € 74 million (previous year: € 115 million) result from leasing agreements for IT services.

Long-term rental agreements for office space result in annual obligations of approximately € 7 million (previous year: € 6 million).

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

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

66. Other financial obligations due to the bank levy (Bankenabgabe)

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

67. Other transactions necessary for an assessment of the Bank's financial situation

In order to ensure adequate liquidity, HSH Nordbank AG has obtained a guarantee facility from the Financial Market Stabilisation Fund (SoFFin) for the issue of debt instruments up to a total of € 30 billion of which the Bank used € 6 billion as at 31 December 2011. As agreed, the SoFFin framework guarantee expired on 31 December 2010. Notwithstanding this the SoFFin guarantee still applied to issues totalling € 6 billion. The issues were fully repaid in the reporting period.

As a supplemental measure to provide protection against risks, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank a guarantee in the amount of € 7 billion via HSH Finanzfonds AöR. The guarantee takes effect as soon as risks in defined portfolios exceed the Bank's agreed first loss piece of € 3.2 billion (cf. Note 2).

66. Notes on shareholdings

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

AFFILIATED COMPANIES - FOREIGN BANKS

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
1	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	153,638,346.30	13,173,592.17

AFFILIATED COMPANIES - OTHER DOMESTIC COMPANIES

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
2	Arbutus GmbH, Hamburg	100.00	100.00	EUR	31,587.67	891.57
3	Arilius Beteiligungs GmbH, Hamburg [1)]	94.00	94.00	EUR	-168,870.30	-121,008.52
4	AVUS Achte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1)]	100.00	100.00	EUR	6,478.64	-24,323.48
5	AVUS Dritte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1)]	100.00	100.00	EUR	1,533,909.55	47,121.44
6	AVUS Erste Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1)]	100.00	100.00	EUR	1,609,264.58	130,432.84
7	AVUS Fondsbesitz und Management GmbH, Berlin [1) 3)]	100.00	100.00	EUR	28,452.72	595,317.39
8	AVUS Fünfte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1)]	100.00	100.00	EUR	2,077,892.52	142,397.05
9	AVUS Grundstücksverwaltungs-GmbH, Berlin [1) 3)]	100.00	100.00	EUR	25,000.00	28,923.81
10	AVUS Siebte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1)]	100.00	100.00	EUR	11,097.96	-24,409.04
11	AVUS Vierte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1)]	100.00	100.00	EUR	1,588,860.11	53,262.20
12	BALIBU Beteiligungsgesellschaft mbH, Willich [1)]	100.00	100.00	EUR	[7)]	[7)]
13	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	2,586,884.90	109,468.34
14	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	16,405.08	13,705.77
15	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	11,795.93	-9,210.04
16	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	11,749.44	-9,279.20
17	Capcellence Private Equity Beteiligungen GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	57,433,651.70	-16,836,077.35
18	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	100.00	EUR	19,104,248.61	1,195,414.67
19	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	100.00	EUR	17,830,822.54	1,018,215.13
20	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	100.00	EUR	224,628.61	-10,465,819.90
21	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	98.51	EUR	44,550.20	-9,765.28
22	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.75	EUR	14,401.41	-10,922.90
23	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.99	EUR	16,851,858.40	-5,714,416.20
24	Capcellence Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg [1)]	83.33	99.72	EUR	29,555.81	-726,529.46
25	Capcellence Vintage Year 12 Beteiligungen GmbH (former: NEUE RABEN fünfhundertneunundzwanzigste Verwaltungsgesellschaft mbH), Hamburg [1)]	100.00	100.00	EUR	[6)]	[6)]
26	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	11,819.08	-9,209.56

AFFILIATED COMPANIES - OTHER DOMESTIC COMPANIES (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Cur-rency Code	Equity capital in respective currency	Income/loss in respective currency
27	CHIOS GmbH, Hamburg	100.00	100.00	EUR	9,699.62	-11,406.74
28	DMS Beteiligungs GmbH, Radolfzell [1)]	100.00	100.00	EUR	3,346,822.07	256,230.26
29	DMS Dynamic Micro Systems Semiconductor Equipment GmbH, Radolfzell [1)]	100.00	100.00	EUR	1,135,632.70	1,683,868.72
30	DYNAMENE GmbH, Hamburg [1)]	100.00	100.00	EUR	41,232.92	-5,137.65
31	Einkaufs-Center Plovdiv G.m.b.H. & Co. KG, Hamburg [1)]	75.00	75.00	EUR	16,061,723.29	-22,892,741.98
32	Endor 9. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	11,931,267.61	-13,079,115.28
33	Fastlane 1. Real Estate GmbH, Hamburg [1)]	100.00	100.00	EUR	1,939,958.36	-205,804.89
34	Fastlane 2. Real Estate GmbH, Hamburg [1)]	100.00	100.00	EUR	1,005,134.52	-301,709.99
35	Feronia GmbH, Hamburg	100.00	100,00	EUR	2,829,370.52	986,203.97
36	Fonds III - Imbuschweg GbR, Berlin [1)]	70.14	70.14	EUR	-6,609,294.50	274,724.60
37	GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg	100.00	100.00	EUR	1,607,092.43	927,766.48
38	GODAN GmbH, Hamburg	100.00	100.00	EUR	-895,666.26	-13,783.75
39	Grundstücksentwicklungsgesellschaft Gartenstadt Wismar mbH & Co. KG, Hamburg	100.00	100.00	EUR	698,122.58	38,830.83
40	Grundstücksgesellschaft Barstraße GbR (GEHAG-Fonds 18), Berlin [1)]	72.45	72.45	EUR	-7,704,642.82	437,783.26
41	Grundstücksgesellschaft Goerzallee GbR (GEHAG-Fonds 15), Berlin [1)]	72.57	72.57	EUR	-2,867,703.81	133,001.71
42	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	-1,947,521.90	78,315.51
43	Grundstücksgesellschaft Rudow-Süd/Straße 633 GbR (GEHAG-Fonds 20), Berlin [1)]	66.99	66.99	EUR	-7,932,998.76	184,835.31
44	Grundstücksgesellschaft Rudow-Süd/Straße 634 GbR (GEHAG-Fonds 17), Berlin [1)]	79.21	79.21	EUR	-2,154,208.18	263,061.24
45	Hamburgische Betriebsverwaltungs-Gesellschaft am Gerhart-Hauptmann-Platz m.b.H., Hamburg	100.00	100.00	EUR	314,343.67	14,824.42
46	Hamburgische Grundbesitz und Anlage GmbH & Co. Objekt London St. Georges House (former: Hamburgische Grundbesitz und Anlage AG & Co. Objekt London St. Georges House), Hamburg [1) 2)]	62.44	63.25	EUR	2,926,707.42	6,477,043.98
47	HGA Asset Management GmbH, Hamburg [1)]	100.00	100.00	EUR	23,442.45	-2,062.55
48	HGA Capital Grundbesitz und Anlage GmbH, Hamburg [1) 3)]	100.00	100.00	EUR	2,575,856.27	2,746,622.11
49	HGA CareConcept 1 Verwaltungs-GmbH, Hamburg [1)]	100.00	100.00	EUR	16,998.05	430.77
50	HGA Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	37,376,471.41	4,318,504.34
51	HGA Hanseatische Fondsportfolio GmbH, Hamburg [1)]	100.00	100.00	EUR	25,222.40	214.37
52	HGA Mikado I GmbH & Co. KG i.L. (former: HGA Mikado I AG & Co. KG), Hamburg [1)]	64.22	64.22	EUR	3,880,335.12	-592,639.99
53	HGA Objekte Hamburg und Hannover GmbH & Co. KG (former: HGA Objekte Hamburg und Hannover AG & Co. KG), Hamburg [1)]	71.93	71.97	EUR	2,232,085.02	-8,306,253.66
54	HGA USA V GmbH & Co. KG i.L., Hamburg [1)]	97.11	96.78	EUR	89,069.01	-33,742.39
55	HGA USA VI GmbH & Co. KG, Hamburg [1)]	99.99	99.73	EUR	96,996.65	-201,022.62
56	HGA USA VII GmbH & Co. KG, Hamburg [1)]	99.99	99.72	EUR	-253,771.06	-405,220.39
57	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,996,875.10	-31,189.82
58	HSH Care+Clean GmbH, Hamburg [1) 4)]	51.00	51.00	EUR	25,000.00	153,257.26
59	HSH Corporate Finance GmbH, Hamburg [2)]	100.00	100.00	EUR	8,337,269.85	2,058,801.25

AFFILIATED COMPANIES - OTHER DOMESTIC COMPANIES (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Cur-rency Code	Equity capital in respective currency	Income/loss in respective currency
60	HSH Facility Management GmbH, Hamburg [2)]	100.00	100.00	EUR	205,600.00	-5,345,947.72
61	HSH Gastro+Event GmbH, Hamburg [1) 4)]	100.00	100.00	EUR	25,000.00	-646,934.21
62	HSH Invest GmbH, Kiel [2)]	100.00	100.00	EUR	1,393,108.56	293,108.56
63	HSH Kunden- und Kontenservice GmbH, Hamburg [2)]	100.00	100.00	EUR	25,000.00	-472,191.76
64	HSH Move+More GmbH, Kiel [1) 4)]	51.00	51.00	EUR	25,000.00	92,261.21
65	HSH Private Equity GmbH, Hamburg	100.00	100.00	EUR	550,000.00	-32,586,228.75
66	HSH RE 8. Beteiligungs GmbH, Hamburg [1)]	100.00	100.00	EUR	23,550.35	-1,630.08
67	HSH Real Estate GmbH (former: HSH Real Estate AG), Hamburg [2)]	100.00	100.00	EUR	149,993,774.78	5,097,540.30
68	HSH Real Estate Treuhand GmbH, Hamburg [1)]	100.00	100.00	EUR	241,117.50	32,669.35
69	HSH Security GmbH, Kiel [2)]	100.00	100.00	EUR	50,000.00	413,173.40
70	Jantar GmbH, Hamburg	100.00	100.00	EUR	474,892.84	-656,574.72
71	KAPLON GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	5,197,480.05	69,145.00
72	Kontora Family Office GmbH, Hamburg	75.02	75.02	EUR	824,884.30	158,396.30
73	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart [1)]	80.00	0.00	EUR	-12,506.00	-2,843,720.00
74	Marc Marco Polo Ventures GmbH & Co. KG, Krefeld [1)]	90.91	90.91	EUR	232,538.85	[8)]
75	Niederelbe Beteiligungs GmbH, Hamburg	100.00	100.00	EUR	734,642.38	-5,969.32
76	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	13,737.50	-3,691.12
77	PLUTON Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	94.00	50.00	EUR	-6,642,788.12	126,815.23
78	Real Estate Venture Capital Fonds 1 GmbH, Hamburg [1)]	85.10	85.10	EUR	180,573.37	-9,965.54
79	RELAT Beteiligungs GmbH & Co. Vermietungs-KG, Pullach i. Isartal	94.00	55.29	EUR	-665,717.56	173,488.49
80	SLK GmbH für Immobilien-Leasing & Co. KG Objekt Berlin Pohlstraße, Pöcking	94.00	40.00	EUR	-2,078,413.38	810,631.55
81	Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG, Hamburg	100.00	100.00	EUR	376,384,961.91	35,320,899.05
82	TALAOS GmbH, Hamburg [1)]	100.00	100.00	EUR	1,217,718.76	-57,232.12
83	TERRANUM "die Zweite" GmbH & Co. KG (former: TERRANUM "die Zweite" AG & Co. KG), Hamburg [1)]	100.00	100.00	EUR	6,155,914.36	326,255.36
84	TERRANUM Gewerbebau Verwaltungs-GmbH, Hamburg [1)]	100.00	100.00	EUR	116,606.54	-6,779.83
85	Teukros GmbH, Hamburg	100.00	100.00	EUR	-1,772,573.89	4,794.88
86	Turis 1. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100,00	EUR	11,224,750.88	-6,331,084.78
87	Turis 3. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	6,549.20	-8,315.06
88	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	1,351,730.99	-1,483,795.12
89	Verwaltung AVUS Immobilien-Treuhand GmbH, Berlin [1) 3)]	100.00	100.00	EUR	15.170.38	-9,829.62
90	Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel [2)]	100.00	100.00	EUR	25,120.01	-479.99
91	Verwaltungsgesellschaft Gartenstadt Wismar mbH, Hamburg	100.00	100.00	EUR	39,071.04	2,511.75

AFFILIATED COMPANIES - OTHER FOREIGN COMPANIES

Serial No.	Name/Place	Share	Voting rights	Cur-rency Code	Equity capital in respective currency	Income/loss in respective currency
92	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland	99.60	99.60	USD	49,023,452.00	2,711,686.00
93	Amentum Lux S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-79,305.28	50,838.93
94	Anthracite Balanced Company Ltd., George Town, Cayman Islands	100.00	100.00	EUR	-22,233,167.43	-303,979.68
95	Aviation Leasing OpCo France III, Paris, France [1)]	100.00	100.00	EUR	-128,221.00	-136,423.00
96	Aviation Leasing OpCo France IV, Paris, France [1)]	100.00	100.00	EUR	-121,598.00	-96,009.00
97	Asian Capital Investment Opportunities Limited, Hong Kong [1)]	51.00	51.00	USD	115.00	-13.00
98	Bach Holdings LLC, Wilmington, USA	100.00	100.00	USD	882,656.00	0.00
99	DEERS Green Power Development Company, S.L., Zaragoza, Spain [1)]	99.00	99.00	EUR	-27,756,127.00	-5,992,173.00
100	DMS DYNAMIC MICRO SYSTEMS USA CORP., Wilmington, USA [1)]	100.00	100.00	USD	[6)]	[6)]
101	Dynamic Micro Systems (Shanghai) Trading Co., Ltd. Shanghai, China [1)]	100.00	100.00	CNY	292,136.18	0.00
102	DYNAMIC MICRO SYSTEMS (SINGAPORE) PTE. LTD., Singapore, Singapore [1)]	100.00	100.00	SGD	[6)]	[6)]
103	Dynamic Microsystems LLC, Phoenix, USA [1)]	99.98	99.98	USD	64,417.00	53,684.00
104	EALING INVESTMENTS LIMITED, London, Great Britain	100.00	100.00	EUR	-35,266,409.00	-11,411,412.00
105	Enders Holdings LLC, Dover, USA	100.00	100.00	USD	9,071,785.00	-599,290.00
106	European Capital Investment Opportunities Limited, St. Helier, Jersey [1)]	51.00	51.00	EUR	82.00	2.00
107	Galileo Containers Limited, Majuro, Marshall Islands [1)]	100.00	100.00	USD	[8)]	[8)]
108	HGA Real Estate Management Kft, Budapest, Hungary [1)]	100.00	100.00	HUF	139,877,000.00	-6,227,000.00
109	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	89,846.00	-38,826.00
110	HSH Debt Advisory ApS, Copenhagen, Danmark	100.00	100.00	DKK	2,292,009.00	2,212,009.00
111	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100,00	EUR	465,010.00	31,034.00
112	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	4,173,494.00	-367,664.00
113	HSH N Funding I, George Town, Cayman Islands	66.32	100.00	EUR	1,503,613,851.00	18,930,851.00
114	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	1,154,270,764.00	36,311,821.00
115	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	8,898,431.00	-102,674.00
116	HSH N Structured Situations Limited, St. Helier, Jersey	100.00	100.00	USD	351,241.00	10,805.00
117	HSH Real Estate US Invest, LLC, Wilmington, USA [1)]	100.00	100.00	USD	4,753,459.58	5,108,793.47
118	HSH Restructuring Advisory ApS, Copenhagen, Danmark	100.00	100.00	DKK	807,376.00	727,376.00
119	International Fund Services & Asset Management S.A., Munsbach, Luxembourg [1)]	51.51	51.51	EUR	9,143,489.08	2,830,000.00
120	Kipper Corporation, Wilmington, USA	100.00	100.00	USD	-12,464,618.00	-506,327.00
121	Löddeköpinge Handel AB, Stockholm, Sweden	100.00	100.00	SEK	-20,881,680.00	-17,328,013.00
122	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	13,311.83	-99.42
123	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	0.00
124	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	-74.91
125	Neptune Ship Finance (Luxembourg) S.à.r.l. & CIE, SECS., Luxembourg, Luxembourg [5)]	100.00	100.00	USD	-55,203,928.61	2,641,664.32
126	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg [1)]	49.00	49.00	EUR	-846,314.97	32,237.06

AFFILIATED COMPANIES - OTHER FOREIGN COMPANIES (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
127	Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg [1)]	49.00	49.00	EUR	-400,890.71	106,853.39
128	NORDIC BLUE CONTAINER V LIMITED, Majuro, Marshall Islands	100.00	100.00	USD	[8)]	[8)]
129	SBF II, LLC, Wilmington, USA [1)]	100.00	100.00	USD	-11,737,554.00	156,573.66
130	Solar Holdings S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	-7,926,322.96	5,152,790.96
131	Sotis S.à.r.l., Luxembourg, Luxembourg [1)]	100.00	100.00	EUR	39,636.20	9,387.56
132	TCP Trimontium Center Plovdiv EOOD, Sofia, Bulgaria [1)]	100.00	100.00	BGN	2,027,000.00	-26,000.00
133	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	31,063,641.00	-2,733,514.00

SHARE OF 20% OR MORE

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
134	Aeolis Wind Power Corporation, Sidney BC, Canada [1)]	31.64	31.64	CAD	14,770,444.00	2,762,677.00
135	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland [1)]	49.00	49.00	USD	-4,157,722.00	-125,453.00
136	Alliance HC I Limited Partnership, Chicago, USA [1)]	99.90	0.00	USD	34,062,372.00	-1,280,924.00
137	Alliance HC I Mezz Limited Partnership, Chicago, USA [1)]	85.09	0.00	USD	18,218,397.00	-2,859,263.00
138	Alliance HC II Limited Partnership, Chicago, USA [1)]	95.00	0.00	USD	15,171,240.00	-3,819,898.00
139	Alliance HC III Mezz Limited Partnership, Chicago, USA [1)]	92.40	0.00	USD	11,528,768.00	-4,318,109.00
140	Amentum Aircraft Leasing No. Eleven Limited, Dublin, Ireland [1)]	49.00	49.00	USD	1,315,398.00	1,024,906.00
141	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland [1)]	49.00	49.00	USD	-9,195,878.00	327,290.00
142	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland [1)]	49.00	49.00	USD	-758,346.00	-510,212.00
143	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland [1)]	49.00	49.00	USD	-9,359,114.00	360,556.00
144	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland [1)]	49.00	49.00	USD	-1,234,123.00	-1,111,037.00
145	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland [1)]	49.00	49.00	USD	-13,171,080.00	-3,047,629.00
146	Amentum Aircraft Leasing No. Two Limited, Dublin, Ireland [1)]	49.00	49.00	USD	116,997.00	-227,625.00
147	Araguari Real Estate Holding LLC, Wilmington, USA	31.25	31.25	USD	114,581,429.49	0.00
148	BALIBU Indoor-Freizeitanlagen Beteiligungs-Holding GmbH & Co. KG, Willich [1)]	39.00	0.00	EUR	[7)]	[7)]
149	BALIBU Management GmbH, Willich [1)]	33.00	0.00	EUR	[7)]	[7)]
150	BC Wind Power Corporation, Sidney BC, Canada [1)]	20.92	20.92	CAD	-106,491.00	-107,619.00
151	Belgravia Shipping Ltd., London, Great Britain [1)]	33.33	33.33	USD	30,301,000.00	-25,874,000.00
152	BIG BAU - INVESTITIONSGESELLSCHAFT mbH, Kronshagen [1)]	40.50	40.50	EUR	11,055,356.25	-2,699,824.80
153	BIG-ANTEILSVERWALTUNGS GmbH, Kronshagen [1)]	45.00	45.00	EUR	4,188,280.19	56,996.65
154	BPE Institutional Partners GmbH, Hamburg [1)]	30.56	0.00	EUR	13,843,981.61	[8)]
155	BRINKHOF Holding Deutschland GmbH, Erfurt [1)]	100.00	0.00	EUR	[7)]	[7)]
156	CAPCELLENCE Mittelstandspartner GmbH, Hamburg	25.00	25.00	EUR	-2,763,678.07	-717,999.73
157	Current, LP, Dallas, USA [1)]	31.59	4.90	USD	[7)]	[7)]

SHARE OF 20% OR MORE (CONTINUED)

Serial No.	Name/Place	Share	Voting rights	Currency Code	Equity capital in respective currency	Income/loss in respective currency
158	DOL-ZIRCON Grundstücksverwaltungsgesellschaft mbH & Co., Objekt Hamburg KG, Bad Homburg v.d.H.	94.00	33.33	EUR	2,779,387.85	-23,959.20
159	FHH Fonds Nr. 30 MS "Carelia" GmbH, Hamburg [1]	33.33	33.33	EUR	37,018.74	[8]
160	GARDEUR Beteiligungs GmbH (former: gardeur Beteiligungs GmbH), Mönchengladbach [1]	100.00	40.00	EUR	-1,111,151.43	1,001,261.81
161	GeRo Real Estate Aktiengesellschaft für Projektentwicklung und Consulting, Bellheim [1]	35.00	35.00	EUR	1,092,914.35	[8]
162	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,091,147.75	174,840.85
163	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden [1]	50.00	50.00	EUR	-1,165,698.82	38,839.70
164	HGA Europa-Fonds Beteiligungs GmbH, Hamburg [1]	49.00	49.00	EUR	509,970.21	23,077.46
165	Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG, Bremen	31.84	31.84	EUR	-1,093,126.41	-2,935,574.81
166	IHG Korund GmbH i.L., Hamburg [1]	50.00	50,00	EUR	186,675.46	-22,407.51
167	NBV Beteiligungs-GmbH, Hamburg	28.57	20.00	EUR	19,492,570.81	3,784,427.77
168	Next Generation Aircraft Finance S.à.r.l., Munsbach, Luxembourg [1]	48.80	48.80	EUR	-2,205.00	233,362.00
169	NOBIS Asset Management S.A., Luxembourg, Luxembourg [1]	40.00	40.00	EUR	6,206,714.68	1,175,040.63
170	Northern Diabolo (Holdings) S.à.r.l., Luxembourg, Luxembourg [1]	25.00	25.00	EUR	14,725.76	-22,742.86
171	PL Projekt-Anlagen Leasing Beteiligungsgesellschaft mbH, Hamburg	50.00	50.00	EUR	54,359.57	295.04
172	PL Projekt-Anlagen Leasing Beteiligungsgesellschaft mbH & Co. Objekt Hemmingen KG, Hamburg	50.00	50.00	EUR	9,375.62	5,240.15
173	PRIME 2006-1 Funding Limited Partnership, St. Helier, Jersey	47.50	0.00	EUR	-728,254.00	-2,498,699.00
174	Railpool GmbH, Munich	50.00	50.00	EUR	1,472,972.40	323,203.22
175	Railpool Holding GmbH & Co. KG, Munich	50.00	50.00	EUR	41,151,742.33	100,554.62
176	Regional Jet Leasing 3 C.V., KJ's-Gravenhage, Netherlands	53.33	53.60	USD	-601,114.00	27,399.00
177	SITUS NORDIC SERVICES ApS, Copenhagen, Danmark	40.00	40.00	DKK	3,025,322.00	-1,474,678.00
178	UST XXI NEW JERSEY, LTD., Orlando, USA [1]	24.01	24.01	USD	78,532,754.00	-539,272.00
179	Wilhelm Bartels Bavaria-Grundstücksgesellschaft mbH & Co. KG, Hamburg [1]	28.00	28.00	EUR	281.90	-9,144.11
180	Wohn- und Gewerbefonds "Joseph Haydn Residenz" Dresden-Striesen GbR, Munich [1]	20.37	20.37	EUR	0.00	10,397.82
181	4Wheels Management GmbH, Dusseldorf [1]	68.25	40.00	EUR	14,142,641.41	-484,158.04

[1] Indirect holding.
[2] A profit transfer agreement with the company is in place.
[3] There is a profit transfer agreement with HSH Real Estate AG.
[4] There is a profit transfer agreement with HSH Facility Management GmbH.
[5] Both direct and indirect holdings.
[6] No information available due to newly established company.
[7] No information available due to insolvency of the company.
[8] No data available.

Foreign exchange rates for € 1 as at 31 December 2012

Bulgaria	BGN	1.9558
China	CNY	8.2207
Danmark	DKK	7.461
Canada	CAD	1.3137
Sweden	SEK	8.582
Singapore	SGD	1.6111
Hungary	HUF	292.3
USA	USD	1.3194

HSH Nordbank AG is a partner with unlimited liability in the following companies:

Name and registered office
Fernkälte Geschäftsstadt Nord GbR, Hamburg
GLB GmbH & Co. OHG, Frankfurt am Main
Gesellschaft bürgerlichen Rechts der Altgesellschafter der Deutschen Leasing AG, Bad Homburg v.d.H
AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland

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

69. Notes on foreign currencies

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

€ k	**31.12.2012**	31.12.2011
Assets	50,466,050	57,282,765
Liabilities	21,972,834	19,769,931

70. Derivatives business

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

Transactions held in the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following overview of the non-trading portfolio does not include derivatives that are components of accounting valuation units.

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

Presentation of volumes and market values

Trading portfolio

€ m	Nominal values 31.12.2012	Nominal values 31.12.2011	Positive market values 31.12.2012	Positive market values 31.12.2011	Negative market values 31.12.2012	Negative market values 31.12.2011
Interest rate swaps	232,982	292,399	9,498	9,245	8,381	8,096
FRA	2,088	2,842	-	2	-	3
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	1,175	1,279	113	89	2	1
Short positions	2,001	1,894	5	2	240	196
Caps, floors	10,313	12,940	151	168	111	127
Exchange-traded contracts	384	2.171	-	-	-	-
Other forward interest rate transactions	411	374	18	20	29	30
Interest rate risks	**249,354**	**313,899**	**9,785**	**9,526**	**8,763**	**8,453**
Interest rate/currency swaps	27,285	33,459	613	364	85	793
Interest rate and currency risks	**27,285**	**33,459**	**613**	**364**	**85**	**793**
Forward exchange transactions	3,619	5,759	67	123	41	197
Currency options						
Long positions	515	568	12	28	-	-
Short positions	677	840	-	-	43	90
Currency risks	**4,811**	**7,167**	**79**	**151**	**84**	**287**
Equity options						
Long positions	163	122	32	28	1	1
Short positions	153	95	-	-	32	28
Forward equity transactions	-	-	-	-	-	-
Exchange-traded contracts	2	11	-	3	-	-
Equity/index-based swaps	-	77	-	-	-	25
Commodity-based transactions	1,139	1,325	32	36	29	41
Equity and other price risks	**1,457**	**1,630**	**64**	**67**	**62**	**95**
Collateral provider	41	61	-	-	-	3
Collateral taker	173	191	17	21	-	-
Credit derivatives	**214**	**252**	**17**	**21**	**-**	**3**
Structured products	**3,690**	**4,170**	**288**	**294**	**164**	**134**
Total	**286,811**	**360,577**	**10,846**	**10,423**	**9,158**	**9,765**

Presentation of volumes and market values

Non-trading portfolio

€ m	Nominal values 31.12.2012	Nominal values 31.12.2011	Positive market values 31.12.2012	Positive market values 31.12.2011	Negative market values 31.12.2012	Negative market values 31.12.2011
Interest rate swaps	12,835	18,664	636	688	1,741	1,137
FRA	-	-	-	-	-	-
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	-	-	-	-	-	-
Short positions	-	75	-	-	-	21
Caps, floors	274	307	3	2	-	-
Exchange-traded contracts	-	34	-	-	-	-
Other forward interest rate transactions	2,890	6,431	-	151	-	150
Interest rate risks	**15,999**	**25,511**	**639**	**841**	**1,741**	**1,308**
Interest rate/currency swaps	1,779	3,379	133	192	220	258
Interest rate and currency risks	**1,779**	**3,379**	**133**	**192**	**220**	**258**
Forward exchange transactions	8,027	10,472	121	36	13	377
Currency options						
Long positions	137	364	32	51	-	-
Short positions	188	394	-	-	58	165
Currency risks	**8,352**	**11,230**	**153**	**87**	**71**	**542**
Equity options						
Long positions	11	222	-	2	-	-
Short positions	1	31	-	-	-	-
Equity/index-based swaps	-	121	-	2	-	26
Commodity-based transactions	-	-	-	-	-	-
Equity and other price risks	**12**	**374**	**-**	**4**	**-**	**26**
Collateral provider	50	50	-	-	1	3
Collateral taker	435	616	9	6	-	-
Credit derivatives	**485**	**666**	**9**	**6**	**1**	**3**
Structured products	**1,239**	**1,618**	**67**	**147**	**202**	**159**
Total	**27,866**	**42,778**	**1,001**	**1,277**	**2,235**	**2,296**

Breakdown by maturity

Trading and non-trading Trading portfolio Nominal values as at 31.12.

€ m	Interest rate risks 2012	Interest rate risks 2011	Credit risks 2012	Credit risks 2011	Currency risks 2012	Currency risks 2011	Equity and other price risks 2012	Equity and other price risks 2011	Structured products 2012	Structured products 2011
Residual maturity										
Up to 3 months	19,209	56,668	26	-	10,466	11,794	225	387	107	59
Up to 1 year	39,005	61,899	10	533	1,782	5,297	720	846	275	1,198
Up to 5 years	156,751	147,681	396	197	842	1,027	503	519	1,969	1,738
Over 5 years	79,452	110,000	267	188	73	279	21	252	2,578	2,793
Total	**294,417**	**376,248**	**699**	**918**	**13,163**	**18,397**	**1,469**	**2,004**	**4,929**	**5,788**

Breakdown by counterparty

Trading and non-trading Trading portfolio

€ m	Nominal values 31.12.2012	Nominal values 31.12.2011	Positive market values 31.12.2012	Positive market values 31.12.2011	Negative market values 31.12.2012	Negative market values 31.12.2011
OECD banks	245,793	323,446	7,056	6,777	9,907	10,631
Non-OECD banks	341	151	27	17	-	-
Non-banks (incl. stock exchanges)	62,655	77,137	4,546	4,770	1,072	1,222
Public authorities	5,888	2,621	218	136	414	208
Total	**314,677**	**403,355**	**11,847**	**11,700**	**11,393**	**12,061**

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

Derivatives held in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where HSH Nordbank AG has paid option premiums as a purchaser or has received option premiums as the seller. These are capitalised under Other assets/are expensed under Other liabilities. In addition, the creation of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As of 31 December 2012, the net amount of reconciliation items shown under Other assets amounted to € 279 million (previous year: € 142 million) and the reconciliation items shown under Other liabilities amounted to € 391 million (previous year: € 941 million).

€ m	Option premiums paid 31.12.2012	31.12.2011	Option premiums received 31.12.2012	31.12.2011
Interest rate contracts	3	9	3	16
Currency contracts	12	23	34	54
Equity and other contracts	7	54	-	20
Total	**22**	**86**	**37**	**90**

We have created provisions for contingent losses in the amount of € 6 million (previous year: € 82 million) for financial instruments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown.

71. Information in accordance with Section 28 of the Mortgage Bond Act (Pfandbriefgesetz)

The total amount of mortgage bonds, public-sector bonds and ship mortgage bonds in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV [1] are as follows:

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

€ m	Nominal value 31.12.2012	31.12.2011	Net present value 31.12.2012	31.12.2011	Risk-adjusted net present value 31.12.2012	31.12.2011
Mortgage bonds	4,244	4,781	4,581	5,017	4,672	5,122
Cover funds	5,189	6,038	5,576	6,422	5,585	6,445
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**945**	**1,257**	**995**	**1,405**	**913**	**1,323**

€ m	Nominal value 31.12.2012	31.12.2011	Net present value 31.12.2012	31.12.2011	Risk-adjusted net present value 31.12.2012	31.12.2011
Public-sector mortgage bonds	5,237	5,803	6,570	6,956	6,043	6,269
Cover funds	7,042	6,989	8,221	7,908	7,559	7,112
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**1,805**	**1,186**	**1,651**	**952**	**1,516**	**843**

€ m	Nominal value 31.12.2012	31.12.2011	Net present value 31.12.2012	31.12.2011	Risk-adjusted net present value 31.12.2012	31.12.2011
Ship mortgage bonds	2,528	1,923	2,550	1,942	2,539	1,945
Cover funds	3,379	3,758	3,592	3,988	3,188	3,392
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**851**	**1,835**	**1,042**	**2,046**	**649**	**1,447**

Additional cover funds

€ m	Nominal value 31.12.2012	31.12.2011
Mortgage bonds	368	503
Public-sector mortgage bonds	50	62
Ship mortgage bonds	-	-

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

Nominal value in € m	Mortgage bonds 31.12.2012	31.12.2011	Cover funds 31.12.2012	31.12.2011
Up to 1 year	605	1,048	819	1,093
Between 1 year and 2 years	1,155	1,236	830	772
Between 2 years and 3 years	249	1,095	1,036	848
Between 3 years and 4 years	704	368	519	1,060
Between 4 years and 5 years	692	128	649	529
Between 5 years and 10 years	824	851	1,214	1,562
Over 10 years	15	55	122	174
Total	**4,244**	**4,781**	**5,189**	**6,038**

Nominal value in € m	Public-sector mortgage bonds 31.12.2012	Public-sector mortgage bonds 31.12.2011	Cover funds 31.12.2012	Cover funds 31.12.2011
Up to 1 year	704	489	814	358
Between 1 year and 2 years	139	605	620	539
Between 2 years and 3 years	244	139	1,065	510
Between 3 years and 4 years	234	254	536	983
Between 4 years and 5 years	465	234	318	458
Between 5 years and 10 years	1,667	1,914	965	1,112
Over 10 years	1,784	2,168	2,724	3,029
Total	**5,237**	**5,803**	**7,042**	**6,989**

Nominal value in € m	Ship mortgage bonds 31.12.2012	Ship mortgage bonds 31.12.2011	Cover funds 31.12.2012	Cover funds 31.12.2011
Up to 1 year	715	670	894	1,263
Between 1 year and 2 years	905	715	636	567
Between 2 years and 3 years	510	455	505	491
Between 3 years and 4 years	300	5	373	398
Between 4 years and 5 years	28	-	287	287
Between 5 years and 10 years	70	78	600	658
Over 10 years	-	-	84	94
Total	**2,528**	**1,923**	**3,379**	**3,758**

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

(a) Mortgage bond register

Nominal value in € m	Covering mortgages 31.12.2012	Covering mortgages 31.12.2011
Up to € 300,000	35	37
Between € 300,000 and € 5 million	1,194	1,303
Over € 5 million	3,377	3,815
Total	**4,606**	**5,155**

(b) Ship register

Nominal value in € m	Covering mortgages 31.12.2012	31.12.2011
Up to € 500,000	6	10
Between € 500,000 and € 5 million	717	965
Over € 5 million	2,576	2,723
Total	**3,299**	**3,698**

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

€ m	**31.12.2012**	31.12.2011
Used for residential purposes	1,173	1,304
Used for commercial purposes	3,433	3,851

€ m	Apart-ments	Single dwell-ings	Multiple dwellings	Office buildings	Retail proper-ties	Industrial premises	Other commer-cial properties	Unfinished newbuild-ings and building plots	thereof building plots	**Total 31.12.2012**
Germany	1	8	954	665	415	6	680	17	-	2,746
Finland	-	-	-	72	-	-	21	-	-	93
France	-	-	-	686	5	-	-	-	-	691
Great Britain/ Northern Ire-land/ Brit. Channel Islands	-	-	-	87	-	-	-	-	-	87
Netherlands	-	-	40	361	52	-	92	-	-	545
Poland	-	-	-	52	-	-	-	-	-	52
Sweden	-	-	170	8	44	12	19	-	-	253
USA	-	-	-	127	-	-	-	-	-	127
Austria	-	-	-	12	-	-	-	-	-	12
Total	**1**	**8**	**1,164**	**2,070**	**516**	**18**	**812**	**17**	**-**	**4,606**

€ m	Apart-ments	Single dwell-ings	Multiple dwellings	Office buildings	Retail proper-ties	Industrial premises	Other commer-cial properties	Unfinished newbuild-ings and building plots	thereof building plots	**Total 31.12.2011**
Germany	1	8	1,092	610	540	2	691	64	-	3,008
Finland	-	-	-	72	-	-	21	-	-	93
France	-	-	-	796	5	-	-	-	-	801
Great Britain/ Northern Ire-land/ Brit. Channel Islands	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	40	487	52	-	90	-	-	669
Poland	-	-	-	73	-	-	-	-	-	73
Sweden	-	-	163	8	44	12	8	-	-	235
USA	-	-	-	264	-	-	-	-	-	264
Austria	-	-	-	12	-	-	-	-	-	12
Total	**1**	**8**	**1,295**	**2,322**	**641**	**14**	**810**	**64**	**-**	**5,155**

€ m	**31.12.2012**	31.12.2011
Total of payments at least 90 days in arrears	**-**	-

The following table shows the breakdown of the total amount of loans and advances used to cover public sector mortgage bonds based on borrowers and the countries in which the borrowers are domiciled. The total amount of payments in arrears for at least 90 days is shown under Arrears.

31.12.2012

€ m		Country	Regional public authority	Local public authority	Other	**Total**
Germany	Nominal value	330	3,274	247	1,931	5,782
	Arrears	-	-	-	-	-
Belgium	Nominal value	250	17	-	-	267
	Arrears	-	-	-	-	-
Great Britain/Northern Ireland/ Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Italy	Nominal value	-	28	-	-	28
	Arrears	-	-	-	-	-
Japan	Nominal value	-	-	50	-	50
	Arrears	-	-	-	-	-
Canada	Nominal value	-	26	-	-	26
	Arrears	-	-	-	-	-
Luxembourg	Nominal value	-	-	-	13	13
	Arrears	-	-	-	-	-
Poland	Nominal value	26	-	-	-	26
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	211	-	-	211
	Arrears	-	-	-	-	-
Slovenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Spain	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Hungary	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Austria	Nominal value	449	20	1	69	539
	Arrears	-	-	-	-	-
Total	**Nominal value**	**1,145**	**3,576**	**298**	**2,023**	**7,042**
	Arrears	**-**	**-**	**-**	**-**	**-**

31.12.2011

€ m		Country	Regional public authority	Local public authority	Other	Total
Germany	Nominal value Arrears	320 -	3,373 -	278 -	1,485 -	5,456 -
Belgium	Nominal value Arrears	250 -	18 -	- -	- -	268 -
Great Britain/Northern Ireland/ Brit. Channel Islands	Nominal value Arrears	- -	- -	- -	10 -	10 -
Italy	Nominal value Arrears	- -	30 -	9 -	- -	39 -
Japan	Nominal value Arrears	- -	- -	50 -	- -	50 -
Canada	Nominal value Arrears	- -	26 -	- -	- -	26 -
Luxembourg	Nominal value Arrears	- -	- -	- -	13 -	13 -
Poland	Nominal value Arrears	30 -	- -	- -	- -	30 -
Switzerland	Nominal value Arrears	- -	210 -	- -	100 -	310 -
Slovenia	Nominal value Arrears	90 -	- -	- -	- -	90 -
Spain	Nominal value Arrears	- -	126 -	- -	- -	126 -
Hungary	Nominal value Arrears	5 -	- -	- -	- -	5 -
Austria	Nominal value Arrears	449 -	35 -	1 -	81 -	566 -
Total	**Nominal value** **Arrears**	**1,144** **-**	**3,818** **-**	**338** **-**	**1,689** **-**	**6,989** **-**

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

	31.12.2012		31.12.2011	
€ m	**Ocean-going vessels**	**Inland water vessels**	Ocean-going vessels	Inland water vessels
Bahamas	7	-	14	-
Germany	2,234	-	2,803	-
Greece	71	-	28	-
Hongkong	37	-	33	-
Liberia	240	-	227	-
Malta	146	-	69	-
Marshall Islands	255	-	198	-
Norway	24	-	21	-
Panama	101	-	129	-
Singapore	15	-	-	-
Turkey	50	-	64	-
Cyprus	119	-	112	-
Total	**3,299**	**-**	**3,698**	**-**

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

Number	**Commercial**	**Residential**	**Ocean-going vessels**	**Inland water vessels**	**2012 Total**
Pending foreclosures and judicially-enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

Number	**Commercial**	**Residential**	**Ocean-going vessels**	**Inland water vessels**	2011 Total
Pending foreclosures and judicially-enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

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

€ m	Commer-cial	Residential	Ocean-going vessels	Inland water vessels	2012 Total
Total amount of arrears on interest to be paid	-	-	-	-	-

€ m	Commer-cial	Residential	Ocean-going vessels	Inland water vessels	2011 Total
Total amount of arrears on interest to be paid	-	-	-	-	-

Of loans and advances to banks, the amount of € 1,815 million (previous year: € 2,056 million), and € 18,539 million of loans and advances to customers (previous year: € 19,441 million) are used to cover debentures issued.

72. Financial transactions entered into with selected European states

The following overviews show our exposure to European states for which an increased economic risk is assumed. They present the risk directly attributable to the listed European countries. The income statement effects are only shown for the original positions, i.e. without taking the measurement results of the hedging derivatives into account.

HSH Nordbank AG's exposure to banks, companies and other business partners is reported in the Risk Report.

€ m	Nominal values	Aquisition costs	Gross carry-ing amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valu-ation allowance	31.12.2012 Fair value of assets
Portugal	280	280	281	-	281	210
Ireland	-	-	-	-	-	-
Italy	513	514	523	-	523	597
Greece	76	7	7	5	2	3
Spain	178	178	180	3	177	122
Total	**1,047**	**979**	**991**	**8**	**983**	**932**

€ m	Nominal values	Aquisition costs	Gross carrying amount of financial assets	Accumulated valuation allowance affecting P&L	Carrying amount of financial assets following valuation allowance	31.12.2011 Fair value of assets
Portugal	321	322	323	-	323	187
Ireland	-	-	-	-	-	-
Italy	535	536	546	-	546	546
Greece	257	258	259	188	71	52
Spain	185	185	187	6	181	151
Total	**1,298**	**1,301**	**1,315**	**194**	**1,121**	**936**

The bond exchange offer issued by the Greek government in December 2012 has been essentially accepted by HSH Nordbank AG. All relevant effects relating to Greece have therefore been recognised to the greatest possible extent.

73. Average number of employees

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

			2012			2011
	Male	**Female**	**Total**	Male	Female	Total
Full-time employees	1,570	769	2,339	1,757	877	2,634
Part-time employees	92	490	582	95	517	612
	1,662	1,259	2,921	1,852	1,394	3,246
Apprentices/trainees	36	14	50	32	18	50
Total	**1,698**	**1,273**	**2,971**	**1,884**	**1,412**	**3,296**

74. Corporate Governance

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG submitted a declaration of conformity within the meaning of Section 161 AktG and have made it available to the shareholders. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2012 Annual Report.

75. Remuneration paid to members of the Management Board and Supervisory Board

The Remuneration system to members of the Management Board of HSH Nordbank AG took into account the limitation of monetary compensation of each board member to a maximum of € 500,000 per year (fixed compensation) as long as HSH Nordbank AG is not capable of making dividend distributions.

Variable performance-based remuneration existing to date is dependent on the achievement of certain strategic goals as well as the Bank's financial success taking into account individual performance. It will only be paid if the Bank is able to make a dividend distribution as at 31 December 2015 or 31 December 2016 at the latest and the European Commission has not instituted any abuse proceedings. Only then can any rights acquired until 2015 and 2016 respectively to a variable, performance-based remuneration be paid in three annual tranches. The possibility of an after-the-fact reduction of payments not yet made is in this respect a part of the contract as is the limitation of payments upon departure.

Pension benefits in the amount of 20% of the fixed income portion, as well as reasonable benefits in kind are added. Remuneration for external offices held for the benefit of the Bank is offset against the compensation in full.

In its letter dated 23 August 2012 the European Commission informed HSH Nordbank AG regarding its interpretation of the commitments made within the context of the EU state aid proceedings in respect of the remuneration of the Management Board. This includes an upper remuneration limit of € 500,000 p.a. that also comprises variable remuneration components provided that provisions already need to be recognised for these. Under this interpretation, the variable remuneration system to date is therefore not consistent with the EU conditions and requirements. The Supervisory Board has therefore initiated a change of the Management Board remuneration system and employment contracts. Provisions were no longer recognised for the financial year 2012. The provisions recognised up to and including the 2011 financial year for variable performance-related remuneration payable when the Bank is capable of paying dividends remain in force.

In the case of agreements concluded as from 1 December 2012 the monetary remuneration of each Management Board member is limited in total to a maximum of € 500,000 p.a. (annual fixed salary). Remuneration payable for secondary employment undertaken at the request of the Supervisory Board is set off against the remuneration entitlement set out in the employment contract. Each board member continues to receive pension benefits in the amount of 20% of the fixed income portion, as well as reasonable benefits in kind.

It is planned to re-introduce the variable remuneration component into the Management Board's remuneration system as soon as the Bank is able to pay dividends again and the reorganisation phase pursuant to the decision of EU Commission of 20 September 2011 regarding the state aid provided to HSH Nordbank AG has been successfully completed.

The Bank does not offer additional long-term incentives such as share option schemes.

The total remuneration of the Management Board amounted to € k 2,364 in the 2012 financial year (previous year: € k 4,786). This includes payments made during the reporting year to a pension scheme in the amount of € k 392 (previous year: € k 383). The reduction in the Management Board remuneration compared to the previous year is mainly attributable to a lower average number of Management Board members for the year as well as the discontinuation of variable performance-related remuneration.

Pension obligations as to active Management Board members relate solely to defined contribution plans. The additions to pension obligations disclosed in the previous year are now reported in the notes relating to former members of the Management Board.

Total remuneration for former members of the Management Board and their surviving dependents amounted to € k 6,738 (previous year: € k 8,575). In the financial year under review, € k 2,805 (previous year: € k 1,489) were added to pension obligations to former board members and their dependents. As of 31 December 2012, a total of € k 42,183 (previous year: € k 38,461) was added to provisions for pension obligations.

The members of the Supervisory Board receive remuneration for their service in an amount determined by the Annual General Meeting. The expected total for the 2012 financial year of € k 560 has been recognised in provisions. € k 540 of the amount provided for in the 2011 financial year (€ k 550) were paid to the members of the Supervisory Board in the reporting period. This includes VAT in the amount of € k 83 (previous year: € k 69).

As was the case in the previous year, advances, loans and other liabilities to members of the Management Board did not exist as at 31 December 2012. For members of the Supervisory Board they amounted to € k 264 (previous year: € k 280). In the 2012 financial year no new loans were granted to members of the Supervisory Board.

The loans granted to members of the Supervisory Board relate to real estate financings and overdraft facilities. Loans to members of the Supervisory Board were granted with maturities from variable to final maturity in 2038. Loans to member of the Supervisory Board were at arm's length conditions with interest rates between 4.72% and 4.83% and 7.00% and 12.00% for overdraft facilities.

Collateral for loans is in the form of land charges for real estate financing; overdraft facilities are open credits. Repayments of loans by members of the Supervisory Board totalled € k 5 in 2012 (previous year: € k 1).

76. Seats on supervisory bodies

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

(a) Members of the Management Board

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

(b) Employees

Dr Thorsten Ahrens	HSH Nordbank Securities S.A., Luxembourg	Member of the Administrative Board
Peter Axmann	Sprinkenhof AG, Hamburg	Member of the Supervisory Board
Torsten Heick	Nobis Asset Management S.A., Luxembourg	Deputy Chairman of the Administrative Board
Ulf Hildebrandt	Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH, Kiel	Deputy Member of the Supervisory Board
Boris Matuszcak	GEWOBAG Wohnungsbau-AG, Berlin	Member of the Supervisory Board
Dr David Mbonimana	Hamborner Reit AG, Duisburg	Member of the Supervisory Board
Patrick Miljes	Bürgschaftsbank Schleswig-Holstein, Kiel Mittelständische Beteiligungsgesellschaft Schleswig-Holstein GmbH, Kiel	Member of the Supervisory Board Member of the Supervisory Board
Michael Otten	SAC Leasing A/S, Koge, Danmark and its subdsidiaries	Member of the Supervisory Board
Markus Pfaffenholz	Dynamic Micro Systems GmbH, Radolfzell	Member of the Advisory Board
Siegward Knuth	BTG Beteiligungsgesellschaft Hamburg mbH, Hamburg	Member of the Administrative Board
Wolfgang Topp	HSH Nordbank Securities S.A., Luxembourg	Member of the Administrative Board

77. The Supervisory Board of HSH Nordbank AG

Hilmar Kopper, Rothenbach (until 28 February 2013) Chairman	Former spokesperson of the Management Board of Deutsche Bank AG
Dr Thomas Mirow, Hamburg (from 28 February 2013) Chairman	Former President of the European Bank for Reconstruction and Development, London
Olaf Behm, Tangstedt Deputy Chairman	Employee of HSH Nordbank AG
Stefanie Arp, Norderstedt (from 1 March 2012)	Employee of HSH Nordbank AG
Sabine-Almut Auerbach, Neumünster	District secretary, ver.di Southern Holstein district
Astrid Balduin, Kiel (until 31 October 2012)	Employee of HSH Nordbank AG
Hans-Werner Blöcker, Helmstorf	Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG
Berthold Bose, Hamburg	Regional financial services representative, ver.di Hamburg district
Detlev Bremkamp, Munich (until 28 February 2013)	Former member of the Management Board, Allianz AG Holding
Dr Alexander Erdland, Stuttgart-Degerloch (until 3 December 2012)	Chairman of the Management Board Wüstenrot & Württembergische AG
Jürgen Friedland, Kiel	Employee of HSH Nordbank AG
Jens-Peter Gotthardt, Moorrege (until 29 February 2012)	Employee of HSH Nordbank AG
Torsten Heick, Rellingen	Employee of HSH Nordbank AG
Oke Heuer, Kiel	Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein
Stefan Jütte, Bonn (from 3 December 2012)	Former Chairman oft he Management Board of Deutschen Postbank AG
Sabine Kittner-Schürmann, Kiel (from 30 November 2012)	Employee of HSH Nordbank AG
Dr Rainer Klemmt-Nissen, Hamburg	Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement GmbH
Lutz Koopmann, Altenholz	Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein
Dr Joachim Lemppenau, Korschenbroich	Former Chairman of the Management Board, Volksfürsorge Versicherung
Manfred Lener, Kiel	Employee of HSH Nordbank AG
Thomas Losse-Müller, Kiel (from 28 February 2013)	Secretary of State at the Schleswig-Holstein Ministry of Finance
Rieka Meetz-Schawaller, Kiel	Employee of HSH Nordbank AG
Dr David Morgan, London	Managing Director, J.C. Flowers & Co UK LLC
Edda Redeker, Kiel	ver.di Northern district
Bernd Wrede, Hamburg	Former Head of the Executive Board of Hapag Lloyd AG

(a) Members of the Risk Committee

Stefan Jütte Chairman (from 5 December 2012)
Dr Alexander Erdland Chairman (until 29 August 2012)
Dr David Morgan Deputy Chairman
Astrid Balduin (until 31 October 2012)
Olaf Behm
Jürgen Friedland
Torsten Heick
Dr Rainer Klemmt-Nissen
Hilmar Kopper (until 28 February 2013)
Manfred Lener
Rieka Meetz-Schawaller (from 5 December 2012)
Dr Thomas Mirow (from 28 February 2013)
Bernd Wrede

(b) Members of the Audit Committee

Dr Joachim Lemppenau Chairman
Lutz Koopmann (until 28 February 2013) Deputy Chairman
Thomas Losse-Müller (from 28 February 2013) Deputy Chairman
Stefanie Arp (from 22 March 2012)
Olaf Behm
Jürgen Friedland
Jens-Peter Gotthardt (until 29 February 2012)
Oke Heuer
Hilmar Kopper (until 28 February 2013)
Rieka Meetz-Schawaller
Dr Thomas Mirow (from 28 February 2013)

(c) Members of the General Committee

Hilmar Kopper Chairman (until 28 February 2013)
Dr Thomas Mirow Chairman (from 28 February 2013)
Olaf Behm
Oke Heuer
Dr Rainer Klemmt-Nissen
Lutz Koopmann (until 28 February 2013)
Rieka Meetz-Schawaller
Thomas Losse-Müller (from 28 February 2013)
Dr David Morgan

(d) Members of the Mediation Committee

Hilmar Kopper Chairman (until 28 February 2013)
Dr Thomas Mirow Chairman (from 28 February 2013)
Olaf Behm
Dr Rainer Klemmt-Nissen
Manfred Lener

78. The Management Board of HSH Nordbank AG

Constantin von Oesterreich
Born in 1953
Chairman

Stefan Ermisch (since 1 December 2012)
Born in 1966
Chief Financial Officer

Torsten Temp
Born in 1960
Corporate and Private Clients
Products and Capital Markets (on a temporary basis)

Edwin Wartenweiler (since 1 June 2012)
Born in 1959
Chief Risk Officer

Dr Paul Lerbinger (until 31 October 2012)
Born in 1955
Chairman

Dr Martin van Gemmeren (until 10 February 2012)
Born in 1970
Restructuring Unit

Mr Matthias Wittenburg (born in 1968) was appointed a member of the Management Board with effect from 1 January 2013 by a decision of the Supervisory Board of 12 October 2012.

Hamburg/Kiel, 21 March 2013

von Oesterreich | Ermisch | Temp

Wartenweiler | Wittenburg

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of HSH Nordbank AG for the business year from 1 January to 31 December 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we wish to point to the following comments in the " Management Report in the section "Outlook", which state that the continued existence of HSH Nordbank AG as a going concern is based on the agreement reached by the governments of the Federal States of Hamburg and Schleswig-Holstein regarding the increase in the guarantee being confirmed by the parliaments of both Federal States and the initial approval of the EU Commission to increase the guarantee until a final decision is made. Furthermore, the guarantee agreement is to be adjusted in such a way that the capital protection clause remains fully effective even after the method for determining capital is converted to IFRS. If the EU Commission determines that the replenishment of the guarantee providing the capital relief or the change in the guarantee agreement constitutes a new state aid situation that is subject to approval, it is essential that final EU approval be obtained and such approval is only tied to conditions that can be implemented within the framework of an economically viable business plan. Furthermore, the regulatory effectiveness of the strengthening of the capital ratios achieved by the increase in the guarantee should not be jeopardised. It is also necessary that the acceptance by market participants and other relevant stakeholders required for the successful implementation of HSH Nordbank AG's business model be preserved even in the event of potential new conditions being imposed.

Hamburg, 21 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen	König
Wirtschaftsprüfer	Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

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

Hamburg/Kiel, 21 March 2013

von Oesterreich

Ermisch

Temp

Wartenweiler

Wittenburg

HSH NORDBANK AG
HAMBURG: Gerhart-Hauptmann-Platz 50, 20095 Hamburg
Phone +49 40 3333-0, Fax +49 40 3333-34001
KIEL: Martensdamm 6, 24103 Kiel
Phone +49 431 900-01, Fax +49 431 900-34002
HSH-NORDBANK.COM