We are building our FUTURE.

2012 ANNUAL REPORT
STRONG FOR ENTREPRENEURS

HSH NORDBANK

CONTENTS

HSH NORDBANK GROUP AT A GLANCE

INCOME STATEMENT
(€ m)

	2012	2011
Net income before restructuring	160	912
Net income before taxes	–185	–206
Group net loss	–124	–265

BALANCE SHEET
(€ bn)

	31.12.2012	31.12.2011
Equity	5.3	4.8
Total assets	130.6	135.9
Business volume	138.5	145.4

CAPITAL RATIOS [1)]
(%)

Tier 1 capital ratio	12.3	13.8
Core Tier 1 capital ratio	9.9	10.3
Regulatory capital ratio	19.1	21.3

EMPLOYEES
(computed on full-time equivalent basis)

Total	3,123	3,684
Germany	2,821	3,244
Abroad	302	440

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities [2)]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's [3)]	Baa 2	Aa 1	Aa 1	Aa 1	Baa 1
Fitch	A–	AAA	–	–	–

1) Including market risk positions; after adoption of financial statements 2012.
2) Obligations covered by "Gewährträgerhaftung" (guarantee obligation).
3) Moody's ratings under review for possible downgrade (except guaranteed liabilities).

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

HSH NORDBANK –
THE BANK FOR ENTREPRENEURS

We are the **BANK FOR ENTREPRENEURS** for Germany's upper medium-sized companies. As a **STRONG AND RELIABLE PARTNER,** we advise our clients in all financial matters and support them in their business as well as private wealth management affairs. We think and act as entrepreneurially as our clients, to make us the preferred partner for all issues relating to loans, structured financing, export financing, payment transaction services, hedging products for commodity, currency and interest rate risks, M&A consulting services and private banking for entrepreneurs. Of our approximately 3,100 employees, more than 2,800 are employed in our two headquarters in **KIEL AND HAMBURG** as well as our locations in Berlin, Hanover, Dusseldorf, Stuttgart and Munich.

WE ARE CHANGING

The new business model provides clarity for both clients and employees and has already shown first successes in 2012:

- We have systematically aligned the Bank's sales structure with the needs of our clients.
- EU conditions and our commitment towards the EU are being implemented at high speed.
- We are securing our market position and are further expanding our new business.

A FIRM EYE ON THE FUTURE

Looking back on 2012, it was indeed a turbulent year. It was the first year following our realignment as a “Bank for Entrepreneurs” which set the course for fundamental change. We are now well on track towards long-term success.

The underlying conditions for our relaunch might certainly have been more favourable. With the tense mood in the shipping industry, the eurozone’s sovereign debt crisis and the economic downturn, we certainly lacked a supporting tailwind. Despite this, however, we have remained steadfast and made great progress in implementing our business model. And this is the path we will consistently continue along. While we cannot control the broader economic situation, we can certainly influence our clients’ acceptance of us. It has also helped that our Management Board is now once again complete after having filled key positions as of the beginning of 2013.

The consistent implementation of our business model also entails a clear commitment to our activities in ship financing. We remain true to this goal and are conscious of our responsibility towards the maritime industry and the Northern German economy.

Nonetheless, much remains to be done. We will tackle the tasks and challenges which lie before us resolutely and confidently, thanks to our sound and sustainable business model. The progress realised in 2012 in our client business and in new business bolsters our conviction that we have set out on the right path.

Constantin von Oesterreich
Chairman of the Management Board

INTERVIEW

Constantin von Oesterreich, Chairman of the Management Board of HSH Nordbank, COMMENTS on the Bank's CURRENT SITUATION and looks ahead to the COMING CHALLENGES.

Mr. von Oesterreich, after HSH Nordbank launched its new business model in 2011, 2012 was dominated by its new focus as a "Bank for Entrepreneurs". How would you sum up the past year?

The conclusion to be drawn from the past year is that our business model is a successful one. Our clients' reactions to our new, comprehensive client advisory approach have been unanimously positive. Especially in our core region of Northern Germany, our clients welcome the fact that they once again have a strong partner in us. In 2012, we acquired new clients, thereby extending our client base in our core business fields. We are proud to have achieved our target volume for new business – despite an environment which was highly challenging for banks and for us in particular. A glance at the risk/return profile demonstrates the outstanding quality of our new business, the margins of our new business being on a very good level. With our business model "Bank for Entrepreneurs", we are on the right path to lead HSH Nordbank to a successful future.

Progress achieved in the Core Bank in 2012 contrasted with a significant increase in loan loss provisions to cover the Bank's troubled legacy portfolios, which have negatively affected net income. Do you see a need for further loss provisions?

In the course of the past year, our operating environment worsened in a manner which was not foreseeable. The significant deterioration in the international shipping industry, the economic downturn and the eurozone's sovereign debt crisis prompted us in particular to revise our loan loss provision planning. In the period until 2014, we envisage a further increase in loan loss provisions and increasing default rates in the Bank's legacy portfolios which are covered by the second loss guarantee provided by the federal states of Hamburg and Schleswig-Holstein. Accordingly, we increased our loan loss provisions covering the Bank's legacy portfolios in 2012. On the basis of our new loan loss provision plan, we currently expect that we will require up to 1.3 billion euro under this guarantee from 2019 until the end of 2025.

How has the Restructuring Unit developed in this context?

The winding down of portfolios in the Restructuring Unit (RU) is proceeding according to plan. We have almost disposed of our equity holdings. The RU continues to focus on winding down our troubled assets as well as our non-strategic business fields and portfolios without putting pressure on the market and our assets. However, the RU has accounted for much of the increase in loan loss provisions and has negatively affected the consolidated net result.

The future of the shipping industry is crucial for the Bank. Many banks backed out of this segment in the past year. When do you expect a recovery, and what is the Bank's future strategy for this business segment?

We do not expect to see a lasting improvement before 2014. It may even take longer. But we are prepared for that. Even if the crisis in the shipping industry takes longer than originally anticipated and hits us harder, we stand by our role as a reliable long-term partner for the maritime economy, which is vital for Hamburg and for Northern Germany as a whole. Shipping remains a core business field for HSH Nordbank. Its recovery is just a matter of time, for there is no alternative to shipping in global commerce.

In the past year you announced measures to improve the Bank's core capital ratios. How far has the Bank progressed with this process?

The key issue for us was the demand from rating agencies, investors and refinancing partners for higher capital ratios. Against this backdrop, we have identified a series of internal and external measures that enable us to sustainably maintain adequate capital resources even with the implementation of Basel III. We already began to implement these measures in the past year. Without a doubt, the most effective of these measures is replenishing the guarantee provided by the federal states of Hamburg and Schleswig-Holstein from 7 billion euro to its original level of 10 billion euro. It is in the best interest of HSH Nordbank and its owners. We are talking about the reinstatement of state aid which had already been approved, however we will again submit it to the EU Commission for review and approval.

How did the guarantor states react to this?

The federal states of Hamburg and Schleswig-Holstein fully support our request and following a thorough review they decided to replenish the guarantee in March 2013. In November 2012 our owners already declared that they would once again increase the guarantee facility. This is the key message for us, and the states have also clearly communicated this to the rating agencies. Not least for this reason, both Moody's and Fitch consider our ratings to be investment grade on a sustained basis. By replenishing the guarantee, the states will receive higher fees. They will be able to use these to provide for the drawdown of the guarantee which we have announced.

Besides strengthening the Bank's core capital ratios, what do you consider the most urgent tasks in 2013?

We will remain true to our profile as a "Bank for Entrepreneurs". We are continuously optimising our structures and processes aligning them to ensure greater proximity to our clients and to improve our speed of reaction and our level of market penetration also outside our core region. In addition, we intend to deepen and enhance our relationships within the German Savings Bank Finance Group. The savings banks are an indispensable cornerstone of our business model. Not only do they form part of our group of shareholders, from the very start they have also been among our key institutional sales and refinancing partners. We will expand our range of products and services within a separate Savings Banks & Institutional Clients unit. We have established a permanent contact at Management Board level for every savings bank.

You took over as Chairman of the Management Board in November 2012. Stefan Ermisch is now the new Chief Financial Officer, and Matthias Wittenburg has been appointed as the new Board Member for "Corporates & Markets". Is the Management Board now complete?

Yes, after a long period the Bank now once again has a complete Management Board. This is also an important sign for the market. In addition, we enacted a new business allocation plan at the start of 2013 which regulates competencies within the Management Board and at lower levels. My Management Board colleagues and I stand for clear leadership, resolute action and consistent execution of our business model as a "Bank for Entrepreneurs". We are fully committed to this task and will spare no effort in pursuing it.

When do you envisage the completion of the Bank's transformation as a "Bank for Entrepreneurs"?

I feel it is important to underline that the huge progress which we have achieved to date has only been possible thanks to the extraordinary commitment of our employees and the support of our shareholders and clients with whom we have close partnerships. I would like to thank all of them, also on behalf of my colleagues on the Management Board. If things go to plan, we will have completed the Bank's transformation by the end of 2014 and will have fully implemented our new business model. Until then, the Bank will gradually build on its potential as a "Bank for Entrepreneurs". Specifically, this means tangible growth in income in our core business relative to today's levels, together with a clear reduction in administrative expenses. We will transform HSH Nordbank into a successful "Bank for Entrepreneurs" – we are building our future.

Stefan Ermisch
Matthias Wittenburg
Constantin von Oesterreich
Edwin Wartenweiler
Torsten Temp

MANAGEMENT BOARD

CONSTANTIN VON OESTERREICH
Chairman of the Management Board
Born in 1953. Constantin von Oesterreich has been a member of the Management Board of HSH Nordbank AG since 1 November 2009. Initially he served as Chief Risk Officer, later becoming Chief Financial Officer and put in charge of the Restructuring Unit. Constantin von Oesterreich has been the Bank's Chairman of the Management Board since 1 November 2012.

STEFAN ERMISCH
Chief Financial Officer
Born in 1966. Stefan Ermisch has been Chief Financial Officer of HSH Nordbank AG since 1 December 2012.

TORSTEN TEMP
Member of the Management Board for Shipping, Project & Real Estate Clients
Born in 1960. Torsten Temp has been a member of the Management Board of HSH Nordbank AG since 1 May 2010. Since 1 January 2013, he has been responsible for the division Shipping, Project & Real Estate Clients.

EDWIN WARTENWEILER
Chief Risk Officer
Born in 1959. Edwin Wartenweiler has been Chief Risk Officer of HSH Nordbank AG since 1 June 2012.

MATTHIAS WITTENBURG
Member of the Management Board for Corporates & Markets
Born in 1968. Matthias Wittenburg has been a member of the Management Board of HSH Nordbank AG since 1 January 2013 and is responsible for the Corporates & Markets division.

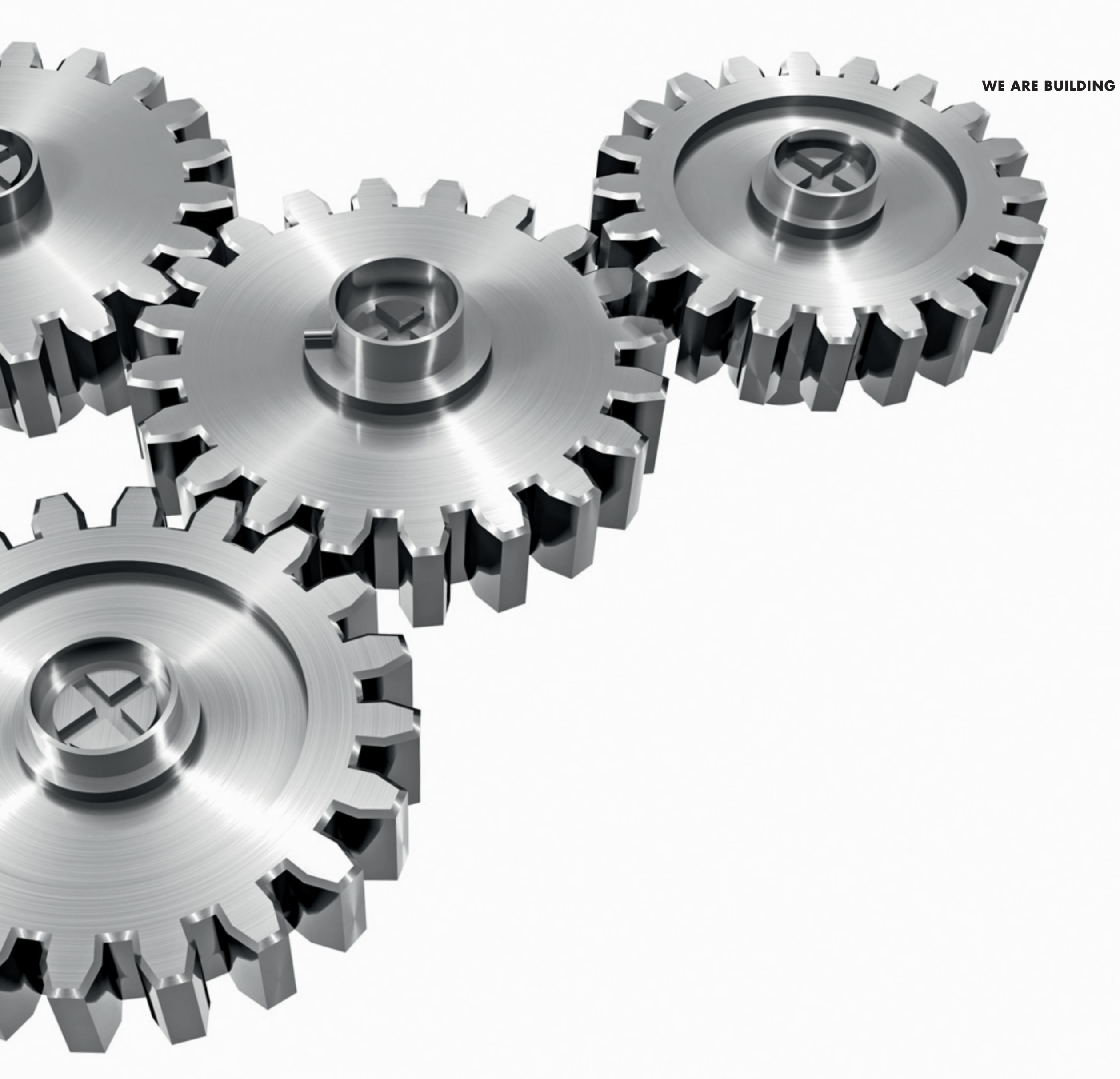
HSH NORDBANK is CHANGING – we are building our FUTURE.

CHANGE WITH A CLEAR GOAL: We know where we stand. We know what we are aiming for. And we know what needs to be done. We are providing the necessary clarity for this – externally and internally.

All this is unfolding amidst a challenging environment. Although we have made great progress, in client business, for instance, the severe downturn in markets and industries that are vital for the Bank has left its mark. Our legacy portfolios and the overall reduction of our loan volume are also having a negative effect on our net income. Nonetheless, we are focused on becoming one of Germany's leading banks for medium-sized companies and their owners. HSH Nordbank has a successful future as a "Bank for Entrepreneurs".

We are the
BANK FOR ENTREPRENEURS.
Our new business model is delivering
SUCCESS.

OUR NEW BUSINESS MODEL IS THE BASIS FOR HSH NORDBANK'S LONG-TERM FUTURE. We implemented this reorganisation in 2012 through our comprehensive transformation programme “Initiative: Future!” Clearly structured tasks and divisions and our new mission statement express our business philosophy which provides the necessary guidance to ensure that everyone is moving in the same direction. The business model will bear fruit and we will exploit the resulting opportunities.



SHIPPING, PROJECT & REAL ESTATE CLIENTS	CORPORATES & MARKETS	RESTRUCTURING UNIT
ENERGY & INFRASTRUCTURE	CAPITAL MARKETS	
REAL ESTATE CLIENTS	CORPORATES	
SHIPPING CLIENTS DOMESTIC	PRIVATE BANKING	
SHIPPING CLIENTS INTERNATIONAL	PRODUCTS	
	SAVINGS BANKS AND INSTITUTIONAL CLIENTS	

Structure since 1 January 2013.

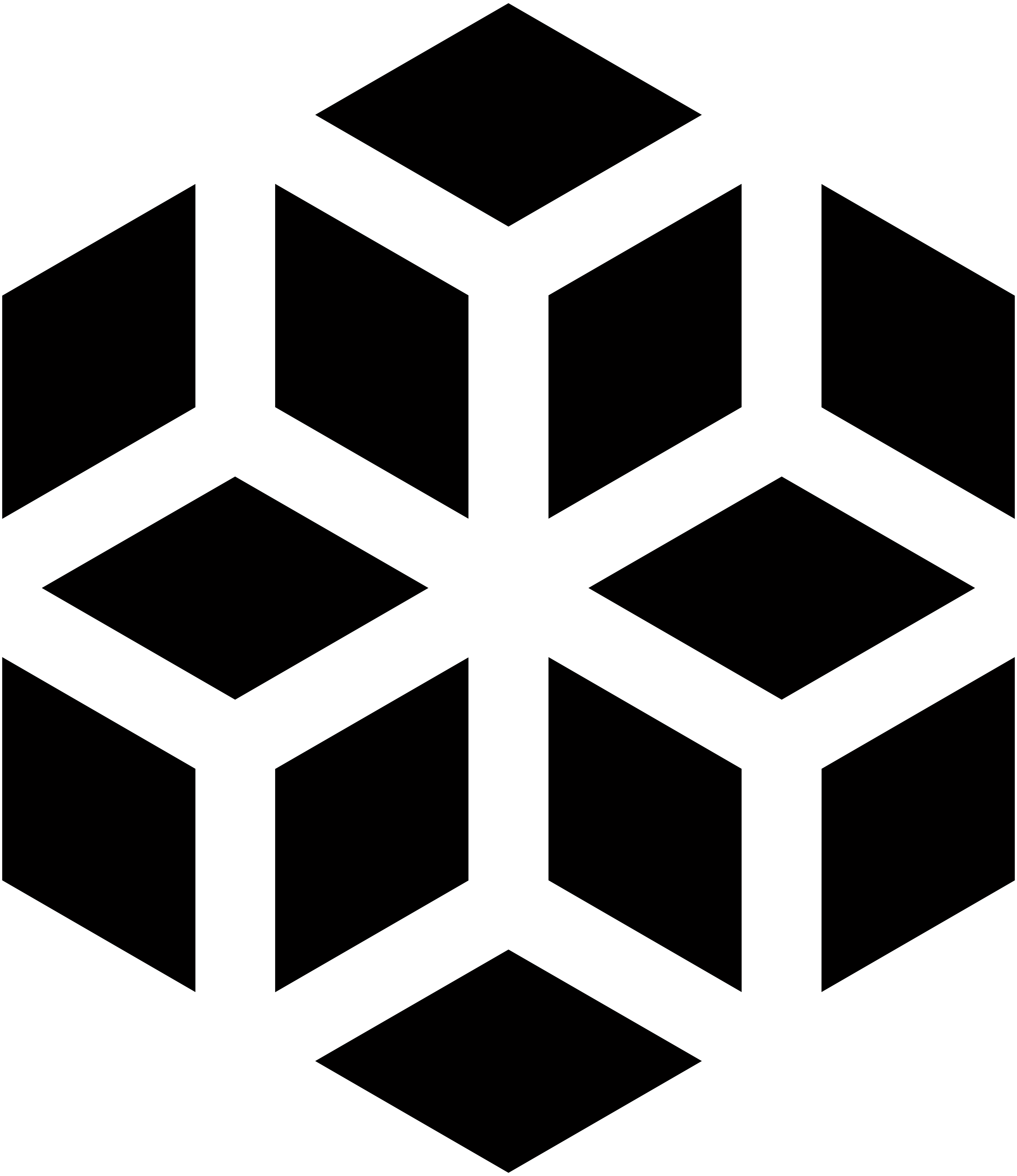

GO

We are increasing the PACE with HIGH-QUALITY and successful NEW BUSINESS.

WE DELIVER CONVINCING SOLUTIONS BASED ON TAILORED PRODUCTS, KNOW-HOW AND THE CLOSE ATTENTION TO OUR CLIENTS' NEEDS. Especially in our core region of Northern Germany, we are able to build on client relationships marked by decades of mutual trust. We attach great importance to cultivating these partnerships. It is just as important for us to acquire new clients for HSH Nordbank. Our activities are paying off – in 2012 we clearly increased our volume of new business and achieved our targets.

WE ARE HOLDING OUR COURSE. The pressure on ship prices, freight and time-charter rates, coupled with the high price of oil, is undiminished. But even if the shipping crisis persists further and hits us harder than originally envisaged, we know the potential of this industry, which is essential for global trade. We are one of the few remaining providers of financing solutions for the maritime economy.

We stand by our role as a reliable **PARTNER** of the **MARITIME ECONOMY** which is immensely **IMPORTANT** for Hamburg and for Northern Germany as a whole.



We will RESOLUTELY and unflaggingly DO what is REQUIRED.

WE ARE LOOKING FORWARD AFTER YEARS OF UNCERTAINTY. 2013 and the next few years will remain challenging for us, but we know: HSH Nordbank has a firm place on the market, even though the management of our legacy portfolios will hamper us over the next few years. But we are heading in the right direction. Accordingly, our goals remain unchanged:

- **SUSTAINABLE PROFITABILITY**
- **EFFICIENT STRUCTURES**
- **A LEADING ROLE AS THE "BANK FOR ENTREPRENEURS"**
- **AN INDEPENDENT FUTURE**
- **LONG-TERM STABILITY**

ABOUT THE COMPANY

FIELDS OF BUSINESS

"One for all and all for one." This famous motto stands for **SOLIDARITY AND RESPONSIBILITY** within a community. That makes it the core of our company philosophy. By focussing their talents and working hand in hand at the same time, our **REALIGNED BUSINESS UNITS** contribute jointly to the **SUCCESS OF THE BANK.**

In HSH Nordbank's new structure, client relations is part of a uniform service promise. In all fields of activity we want to be the preferred partner of our target clients with a product portfolio tailored to their needs. We are organising our business flexibly in line with the demands of the competitive environment and are making it profitable. This involves concentrating on our core businesses and consistently disposing of portfolios that are no longer part of the business strategy.

Our employees base their work on the values of our mission statement, which sums up our key strengths:

- We cultivate **STRONG RELATIONSHIPS.** Our work is based on team spirit, trust, dependability and self-confidence – both outwards and inwards.
- We deliver a **STRONG PERFORMANCE.** We are results-oriented and prefer simple and efficient solutions.
- We are **STRONG DECISION-MAKERS.** We assume responsibility, making pragmatic decisions at all possible levels of the hierarchy.

CORPORATE AND PRIVATE CLIENTS

Our assertive promise, “strong for entrepreneurs”, gives confidence and vitality to our client departments. Here, our clients have a permanent advisor, who provides them with our entire range of services from all departments – with support from specialists in the Products and Capital Markets units – in order to develop customised solutions.

Significant increase in new business

The new business model as the “Bank for Entrepreneurs” provides the ideal basis for the continued development of our client business. In 2012 we were more than successful in this endeavour. Our focus on offering comprehensive consulting services both in business-related and private financial matters to upper medium-sized companies and their owners is a compelling proposition for both existing and numerous new clients.

A year-on-year increase of 45 per cent in new business in the Core Bank confirms that our new strategic direction is meeting the needs of our clients. We attracted a large number of new clients with a sustainable risk-return profile to HSH Nordbank in 2012; most of them in the Corporate and Real Estate Clients divisions.

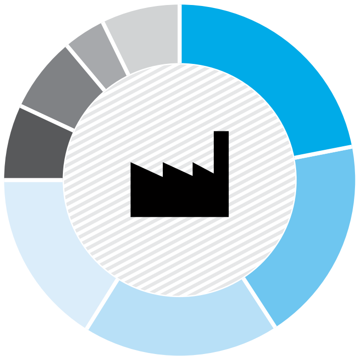
Strong for entrepreneurs

Our clients are very supportive. This became particularly clear with the testimonial advertising campaign for HSH Nordbank launched in 2012. The idea of presenting our strength for entrepreneurs together with our clients was very well received and proved highly popular. Larger and smaller companies from a wide range of sectors are involved, including SCHWARTAUER WERKE GmbH & Co. KGaA, edding AG and the shipping company Reederei F. Laeisz GmbH.

Unternehmer Positionen Nord (Entrepreneurial Positions North)

"Determining positions – assuming positions" is the motto of the initiative "Unternehmer Positionen Nord" launched specially for medium-sized companies in early 2012. It emphasises HSH Nordbank's position as a "Bank for Entrepreneurs". The programme offers a wide range of information in co-operation with the Hamburg Institute of International Economics (HWWI), the Kiel Institute for the World Economy (IfW) and the daily newspaper DIE WELT. It features high-level events and thus creates an exclusive forum for exchanging views and opinions with well-known experts as well as with senior managers and specialists from HSH Nordbank. In 2012, three panel discussions took place with prominent guests, debating topics included the financial situation in Europe and the outlook for German medium-sized companies in international growth markets. Panelists included Prof. Günter Verheugen (formerly Vice-President of the European Commission), Prof. Dr Dr Wolfgang Franz (formerly Chairman of the German Council of Economic Experts) and Prof. Dr Hans-Werner Sinn (President of the ifo Institute for Economic Research).

In 2013, the initiative is to be expanded to additional locations of the Bank in Germany. One of the topics addressed this year by the initiative is the energy turnaround, examining the opportunities and risks that shifts in the global energy landscape pose for entrepreneurs in our region. The main information platform for the initiative is the website in German: www.unternehmerpositionen.de



CORPORATE CLIENTS
Credit portfolio by industry
(31 December 2012)

- 22 % Industry
- 19 % Commerce (wholesale and retail)
- 18 % Health care
- 16 % Food industry
- 7 % Services
- 7 % Energy/Utilities
- 4 % Logistics
- 7 % Others

CORPORATE CLIENTS

Strategic positioning, optimising asset and capital structures, risk and liquidity management or global trade finance – our business model ensures that companies and their owners receive solutions tailored to their needs. The experience and expertise of the Corporate Clients team provide the benefit of advice from a single source, flat hierarchies and rapid decision-making processes.

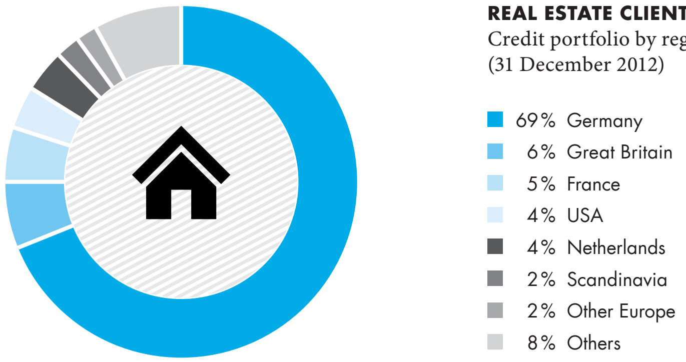
With its wide ranging expertise and tailored products, the Corporate Clients business unit deliberately addresses medium-sized companies in order to boost the position of HSH Nordbank as the preferred bank for this client group. The approach is particularly popular with companies in Northern Germany, our core region, where we are the market leader among our target clients in Hamburg and Schleswig-Holstein with a market penetration of more than 50 per cent.

Growth targeted in metropolitan regions

We reorganised our sales force and recruited additional staff in 2012 in order to maintain our market leadership in our core region and keep developing our presence nationwide. In 2013, we intend to expand our corporate client business in Hanover, Berlin, Stuttgart, Munich and Dusseldorf focussing on high-potential industries offering attractive opportunities. They include food and health care, textiles, retail, services, logistics and industry, amongst others.

HSH Nordbank arranges first promissory note for Biesterfeld AG

HSH Nordbank successfully placed the first promissory note for the Hamburg-based Biesterfeld AG, a pan-European distributor of chemicals and plastics. HSH Nordbank was sole arranger for the promissory note, which has maturities of four years and six years and a total volume of 45 million euro. As demand was so strong, the volume was increased by 10 million euro from the 35 million euro originally planned. The issue was subscribed by a broad circle of German and international institutional investors.



REAL ESTATE CLIENTS
Credit portfolio by region
(31 December 2012)

REAL ESTATE CLIENTS

As part of our reorganisation, this unit now concentrates on the German property market in the metropolitan regions. Our clients include investors, project developers and promoters from the German real estate sector, as well as international investors whom we advise on property projects in Germany.

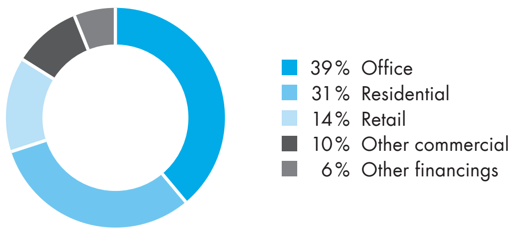
As a nationwide specialist in the sector and an established partner in the bank market, we offer our clients a stable working relationships based on a spirit of partnership. We provide the whole range of funding options, from classic mortgages through to complex structured financing for portfolio transactions. Tailored solutions for hedging interest rate risk and optimising the risk-return structure complete the offering. Our experts apply their intimate knowledge of the market to advise on both buy and sell-side transactions.

This comprehensive range of services enables us to assist our real estate clients with all-round advice from the original idea through to planning and project management, right up to completion. Our financing solutions open the door to turning planned projects into successfully realised ones. This not only benefits our clients, but also the regional economy.

Good conditions for new business

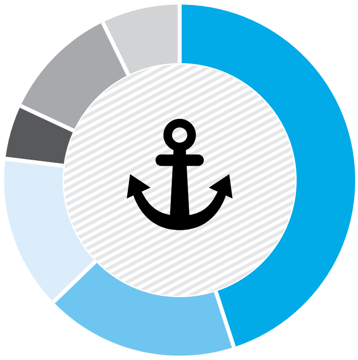
In 2012, we more than doubled our volume of new business compared with the previous year. We intend to pick up where we left off from this point. Although competition among property financiers on the German market is tough, we still see attractive growth opportunities in this area. Low interest rates provide a favourable environment for real estate markets. Properties in good locations, let on long leases, are a popular asset class. As the leading real estate financier in Hamburg and Schleswig-Holstein with strong positions in the regions Berlin, Dusseldorf/Cologne, Frankfurt, Stuttgart and Munich, we have the ideal foundation to generate new business. We have been very successful in expanding our presence considerably in the real estate business at these locations.

REAL ESTATE CLIENTS
Credit portfolio by property type (31 December 2012)



Large-scale portfolio financing

In autumn 2012, HSH Nordbank arranged financing for a nationwide property portfolio of some 5,000 residential units with a total living area of around 311,000 square metres for Deutsche Wohnen AG, one of Germany's leading listed residential property companies. We offered our client financial security at an early stage of the process by underwriting the entire volume of 161 million euro. Most of the loan was subsequently syndicated to other German banks. This instance of highly complex, high-volume property financing is one of many examples of HSH Nordbank's outstanding position on the real estate market.



SHIPPING
Credit portfolio by segment
(31 December 2012)

- 45 % Containers
- 18 % Bulkers
- 14 % Tankers
- 5 % Offshore vessels
- 11 % Other vessels
- 7 % Other financings

SHIPPING

HSH Nordbank has been a leading partner to the maritime industry in Northern Germany and across the world for decades. We make our acknowledged expertise in ship financing available to clients in all relevant regions and market segments. We support them with long-term ship mortgage loans, construction period financing and structured ship financing. We are the right partner for hedging interest rate, exchange rate and oil price risks, more recently also container freight rate risks, for M&A consulting services and for everything related to domestic and international payment transactions and cash management. Our risk advisory service has attracted great interest from our clients, for example. Their analyses and the hedging proposals derived thereof enable follow-on transactions in our Corporate Finance and Capital Markets units, which improve the risk profile of our clients.

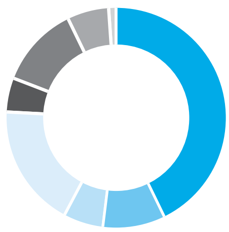
Seizing opportunities

In 2012, we again showed that we are a reliable partner for new business with our clients in the shipping industry. We benefited from the global presence of our Shipping business unit with teams in Singapore, New York and Athens.

Given the weak state of the economy and current overcapacities, the situation in the shipping market will remain tense in 2013. In light of a slow recovery of the global economy, we believe that the situation will not improve notably in the near future for the international shipping industry. For the container and bulker markets, we are expecting the first signs of a recovery in 2014 at the earliest, for crude oil tankers probably only in 2015.

Our aim is to remain one of the leading banks in the global market for ship financing, although the Bank's overall shipping portfolio will continue to decline. At present we see the greatest potential in international markets and in the emerging offshore segment. We have pooled our expertise in the area of liner shipping companies and container box financing in specialist teams, which we will continue to expand.

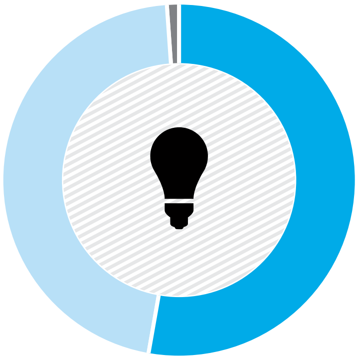
SHIPPING
Credit portfolio by region (31 December 2012)



- 43 % Germany
- 9 % Greece
- 6 % Scandinavia
- 18 % Other Western Europe
- 5 % Central and Eastern Europe
- 12 % Asia/Pacific
- 6 % Americas
- 1 % Middle East/Africa

Innovative product enables hedging of container freight rate risks

We are one of the first banks to offer clients a hedging product in the form of container forward freight agreements (FFA), which enable reliable planning and can lock in revenue for up to two years. We anticipate that this innovative hedging product will increasingly become a standard element of contracts between individual market participants, such as freight forwarders and shipping companies. The market response to date has been positive and we can already see increasing demand.



RENEWABLE ENERGIES
Credit portfolio by asset class
(31 December 2012)

ENERGY & INFRASTRUCTURE

Our experienced international team works closely with clients in the renewable energy and infrastructure sectors to prepare individual concepts for complex financing structures. We are now one of the three leading German financiers in these segments.

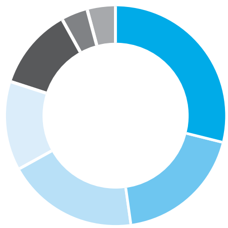
Targets outperformed

2012 was a very positive year for the division: we advised on more than 30 new projects and our volume of new business was more than 50 per cent above our own estimates. In 2013, we intend to build on these successes and continue to expand the business.

Renewables

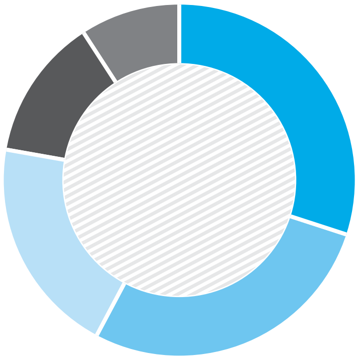
Our home region of Northern Germany is becoming more and more established as a hub for renewable energies, even though the sovereign debt crisis in the eurozone and the lack of grid connections are currently slowing the pace of expansion. We are using our direct proximity to many medium-sized companies in this sector to develop and expand close business relations. As a specialist for renewable energies in Europe, we are thereby also positioning ourselves beyond this region in a potential growth market. The focus here is on project financing in the onshore and offshore wind and photovoltaic market segments. Furthermore, we are working consistently to open up areas such as concentrated solar power (CSP), hydro and geothermal energy as new markets for HSH Nordbank.

RENEWABLE ENERGIES
Credit portfolio by region (31 December 2012)



Financing for the solar power plant in Briest

In April 2012, we and another partner bank completed the financing for what at the time was Europe's largest solar power plant in the Brandenburg community of Briest. Our counterparty for this project, which had a total investment volume of some 200 million euro, was Hamburg-based LUXCARA GmbH, an asset manager specialised in energy and infrastructure investments.



INFRASTRUCTURE
Credit portfolio by asset class
(31 December 2012)

- 30% Rail rolling stock
- 28% Airports
- 20% Rail infrastructure
- 13% Seaports
- 9% Others

Infrastructure

In our main financing areas of transport, logistics, power grids and storage we concentrate on European air and sea ports and the associated infrastructure, for example railways. Pipelines, storage tanks and electricity grids complete our financing range. Our geographical focus for infrastructure projects is on Europe.

Lead arrangement mandate for major infrastructure transaction

We are members of a banking consortium that has supported Open Grid Europe GmbH (OGE) as a financing partner. OGE is the leading high-pressure gas pipeline network operator and transports 70 per cent of German gas. With this important infrastructure deal, we were able to diversify our portfolio and reinforce our long-term position in the market. The transaction won the "M&A Deal of the Year Award" from the trade journal Project Finance International.

INFRASTRUCTURE
Credit portfolio by region (31 December 2012)

- 25% Belgium
- 22% Great Britain
- 21% Germany
- 9% Luxembourg
- 7% Swiss
- 6% France
- 2% Spain
- 2% USA
- 6% Others

PRIVATE BANKING

Expertise, reliability, transparency – for decades these principles have formed the basis for our trustful, long-term partnerships with our clients. They have made HSH Nordbank a leading provider of private banking services in Northern Germany.

We stand by our clients with the strategic foresight to preserve and develop their assets. As the transfer of assets to the next generation is an important topic for many of our clients, we help owners and managing directors of medium-sized companies to preserve their wealth over generations and find tailor-made solutions for succession planning.

Business and private financial solutions from a single source
As part of our business model as the "Bank for Entrepreneurs", we now aim to a greater extent than before to pool client services in both business and private financial matters within the Bank. In this way we aim to increasingly attract entrepreneurs towards private banking, for example from the real estate, shipping or energy sectors, and to attract private clients to our corporate banking business.

In 2013 we will be adding an office in Stuttgart to our offices in our core markets Hamburg, Kiel and Berlin and those in Dusseldorf and Hanover.

Leading in advising foundations
Alongside wealthy and high net-worth clients, we also advise foundations and non-profit organisations throughout Germany, including in the establishment phase. Our advisory work covers strategy, fund-raising, public relations and management. Other focal areas are social investment and philanthropy. We were able to further develop our position in the field foundations in 2012. We now advise over 400 foundations, making us one of the leading banks in Northern Germany in this segment.

PRODUCTS & CAPITAL MARKETS

We advise the corporate clients of HSH Nordbank, including savings banks, other banks and insurance companies, whom we offer financial products and solutions tailored to their specific needs. This includes arranging syndicated loans.

HSH Nordbank is an initiator of new products and one of the first banks to offer the import and container shipping sectors the opportunity to hedge their freight rates by means of container forward freight agreements.

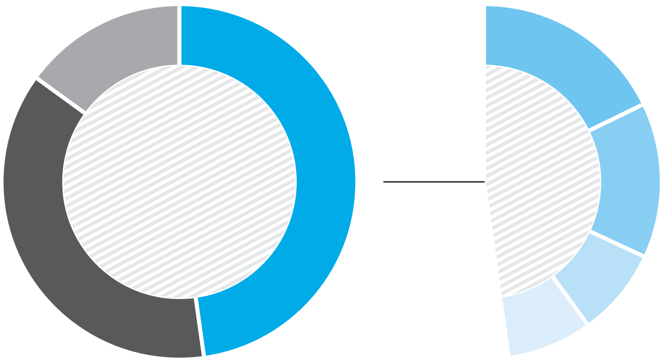
In addition, we offer savings banks and corporate clients alternative funding options such as promissory notes ("Schuldscheindarlehen").

PRODUCTS

For complex financing structures, HSH Nordbank acts as an arranger of large-volume transactions. Export financing, payment transaction services and factoring complete our product range. In addition, clients can use our risk management, balance sheet and refinancing services as well as asset management services for their private asset allocation.

Positive performance in 2012
The business unit grew its business substantially in 2012. We structured a large number of sophisticated financings for our clients and acted as lead arranger. The Bank was successful in issuing promissory notes – in some cases considerable volumes – for companies and public-sector organisations. In trade finance, we strengthened our relationships with international commodities trading clients. Increasing demand for factoring solutions is met by the "Smart Fact" product, a financing platform for trade receivables. Increasing customer interest in this product confirms us in our intention of expanding our services and expertise in this area.

A new platform for processing payment transactions was introduced in 2012. Today, it offers our clients a modern, high-performance infrastructure, which will also be used by leading banks in Germany in the future. It underlines our holistic approach to client relationship management.



Financing solution for Germany's largest municipal clinic operator
Having won the beauty contest, we lead managed a club deal for a total financing package of 145 million euro for upcoming investment for Germany's largest municipal hospital operator, VIVANTES AG in Berlin. As the lead arranger with relevant product and sector expertise, HSH Nordbank is the interface between our clients and the lenders.

CAPITAL MARKETS

In addition to working with Savings Banks and financial institutions, the Capital Markets unit is responsible for developing, distributing and cross-selling capital market-oriented products such as bonds, certificates and risk management products.

We offer tailored liquidity and risk management solutions to corporate, private and institutional clients.

We have worked particularly closely over many years with the savings banks, which are among our most important institutional clients. As a stock corporation with public-sector shareholders, HSH Nordbank is an established member of the German Savings Banks Finance Group and has active business relations with over 300 savings banks throughout Germany. This represents a market penetration of about 75 per cent in the savings bank sector.

Although the market was difficult for banks, the Capital Markets unit was able to increase its income. A major contribution was made by the unit's trading function.

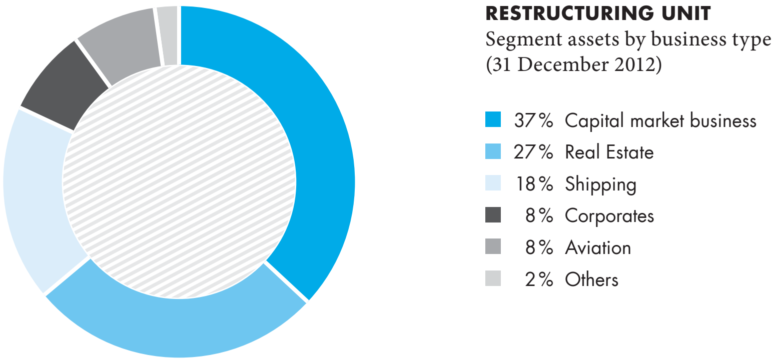
For our partners in the savings banks sector and their clients we issued bonds customised to their requirements. Furthermore, we were able to support savings banks and institutional clients with Pfandbrief issues.

In 2013, we intend to remain our clients' first choice for interest rate and risk management. With our know-how in developing innovative, individual financial solutions, accompanied by a consolidated, improved capital market IT infrastructure, we are well placed to be just this. Specifically, we are aiming to expand promissory notes for borrowers who meet the criteria of capital markets.

Improved offer for savings banks

The partnership with savings banks is an important pillar of our business model. In addition to the partnership in lending, our activities include providing HSH Nordbank bonds to expand the savings banks' product portfolios, access to corporate promissory note transactions from outside their business areas and long-term refinancing options for savings banks.

We intend to keep expanding our market penetration in the savings bank sector nationwide and also to do more business with those savings banks with which we have an active business relationship. We regard them as entrepreneurs and serve them efficiently and without bureaucracy with a competitive and transparent range of products and services. As part of the new structure, central client representatives advise them. An important segment is the syndicated lending business. In 2012, we developed a simplified procedure that is aligned with the savings banks' own standards and enables fast processing and decision-making. We plan to offer this new procedure to savings banks nationwide in 2013.



RESTRUCTURING UNIT

The Restructuring Unit (RU) plays a key role in the reorganisation of HSH Nordbank. Its task is to wind down activities and business fields which no longer fit the Bank's strategy or involve unwanted risks, while safeguarding profitability for the Bank in compliance with existing EU conditions. That leaves the RU with an important contribution to the future viability of HSH Nordbank.

Sub-portfolios to be wound down are pooled in the RU and are organisationally and disciplinary separated from the core business. They include capital market portfolios as well as loan portfolios in Germany and abroad. This disposal process is carried out in a risk-conscious and cost-efficient way, while preserving liquidity and guarantees in place.

In a difficult market environment, the RU reduced its segment assets in 2012 by another 8 billion euro to 50 billion euro (without consolidation effects). US dollar positions were wound down substantially throughout all business areas, particularly US energy, commodity finance and infrastructure.

In 2013, the RU will continue to pursue its mission as before and will develop further strategic approaches for alternative solutions on a single asset or portfolio basis. However, the overall economic conditions will remain a challenge for the RU target in view of the sovereign debt crisis in the eurozone, the shipping crisis and the performance of capital markets.

New organisational structure
Following the successful asset reduction managed by the RU in the past and in context with the changing market conditions, the organisational structure of the RU was adjusted as of 1 November 2012. The units Wind-Down Loans and Divestments have been merged into the unit Wind-Down Assets handling the credit investment portfolio and largely performing loan exposures. As before, the Special Loans unit takes care of non-performing positions in the loan portfolios. The new Workout unit is, on the one hand, responsible for liquidating insolvent loan exposures effectively and, on the other hand, focuses on alternate asset disposal strategies intending to avoid insolvencies and minimise impact on results. A separate, independent Credit Assessment & Decision unit has also been established. It advises the portfolio teams on restructuring processes from a credit risk perspective and is responsible for the final credit decision.

CORPORATE RESPONSIBILITY

EMPLOYEES

A strong “Bank for Entrepreneurs” needs strong, motivated employees who identify with HSH Nordbank. The Human Resources business unit is putting our core values into practice on the basis of the new mission statement, together with the workforce.

However, the restructuring in accordance with the conditions imposed by the EU also makes it necessary to reduce the number of staff. We have begun this process with great urgency, in a fair manner and with great sensitivity. In the course of a concentrated process, we were able to secure more than three quarters of the targeted reduction aimed for in 2014 by means of voluntary agreements in 2012. The overall aim was to implement a large number of structural changes. The Human Resources division advised on over thirty restructuring processes entailing the transfer of more than 1,700 employees.

Notwithstanding these reductions, new and highly qualified staff had to be recruited for a few key positions in the Bank. Together with the existing managers, they form a powerful team, and are therefore an important factor in securing the future success of the Bank.

Strong emphasis on vocational and professional training

The vocational and professional training of HSH Nordbank’s employees has traditionally had a high priority. The trainees completing their apprenticeships in 2012 obtained seven “very good” and eight “good” grades – impressive proof of the outstanding quality offered by our vocational training programmes. With these top final grades, this is the strongest performance by any year that we have ever had. In 2012 we carried out 535 external and 300 internal seminars of professional training and additional qualifications for a total of 5,560 participants. With our new high-potential programme, we want to create a pool of well-trained candidates who will be available to fill management positions quickly and appropriately across the bank’s branch network.

Family, career and health

In cooperation with pme Familienservice GmbH, HSH Nordbank provides a varied range of child care and support services for families. In 2012, a large number of employees again made use of these services, especially for child care and caring for relatives at home. It is widely accepted within HSH Nordbank that fathers should take parental leave, and the number doing so is increasing from year to year. As part of its health and social management role, the social advisory service organised a series of workshops in 2012, which were attended by a total of 1,270 employees. HSH Nordbank has been certified by the charitable Hertie Foundation for its activities and services to make life easier for working parents.

Equal opportunities and advancement of women

The equality of opportunity initiative adopted by the Management Board at the end of 2011 made further progress in 2012. In order to provide even more direct support for women to pursue their careers, the equal opportunity officers and human resources development staff also launched an initiative for the advancement of women.

COMPLIANCE

HSH Nordbank considers integrity to be a fundamental value for responsible corporate conduct – especially at a time of extensive restructuring. To reflect this great importance, we established the Compliance unit in 2012 as a separate, independent business unit. It controls and monitors compliance with our strict code of conduct for areas such as securities trading, anti-money laundering, financial transactions and anti-corruption activities.

The focus is on ten core processes which are particularly important for HSH Nordbank's new business model – they include protecting markets and investors, monitoring clients and transactions and investigating suspicious circumstances. The Compliance segment thereby plays a vital role in ensuring that processes run smoothly and safeguarding the bank's good reputation.

The demands on Compliance change along with the constantly changing applicable regulations and guidelines. This makes it all the more important to keep our staff up to date by means of regular training and so avert potential threats and conflicts of interest early and effectively.

SOCIAL COMMITMENT

HSH Nordbank has a long tradition of social commitment. In 2012, HSH Nordbank was a premium partner of the “Kieler Woche”, the world’s largest sailing event, for the ninth time. Through the sale of bracelets in support of the “Gut für Kids” (“Good for kids”) charitable initiative, HSH Nordbank, together with the “Kieler Woche”, helps children and teenagers from financially disadvantaged families to join sport clubs. More than 27,000 euro in donations was raised in 2012. We also supported the sailors by providing the popular HSH Nordbank Race Repair Service.

The HSH Nordbank Run has become the largest running event in Northern Germany. Almost 21,000 runners participated in teams to run for a good cause. As always, the money raised – a total of 133,500 euro in 2012 – was donated to “Kinder helfen Kindern” (“Children helping children”). Since 2003, more than 880,000 euro has been raised to benefit the initiative “… und los! Kids in die Clubs” (“... and go! Kids in clubs”). With this money, more than 7,000 children and teens have been able to join sport clubs.

With its partners from the German Savings Bank Financial Group, HSH Nordbank was once again one of the main sponsors of the Schleswig-Holstein Music Festival in 2012, helping to make this cultural highlight in Northern Germany possible.

The goal of the HSH Art Foundation’s new project “Landessprachen” (“Local languages”) for 2012 and 2013 is to showcase the literary treasures that arise from the diversity of the languages and cultures of the federal state of Schleswig-Holstein.

GROUP MANAGEMENT REPORT

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.

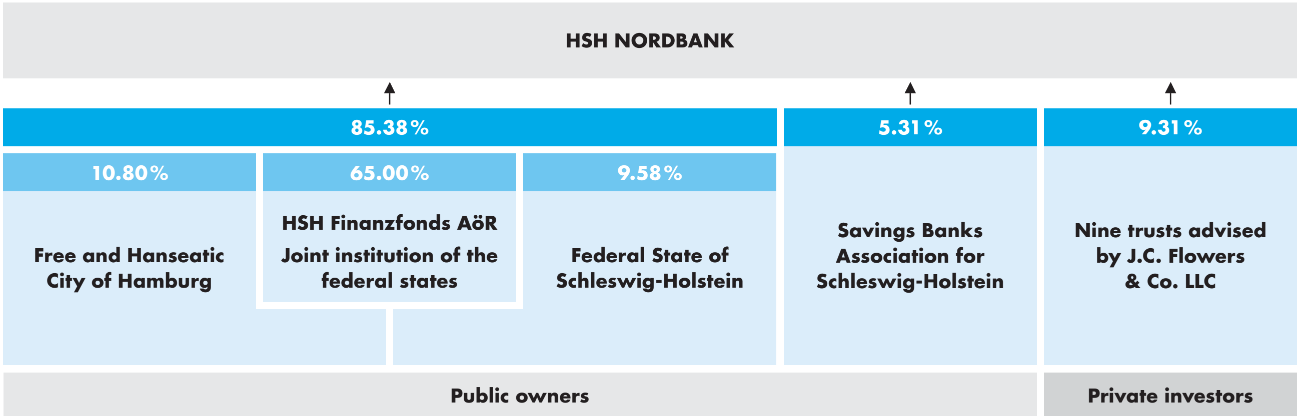
At the beginning of 2013 the assignment of divisions was adjusted in the Core Bank as part of the reorganisation of Management Board responsibilities. The Board responsibility Corporate and Private Clients was reorganised into the Shipping, Project and Real Estate Clients Board responsibility and includes 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

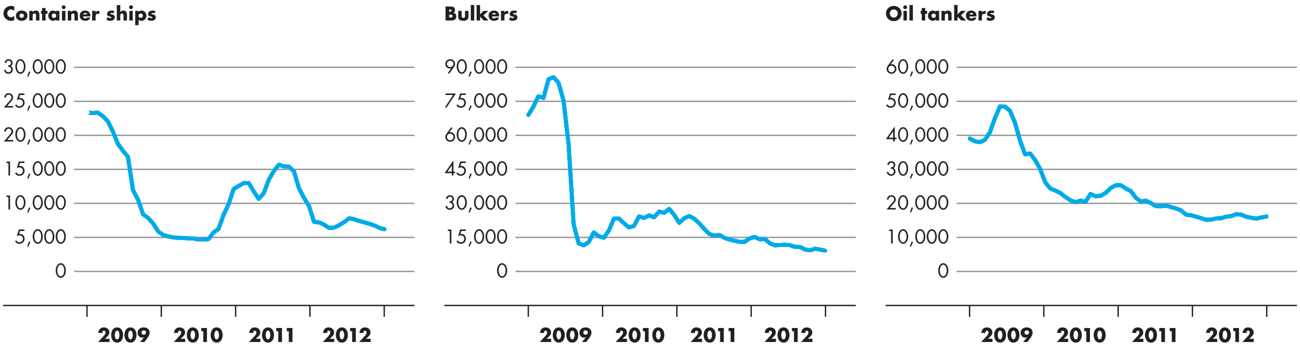
Cooling down of the global economy

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 "Segments" 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 50 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 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.

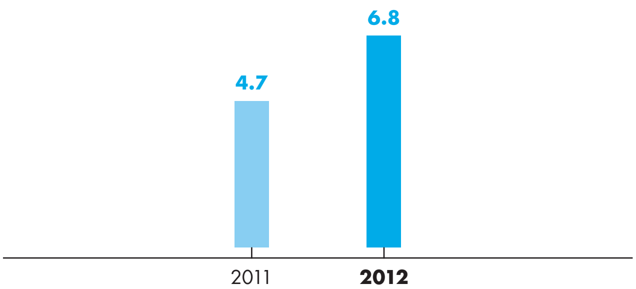
In addition, we have further developed the Bank's management processes and thereby increased their effectiveness. Through the integration of standardised key performance indicators into the Bank's systems we want to ensure a consistent operational and strategic management of the Bank at individual transaction 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.

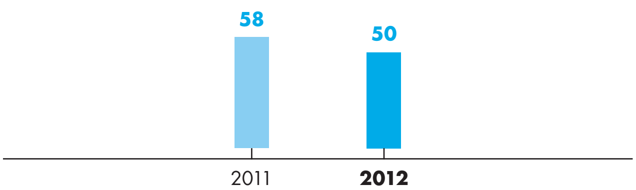
The risk-conscious expansion of client business was also successful in 2012. Despite the difficult market conditions we were able to substantially increase new business compared to the previous year. The volume increases achieved as well as cross-selling successes in new business as well as stable margins 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 focussing 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 focussing. 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 fell to 3,123 compared to 3,684 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

HEADCOUNT

	31.12.2012	31.12.2011
Full-time equivalents (FTE) in the Group [1]	**3,123**	**3,684**
of which: Women	1,226	1,479
Men	1,897	2,205
Employees in Germany	2,821	3,244
Employees abroad	302	440
Total number of employees in the Group [2]	3,750	4,265
Employee figures		
Maternity and parental leave	123	102
New employees	132	237
Part-time employees (%)	19.9	19.9
Turnover rate (%)	10.7	7.9
Average age [3] (years)	43.1	41.9
Average period of employment (years)	11.4	10.9

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 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 initiated a change in 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 61.

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 this Annual Report. 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 consolidated financial statements (Note 66). The Supervisory Board report, which also forms part of this 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

2012 consolidated financial statements characterised by a difficult environment and special effects

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 economy and market uncertainty regarding developments in the euro 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 consolidated financial statements 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. Special and measurement effects also had an overall adverse impact on the earnings trend of the Bank. Significant effects resulted from the updated corporate planning, sales of equity holdings, the repurchase of subordinated bonds and measurement of derivatives.

Against this backdrop we report a Group net loss of € – 124 million for 2012 compared to € – 265 million in the previous year. Prior to taking into account restructuring expenses, expenses for government guarantees and tax effects, the Bank generated a positive result of € 160 million compared to € 912 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. The Bank's total income increased above the previous year level as a result of special factors.

We increased 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.

In addition to impairment losses, the loan loss provisions item has been adversely impacted by the first-time recognition of future, expected fees for the guarantee. This charge results from the expected actual drawdown under the guarantee in the years 2019 to 2025 based on our long-term loan loss provision planning.

HSH Nordbank has met the increased regulatory requirements regarding capital adequacy as at 31 December 2012. The core Tier 1 capital ratio amounted to 9.9 % as at the year-end (after adoption of the annual financial statements) 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. Our aim is to replenish the guarantee providing capital relief and we 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.

Total assets of the Bank decreased further by more than € 5 billion to € 131 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.

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

EARNINGS SITUATION

INCOME STATEMENT
(€ m)

	2012	Following adjustment [1] 2011	Change in %
Interest income	8,601	11,654	–26
Interest expenses	–7,549	–10,335	–27
Net income from hybrid financial instruments	468	31	> 100
Net interest income	**1,520**	**1,350**	**13**
Net commission income	119	120	–1
Result from hedging	6	4	50
Net trading income	–238	–173	–38
Net income from financial investments	53	90	–41
Net income from financial investments accounted for under the equity method	–14	–67	79
Total income	**1,446**	**1,324**	**9**
Loan loss provisions	–656	389	> 100
Administrative expenses	–821	–837	–2
Other operating income	191	36	> 100
Net income before restructuring	**160**	**912**	**–82**
Result from restructuring	–43	–235	82
Expenses for government guarantees	–302	–883	–66
Net income before taxes	**–185**	**–206**	**10**
Income taxes	61	–59	> 100
Group net loss	**–124**	**–265**	**53**
Group net result attributable to non-controlling interests	–4	–1	> –100
Group net result attributable to HSH Nordbank shareholders	–120	–264	55

[1] Details are set out in Note 3.

Earnings situation influenced by measurement effects

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

In the year under review **net interest income** increased to € 1,520 million compared to € 1,350 million in the previous year. Net interest income benefited substantially from the non-recurring effect of the revaluation of hybrid instruments required under IFRS based on our updated corporate planning. Within this framework we determined the present value of our obligations under hybrid financial instruments taking the expected future interest and principal payments into account. The expected non-payments of coupons on silent participations and profit participation capital were a key factor for the positive measurement effect. The measurement performed in accordance with IAS 39.A8 leads to an overall positive result for hybrid financial instruments of € 468 million for 2012 (previous year: € 31 million).

Net interest income also 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.

At the overall Bank level net interest income was again adversely impacted by the reduction of the interest-bearing volume of lending due to the continuous winding down of the high-risk legacy portfolios in the Restructuring Unit and the scheduled repayment of loans in the Core Bank. The lower level of market interest rates also had an adverse impact on net interest income.

The positive new business trend was also reflected in **net commission income,** which, at € 119 million, reached approximately the previous year level (€ 120 million) despite the lower income caused by the focus being placed on core businesses. The increase in revenues from the cross-selling business in the Core Bank, which was strengthened on the basis of the sales measures pursued, was particularly evident. 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. In addition to net commission income our cross-selling results are partially recognised in net trading and net interest income.

Net trading income, which amounted to € – 238 million (previous year: € – 173 million), reflects the high volatility in the markets in the year under review. While in the previous year it was mainly measurement losses related to European government bonds that placed a burden on the results of the Bank, changes in the value of interest rate/currency derivatives (EUR/USD basis swaps) used to fund foreign currency transactions had the most significant effect on net trading income 2012. The measurement and redemption of own issues measured at fair value also had a negative impact on earnings in the year 2012. In contrast, the positions measured at fair value held in the credit investment portfolio moved positively due to the improvement in market sentiment at the year-end.

Net income from financial investments amounted to € 53 million compared to € 90 million in the previous year. The main driver behind the drop in income is the change to the measurement of one of the ABS portfolios managed by the Restructuring Unit to using market prices instead of model prices, which was necessary as a result of the improved liquidity situation in the relevant markets. This change results in a negative income impact of € – 168 million, of which € 159 million is compensated for in the loan loss provisions line item by the second loss guarantee of the Bank. On the other hand, sales of non-strategic equity holdings and securities had a positive impact on net income from financial investments. Write-ups of securities were also recognised through profit or loss in light of the improved market sentiment at the 2012 year-end.

Total income amounted to € 1,446 million for 2012 (previous year: € 1,324 million).

The main elements **of other operating income** of € 191 million (previous year: € 36 million) were two countervailing effects. Firstly, income arising from the repurchase of publicly placed subordinated bonds of € 261 million, which we undertook in the first quarter 2012 to further optimise the capital structure, is reported here. The income recognised is the difference between the carrying amount of the bonds repurchased and their repurchase price. Secondly, a depreciation of € 52 million on assets held by the HSH Real Estate Group remaining after the partial sales, which is to be sold in 2013, are recognised in other operating income.

Recognition through profit or loss of future expected fees for the second loss guarantee

The Bank reports a negative result of € – 656 million in the **loan loss provisions** item for 2012 compared to a positive result of € 389 million in the previous year. 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 in individual European countries, mainly in the Netherlands.

LOAN LOSS PROVISIONS
(€ m)

	2012	2011
Loan loss provisions before compensation	**–1,223**	**–654**
of which: Core Bank	–411	–207
Restructuring Unit	–812	–447
Loan loss provisions after compensation	**–656**	**389**
of which: Core Bank	–312	–35
Restructuring Unit	–344	424

In addition to valuation allowances, loan loss provisions have been adversely impacted by the first-time recognition of future, expected fees for the guarantee. This charge results from the expected actual drawdown under the guarantee in the years 2019 to 2025 based on our long-term loan loss provision planning, 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 base premium and the additional premium imposed by the EU Commission for the second loss guarantee.

In order to ensure an appropriate core Tier 1 capital ratio that complies with the EU requirements, the guarantors Hamburg and Schleswig-Holstein have waived via HSH Finanzfonds AöR their claim to the additional premium in return for a debtor warrant as at 31 December 2012. The income arising from the receivables waiver and the expense for the debtor warrant almost completely offset each other.

Loan loss provisions were reduced in part by the hedging effect of the second loss guarantee. After deducting the future expected fees of € – 473 million and the additional premium for the past reporting period (€ – 247 million) loan loss provisions were reduced by € 567 million as result of the guarantee (compensation item).

The hedging effect of the guarantee did not result in a cash drawdown 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).

Cost-cutting measures take effect

We were able to further reduce **personnel and operating expenses** through the consistent implementation of the cost-cutting measures. We recorded a clear decrease in personnel and operating expenses (excluding depreciation) by € 83 million to € – 670 million compared to the previous year amount of € – 753 million. Personnel expenses decreased by € 52 million to € – 357 million. This is attributable to the further decrease in the number of employees as a result of the advanced stage of the headcount reduction process. Compared to the end of 2011, headcount within the Group declined clearly by 561 to 3,123 (computed on a full-time equivalent (FTE) basis). We achieved savings in various line items of operating expenses, such as IT projects and buildings used by the Bank, which decreased in total by € 31 million to € – 313 million.

Depreciation of property, plant and equipment and amortisation of intangible assets amounted to € – 151 million in the year under review (previous year: € – 84 million). This includes **an unscheduled depreciation** of about € – 60 million on property held by the HSH Real Estate Group, which is to be sold in 2013. Despite this unscheduled depreciation **administrative expenses** decreased by € 16 million to € – 821 million (previous year: € – 837 million).

Decrease in restructuring expenses

Restructuring expenses incurred on the restructuring of HSH Nordbank decreased in 2012 to € – 43 million (previous year: € – 235 million) and primarily relate to operating expenses in the IT area. In 2011, in particular provisions for staff reductions in the Bank had been recognised through profit or loss.

SoFFin guarantees returned

Total expenses for government guarantees declined 2012 to € – 302 million (previous year: € – 883 million). The largest share of this amount is attributable to the second loss guarantee issued by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein. Premium expense for this guarantee declined to € – 284 million (previous year: € – 814 million) as a result of the reduction in the guarantee in 2011 by € 3 billion to € 7 billion. The previous year amount also includes a one-off payment made to the guarantors in the amount of € 500 million, which had been imposed on the Bank by the EU Commission as part of the concluded state aid proceedings.

Since April 2009 the Bank has recognised as expense a base premium payable to the guarantors of almost € 1.4 billion for the provision of the guarantee (excluding the additional one-off payment of € 500 million made in 2011, which was subsequently contributed to the Bank in the form of a capital increase).

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.

Net loss for the year

A **net loss before taxes** of € – 185 million was recorded in 2012 compared to € – 206 million in 2011 as a result of the operating performance, special effects and the restructuring and guarantee costs. After taking tax effects into account a **Group net loss** of € – 124 million was recorded (previous year: € – 265 million). The positive tax result of € 61 million (previous year: € – 59 million) mainly resulted from the capitalisation of deferred taxes for temporary differences. However, this was adversely impacted by increased provisions for current taxes as well as the reversal of deferred tax assets on losses carried forward, as far as they were not fully recoverable on the basis of the updated corporate planning.

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.

NET ASSETS AND FINANCIAL POSITION

MATERIAL ITEMS OF THE STATEMENT OF FINANCIAL POSITION
(€ m)

Assets	2012	Following adjustment [1] 2011	Change in %
Cash reserve	6,745	1,866	> 100
Loans and advances to banks	8,353	8,036	4
Loans and advances to customers	80,570	90,607	– 11
Loan loss provisions	– 3,581	– 3,603	– 1
Trading assets	11,817	11,981	– 1
Financial investments	22,067	22,388	– 1
Other assets	4,635	4,626	0
Total assets	**130,606**	**135,901**	**– 4**
Liabilities			
Liabilities to banks	29,934	24,685	21
Liabilities to customers	41,308	40,239	3
Securitised liabilities	31,459	39,381	– 20
Trading liabilities	11,450	12,900	– 11
Subordinated capital	5,391	8,308	– 35
Equity	5,272	4,816	9
Other liabilities	5,792	5,572	4
Total equity and liabilities	**130,606**	**135,901**	**– 4**

[1] Details are set out in Note 3.

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

We were able to further decrease total assets to € 130,606 million over the course of past year (31 December 2011: € 135,901 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 € 80,570 million (31 December 2011: € 90,607 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 have slightly increased to € 8,353 million compared to the 2011 year-end (31 December 2011: € 8,036 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 € 1,866 million to € 6,745 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.

Loan loss provisions decreased slightly to € – 3,581 million (31 December 2011: € – 3,603 million). This reduction is attributable to the increased deduction of the compensation item based on the balance sheet hedging effect of the second loss guarantee. Loan loss provisions would have increased to € – 5,505 million without taking this effect into account (31 December 2011: € – 4,964 million).

Trading assets declined slightly and amounted to € 11,817 million as at 31 December 2012 (31 December 2011: € 11,981 million). A significant decrease in interest-bearing securities of the trading portfolio is offset by an increase in interest-related derivatives in particular.

Financial investments decreased slightly to € 22,067 million compared to the previous year (31 December 2011: € 22,388 million). The credit investment portfolio, the equity holding portfolio and interests in affiliated companies were reduced compared to the previous year-end.

On the liability side of the balance sheet, liabilities to banks increased from € 24,685 million in the previous year to € 29,934 million as at year-end 2012. This resulted from an increase in the volume of refinancing transactions with central banks and repo transactions. The increase in liabilities to customers to € 41,308 million (31 December 2011: € 40,239 million) reflected in particular higher deposits from corporate and private clients of the Bank.

Securitised liabilities declined significantly in the financial year. They amounted to € 31,459 million (31 December 2011: € 39,381 million). The reduction is mainly attributable to the SoFFin guaranteed bonds maturing and other maturities.

Subordinated capital also declined significantly and amounted to € 5,391 million as at the 31 December 2012 reporting date (31 December 2011: € 8,308 million). Issues that have matured as well as the repurchase of own subordinated bonds were the main reasons for the decrease. Equity increased to € 5,272 million (31 December 2011: € 4,816 million). Whereas equity was increased by the re-investment as capital of the one-off payment recognised as an expense in the 2011 consolidated financial statements, this was offset by the net loss realised for 2012.

Decrease in business volume

Business volume decreased significantly to € 138,515 million compared to the previous year-end (31 December 2011: € 145,409 million). In addition to the effects causing the lower total assets this decrease was mainly attributable to the significant reduction in irrevocable loan commitments (€ 4,992 million, 31 December 2011: € 6,767 million). Guarantees and warrantee agreements increased slightly to € 2,917 million (31 December 2011: € 2,741 million).

Core Tier 1 capital ratio significantly above 9%

REGULATORY CAPITAL RATIOS (AFTER ADOPTION OF THE 2012 FINANCIAL STATEMENTS)
(%)

	31.12.2012	31.12.2011
Equity ratio (solvency coefficient)	20.1	22.8
Total ratio/Regulatory capital ratio	19.1	21.3
Tier 1 capital ratio	13.2	15.1
Tier 1 capital ratio (including market risk positions)	12.3	13.8
Core Tier 1 capital ratio (including market risk positions)	9.9	10.3

REGULATORY CAPITAL RATIOS [1]
(%)

	31.12.2012	31.12.2011
Equity ratio (solvency coefficient)	18.6	22.4
Total ratio/Regulatory capital ratio	17.8	21.0
Tier 1 capital ratio	12.2	15.1
Tier 1 capital ratio (including market risk positions)	11.4	13.8
Core Tier 1 capital ratio (including market risk positions)	8.8	10.0

REGULATORY CAPITAL IN ACCORDANCE WITH KWG (GERMAN BANKING ACT) FOR SOLVENCY PURPOSES AND REGULATORY CAPITAL REQUIREMENTS PURSUANT TO THE GERMAN SOLVENCY REGULATION (SOLVV) [1]
(€ bn)

	31.12.2012	31.12.2011
Regulatory capital pursuant to SolvV	10.8	9.6
of which: Tier 1 capital for solvency purposes	7.0	6.3
Total risk assets (including market risks and operational risk)	61.0	45.9
of which: Risk assets counterparty default risk	53.1	38.2

[1] Report pursuant to the German Solvency Regulation (before adoption of the 2012 financial statements).

HSH Nordbank met the increased regulatory requirements regarding capital adequacy as at 31 December 2012. The core Tier 1 capital ratio was 9.9 % as at the year-end (31 December 2011: 10.3 %); it was therefore above the minimum ratio of 9 % stipulated by the European Banking Authority. The Tier 1 capital ratio (including market risk positions) was 12.3 % as at the 2012 year-end (31 December 2011: 13.8 %). The figures take into account the adoption of the 2012 annual financial statements.

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 re-invested 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 consolidated 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 consolidated financial statements, Note 57.

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.

SEGMENT REPORTING

The Core Bank of HSH Nordbank has benefited over the past year from the advanced adjustments made to the business model. Business with clients was increased noticeably in 2012 on the basis of the repositioning of the business areas in the markets, the integrated customer relationship approach adopted by the product and client areas as well as the intensified sales initiatives. However, at the same time, the increased risks in the shipping industry had to be taken into account. Individual measurement effects also had a noticeable impact on the results.

The sum of the effects resulted in net income before restructuring of the Core Bank of € 629 million including consolidation effects (previous year: € 365 million). Against the backdrop of portfolio adjustments and transfers to the Restructuring Unit total assets of the Core Bank amounted to some € 75 billion (31 December 2011: € 77 billion).

An explanation of how the business conducted by the segments of the Core Bank and Restructuring Unit has developed over the past year is set out below.

2012 SEGMENT OVERVIEW
(€ m)

		Corporate and Private Clients	Products, Capital Markets and Corporate Center	Consolidation Core Bank	Total Core Bank	Restructuring Unit	Consolidation Restructuring Unit	Total Restructuring Unit
Total income	**2012**	**937**	**601**	**–407**	**1,131**	**668**	**–353**	**315**
	2011	938	229	–296	871	268	185	453
Loan loss provisions	**2012**	**–409**	**–12**	**109**	**–312**	**–812**	**468**	**–344**
	2011	–203	–15	183	–35	–447	871	424
Net income before restructuring	**2012**	**209**	**728**	**–308**	**629**	**–584**	**115**	**–469**
	2011	389	90	–114	365	–513	1,060	547

CORPORATE AND PRIVATE CLIENTS SEGMENT

The Corporate and Private Clients segment comprised the business conducted with corporate clients, real estate clients, private clients, shipping clients and clients in the energy and infrastructure industry as at 31 December 2012.

CORPORATE AND PRIVATE CLIENTS SEGMENT
(€ m)

		Corporate and Private Clients	Shipping	Energy & Infrastructure	Corporate and Private Clients	Real Estate Clients
Total income	**2012**	**937**	**385**	**142**	**247**	**163**
	2011	938	395	90	299	154
Loan loss provisions	**2012**	**–409**	**–401**	**–1**	**–8**	**1**
	2011	–203	–19	–29	–85	–70
Administrative expenses	**2012**	**–348**	**–125**	**–48**	**–114**	**–61**
	2011	–357	–132	–46	–124	–55
Other operating income	**2012**	**29**	**4**	**8**	**9**	**8**
	2011	11	3	4	2	2
Net income before restructuring	**2012**	**209**	**–137**	**101**	**134**	**111**
	2011	389	247	19	92	31
Segment assets (€ bn)	**2012**	**40**	**17**	**5**	**8**	**10**
	2011	43	19	5	9	10

New business increased despite a difficult market environment

Following the conclusion of the EU state aid proceedings in September 2011 we increasingly concentrated over the past year on the repositioning of our business areas in the markets on which we are focussing and the development of new business. In so doing, we focussed on established customer relationships as well as winning new customers. In addition, we arranged syndicated loans again in 2012 and increased the placement power for promissory notes.

Despite a generally restrained loan demand against the backdrop of difficult market conditions, the global crisis in shipping and client uncertainty caused by the euro sovereign debt crisis, we were able overall to increase our business compared to the previous year and at the same time generate risk-commensurate and increased margins. The risk profile of the Core Bank was also noticeably improved by the quality of the new commitments entered into. In total, the progress we have made with regard to the realignment and the improvement in our market positioning was clearly reflected in the development of the Core Bank.

Increase in new business is taking effect

The growth in new business has increasingly had an impact on the income of the Corporate and Private Clients segment over the course of 2012. Income generated in the third and fourth quarter was significantly above that of the previous quarters. The targeted sales of products supplementing traditional financing transactions had a positive effect in this regard. There was a particular demand from clients for interest rate hedging products. The positive income effects generated by new business were partially offset by transfers of interest-bearing transactions to the Restructuring Unit made as part of the streamlining of the Core Bank portfolios. Against this backdrop total income of the Corporate and Private Clients segment of € 937 million was roughly at the previous year level (€ 938 million).

The segment's loan loss provisions was marked by the substantial increase in the loan loss provision expense for existing shipping commitments, through which we took account of the further significant worsening of the situation in the shipping markets. In contrast, hardly any loan loss provisions had to be recognised in other areas of the segment. However, loan loss provision expense for the Corporate and Private Clients segment increased in total to € – 409 million compared to € – 203 million in the previous year. As a result of the higher loan loss provisions net income of € 209 million for the Corporate and Private Clients segment was below the previous year amount (€ 389 million).

Heterogeneous market trends

The business performance of the Corporate and Private Clients segment is to be seen against the trends in our key industries and markets, which were as follows in 2012:

The most important industry sectors for our **corporate client business** remained relatively robust over the past year. Of the largest sectors of the manufacturing industry engineering and automotives achieved rising production volumes due to brisk foreign demand from Asia and the USA. Production in the food industry only decreased slightly in 2012, but price rises on important agricultural commodities had an adverse effect.

The retail sector benefited from the fact that it is comprised mainly of the grocery retail trade, which is relatively immune to economic cycles. In the health sector, which is also a focus of HSH Nordbank, public hospitals had to combat considerable cost pressure, whereas private hospitals dealt better with the underlying conditions.

The German **real estate markets** benefited over the past year from the relatively stable condition of the German economy. In the office property markets the number of offices completed was not sufficient to meet the demand for space. The vacancy rate therefore decreased again, but remained at an average level on a long-term comparison. However, modern space in central locations was scarce so that prime rents increased noticeably. Consumer confidence remained very high in the retail sector. There were significant increases in prime rents in inner city locations and rents even rose in secondary locations.

Demand in the residential property markets in the metropolitan areas also increased noticeably in 2012 thanks to the sustained population influx. Although activity in apartment construction is gaining momentum again in the urban areas, it is still not sufficient to meet demand. Therefore, the sharp increase in rents hardly slowed during the course of the year. Even higher growth rates were recorded for purchase prices of flats in big cities. Housing portfolio sales nearly doubled. However, investment volume in the commercial property markets increased only slightly, as there was a smaller number of larger transactions in the retail property sector. In contrast, the transaction volume in the office property sector increased significantly.

Despite strong competition we have successfully positioned ourselves in the German real estate market through our solution-based advisory approach and significantly increased new business in 2012. We are benefiting from our proven expertise both in complex financing structures and the financing of construction and project development activities. Our regional activities were focussed on the core region of Northern Germany as well as the metropolitan areas of Berlin, Dusseldorf, Frankfurt, Munich and Stuttgart.

The expansion of the **renewable energy** industry in Europe continued at differing speeds. Whereas the wind sector set a new record with an increase of 12.6 GW, the expansion of photovoltaics fell significantly to 15.7 GW – which, however, still represented the second highest volume ever. The total volume of project financings in the areas of wind and solar power has also decreased – not least because of lower system prices in the photovoltaic sector. Photovoltaic capacity installed in Germany in 2012 grew to a new record level of some 32 GW. This exceeded the capacity of wind power plants, which increased to 31 GW. Approximately 25 per cent of the total domestic electricity consumption is now being covered by renewable energies.

The second half of the year was marked by a series of regulatory changes. The amendment of the Renewable Energies Act (EEG) with effect from the start of 2013 results in an increase in the renewable energy levy (EEG-Umlage). Together with other levies this means an increase from 4.5 ct/kWh to 7.1 ct/kWh including value-added tax. This also includes a substantial rise in network charges. These shall be used in order to finance the required expansion of the power grids and to cover the additional costs arising as a result of the fluctuating feed-in of renewable energies.

The positive trend in the new business of our Renewable Energies division in 2012 was based on successful solar power projects in France and Germany in particular.

In the case of demand for transport there were clear differences between the more stable passenger traffic and more volatile freight traffic. Overall passenger numbers at the European airports increased further compared to the previous year's figures. However, the growth in air freight and rail freight traffic as well as cargo handling at some of the largest European ports remained below that of the previous year. Project financings concluded in the market for **transport infrastructure** in Europe were above the volume in the same period of the previous year.

Hopes of an improvement in the situation in the **shipping industry,** which arose at the beginning of 2012, have not been fulfilled. Almost all shipping sectors were characterised by falling or an unsatisfactory level of freight and charter rates and in part a marked decrease in ship values. The negative trends have in fact strengthened again in many segments at the year-end. Some price levels were below 2001 values or – as is the case for the average prices for five-year-old container ships – have reached their historical lows. This situation is placing considerable pressure on shipping companies.

The worse than expected development of the global economy created additional burdens on the demand side, particularly in the case of container ships. Global container traffic is thought to have grown by only about 4 % in 2012. However, with a growth in demand of about 5 % for bulk carriers and 2 % for oil tankers, the transport of raw materials grew approximately as expected. Asia and in particular China once again ensured stability in the bulk cargo segment. The transport of oil was positively impacted by the build-up of strategic stocks (in China), whereas oil consumption tended to be rather weak.

The pressure remained unabated on the supply side as a result of ship deliveries. The overall number of newly commissioned ships in 2012 was only slightly below the record number in the previous year. On the positive side, the poor situation and muted outlook have in the meantime led to a complete rethink by shipowners that were reflected in particular in the sharp increase in the scrapping of older ships. At the same time a considerably lower number of ships were ordered despite the sharp decrease in new shipbuilding prices, which may diminish the supply side pressure over the coming years.

The difficult situation in the shipping industry resulted in a higher need for loan loss provisions for existing commitments in our shipping portfolio.

In **Private Banking** the past financial year was characterised by uncertainty caused by the unresolved Euro sovereign debt crisis. This resulted in investor interest being focussed primarily on low risk and short-term investments. Especially in demand were conservative investments in the fixed income area. Investors were very reluctant to enter the equity markets.

OUTLOOK CORPORATE AND PRIVATE CLIENTS SEGMENT

Risk-conscious expansion of business

We want to follow up in 2013 on the market successes achieved in the past year in new business and the selling of our entire product range and further expand our business on a risk-conscious basis. The objective is to even better leverage the income potential of new and existing clients. Our clients are benefiting from our special expertise in the industries and sectors, on which we are focussing, as well as from an integrated and uniform customer service concept in the different client areas. We are continuously adjusting the focus of our divisions to meet market requirements and building new customer relationships, also beyond the region of Northern Germany, in order to achieve the desired increase in business and earnings in the very challenging environment.

The business opportunities are limited by the general loan demand, which is influenced by the economy and the course of the sovereign debt crisis in Europe. The difficult situation in the global shipping industry, which has a particularly strong impact on German companies, remains a negative factor for the time being.

The net income of the new segment that has been established since the beginning of 2013 with the name of Shipping, Project and Real Estate Clients are likely to be adversely affected by increased valuation allowances in the area of shipping. Based on the expected new business successes and a reduced need for loan loss provisions we anticipate that net income in this segment will increase significantly in 2014.

Promising positioning of the core business areas

In our **Corporate Clients business** we want to secure and further expand our high market penetration in our core region of Northern Germany. In addition, it is our aim to strengthen our position as the central banking partner for larger medium-sized clients. We are also increasing our activities throughout Germany. We are concentrating on attractive sectors such as the food and healthcare industries as well as textiles, trade, services, logistics and manufacturing industry. Following the progress made in the markets over the past year we want to win additional new clients in 2013 that are located outside our core region.

In the **Real Estate Clients business** we want to strengthen our position as a leading institution for specialist real estate financing in Hamburg and Schleswig-Holstein and expand our business in German metropolitan regions. We offer the full range of traditional forms of mortgage financing right up to complex financing structures designed for instance for portfolio transactions. We focus on providing financing solutions for residential and commercial property development projects as well as for existing properties. We support real estate clients within the framework of a partnership that is long-term oriented.

As a recognised financing institution in Europe in the **renewable energy** area, we are aiming to further expand the portfolio in the photovoltaic and wind power (on- and offshore) main segments. In addition, we want to exploit opportunities in niche markets such as concentrated solar power plants and geothermal power. We are participating in larger projects and are also active in the secondary market. Our core region of Northern Germany is increasingly establishing itself as the hub for renewable energy, in particular in the field of wind power. We are using our proximity to many medium-sized companies in this industry sector to expand our intensive business relationships. Furthermore, we are tapping into additional regional markets in Europe that exhibit higher growth.

Western Europe is our most important target market for **infrastructure financing.** In this sector we will continue to focus on projects in all infrastructure areas – for example, airports, ports, railways, grids, streets and bridges. In the case of attractive projects we also get involved in public-private partnerships.

HSH Nordbank is one of the leading providers in the global market for **ship financing.** We act as lead arrangers and as strategic partners for alternative financing products, risk management and M&A consulting. In our relationship management we concentrate on shipping lines with multi-faceted business potential. We are diversifying our portfolio through increasing our new business in attractive foreign markets (e.g. Greece, New York, Singapore). Another area of focus is offshore shipping which is benefiting from the construction of wind farms on the high seas among other things.

Nevertheless, the situation in the shipping industry will remain very difficult for the time being in light of the slow recovery of the global economy. However, although we are expecting the demand in the **container shipping market** to increase somewhat more strongly, the tonnage available will grow in parallel at a similar rate so that, on balance, the fundamental utilisation of the fleet will not improve. The same applies to **oil tankers,** even though we are not expecting any further deterioration, at least.

However, we are seeing positive signs for **bulkers.** Firstly, the positive developments on the demand side are likely to continue. Secondly, orders on hand are increasingly completed. We are expecting the number of newly delivered ships to halve compared to the previous year so that fleet utilisation can gradually improve from the second half of the year.

Low charter rates and ship values are likely to result in a similarly large volume of scrapping in 2013 as in the previous year. We are expecting a cyclical low this year with regard to new orders, with fewer orders placed at shipyards than in the year 2012. This will severely impact some shipyards, especially the smaller ones. 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 2015.

In the **Private Banking** business we are continuing to focus on entrepreneurs and are aiming to increase the assets under management further. On the one hand, we are exploiting the potential from the existing business relationships of other client areas of the Bank. On the other hand we want to win new clients, also via our expanded presence in locations outside the core region. Together with our cooperation partner, Lombard Odier & Cie, we have developed an exclusive asset management programme with an integrated approach that opens up additional opportunities in the competition for wealthy private clients and entrepreneurs.

PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT

In 2012 the Products and Capital Markets division was responsible for the development, structuring and trade in financial products as well as for the servicing of savings banks, banks and insurance companies. Furthermore, items of the overall bank not allocated to the other segments are disclosed in this segment (Corporate Center).

PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT
(€ m)

Total income	**2012**	**601**
	2011	229
Loan loss provisions	**2012**	**–12**
	2011	–15
Administrative expenses	**2012**	**–110**
	2011	–169
Other operating income	**2012**	**249**
	2011	45
Net income before restructuring	**2012**	**728**
	2011	90
Segment assets (€ bn)	**2012**	**35**
	2011	34

Financing and capital markets products business expanded

The Products division combines the responsibility for products that are offered beyond the traditional loan. We have been able to expand and improve the services provided to clients with special financing requirements. The “product” range includes amongst other things the arranging of large volume transactions, structured financing, financing of foreign trade, factoring solutions as well as payment transactions, for which a modern technical infrastructure was established in 2012.

There was a strong demand in the past year for structured financing. Despite the intense competition we were able to win new clients. The Bank has been increasingly engaged as the bookrunner and arranger of the financing for large volume transactions. The business relationships with clients internationally active in commodity trading were deepened in the area of trade finance. Furthermore, it was possible to successfully support loan note transactions.

In addition to servicing savings banks and financial institutions, the Capital Markets division is responsible for the development and sales of capital market-oriented products such as bonds, certificates and risk management products. The capital markets product business for corporate clients, private clients and institutional clients was overall stable during the past year. The Bank's funding base was further stabilised through the successful accelerated sales of tailor-made bond products for savings bank clients as well as the placement of structured issues with institutional clients.

In light of the fluctuations in the financial and commodity markets risk hedging products, such as interest hedges, were also in demand with our clients. Furthermore, HSH Nordbank is one of the first banks to offer its importers and container shipping companies the opportunity to hedge freight rates via so-called container forward freight agreements (FFA). This new hedging instrument was very well received by our clients.

Net income marked by positive measurement effects

Net income of the Products, Capital Markets und Corporate Center segment is marked by special factors that are shown as overall bank effects in the Corporate Center division. As a result of these, net income for the segment increased to € 728 million (previous year: € 90 million). The revaluation of future interest and principal payments on hybrid financial instruments carried out under our updated corporate planning had a significant positive effect. The planned expected non-payments of coupons on these financial instruments were a key factor in determining the measurement effect. Taking IAS 39.A8 into consideration, this resulted in a positive net income from hybrid financial instruments in the amount of € 468 million for the reporting period (previous year: € 31 million). The repurchase of publicly placed subordinated bonds had a positive effect generating income of € 261 million (other operating income).

The Products and Capital Markets divisions benefited from the intensified sales of the product range and a higher number of supported transactions. Management of the liquidity position and fixed-income securities portfolio had a positive effect in the capital markets business. The low level of market interest rates had an adverse impact. Overall, net income of Capital Markets and Products increased to € 141 million compared to € 127 million in the previous year.

Net income from the cross-selling business is only included in net income of the Products, Capital Markets and Corporate Center segment to a certain extent. It is primarily allocated to the customer departments in the other segments within the framework of the Bank's business management.

OUTLOOK PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT

Further development of the product range

The product range will be developed and refined further in close cooperation with customer relationship managers in order to provide tailor-made solutions and to optimally combine the lending business with additional products in accordance with client requirements. Through the integrated relationship approach of the product and lending business in the new Corporates & Markets segment and an enhanced product range we have created the prerequisites for the further acceleration of sales and increasing the cross-selling successes in the coming years. We will focus inter alia on positioning ourselves as the preferred partner of our clients for interest rate and risk management. Moreover, we want to further establish ourselves as the arranger of syndications and expand our business relationships in the area of trade finance. We also want to further strengthen relationships with savings banks throughout Germany.

RESTRUCTURING UNIT SEGMENT

Winding down process continued on schedule

The winding down of non-strategic loan and capital markets transactions in the Restructuring Unit was continued as scheduled. In light of difficult market developments in some industry sectors additional loan commitments were transferred from the Core Bank to the Restructuring Unit as at the 2012 year-end. This involves commitments from the shipping, corporate clients and energy areas with a total volume of approximately € 1.3 billion. Including these, it was possible to reduce segment assets of the Restructuring Unit to € 50 billion as at the 2012 year-end (excluding consolidation effects such as the compensation item from the second loss guarantee and other assets). This represents a further reduction of € 8 billion compared to the previous year.

In view of the winding down of business already achieved and the market conditions the Restructuring Unit adjusted its organisational structures as at 1 November 2012. The Special Loans division will continue to service restructuring cases held in the loan portfolios. The newly formed Workout division is responsible for the liquidation of and realisation of collateral on increasingly onerous loan commitments. The focus is placed here on finding alternative portfolio solutions that can enable the risk potential to be reduced whilst minimising the effect on income. The Wind-Down-Assets division services the remaining loan portfolios as well as the capital markets portfolio that were previously assigned to the Divestments division. The newly formed unit, Credit Assessment & Decision, supports the portfolio divisions in the effective management of credit risk and takes independent decisions as an independent unit.

The strategic guidelines of the Restructuring Unit continue to be the realisation of the potential for the reversal of impairment losses, active restructuring and liquidation, active but loss-minimising winding down as well as the effective management of the remaining portfolio business.

RESTRUCTURING UNIT SEGMENT
(€ m)

Total income	**2012**	**668**
	2011	268
Loan loss provisions	**2012**	**–812**
	2011	–447
Administrative expenses	**2012**	**–354**
	2011	–308
Other operating income	**2012**	**–86**
	2011	–26
Net income before restructuring	**2012**	**–584**
	2011	–513
Segment assets (€ bn)	**2012**	**50**
	2011	58

Increases in loan loss provisions

Net income of the Restructuring Unit segment has been significantly impacted at the year-end by higher loan loss provisions. The restructuring commitments in the shipping portfolio required the largest amount of loan loss provisions due to the very difficult situation in shipping. Moreover, loan loss provisions in the Dutch real estate sector increased markedly compared to the previous year. Total loan loss provisions for the segment amounted to € – 812 million (previous year: € – 447 million). The balance sheet hedging effect of the second loss guarantee provided relief of € 468 million. After taking into account this effect recognised in the consolidation, loan loss provision expense for the Restructuring Unit amounted to € – 344 million (previous year: € 424 million).

Total income for the segment increased to € 668 million compared to € 268 million in the previous year. It benefited from reversals of write-downs in the government financing and credit investment portfolios as a result of the improved market sentiment at the year-end. Sales of non-strategic equity holdings and securities also had a positive impact. As opposed to this the previous year amount included impairment losses and measurement losses on government bonds. The change in the measurement of an ABS portfolio to applying market prices instead of model prices, which had to be made as a result of the improved liquidity situation in the relevant markets, had a negative impact on earnings. Non-scheduled depreciation recognised on assets held by the HSH Real Estate Group remaining after the partial sales, which is to be sold in 2013, also had an adverse impact. The reduction in net interest income reflects the continued winding down of assets held in the Restructuring Unit's portfolios. Overall, net income for the segment of € – 584 million (previous year: € – 513 million) remained. Including consolidation effects, the Restructuring Unit achieved a net income before restructuring of € – 469 million (previous year: € 547 million).

Further reduction in the loan portfolios

The loan portfolios under the responsibility of the Restructuring Unit were further reduced over the past year.

The situation in the relevant markets and its effect on the significant credit portfolios are currently assessed by the Bank as follows:

Many European real estate markets stabilised in 2012 following the recovery in the previous year, although the persistent sovereign debt crisis was felt in the markets. By contrast, the weak markets in Denmark and the Netherlands still did not show any signs of recovery. In particular, high office vacancy rates had an adverse impact. The market situation led to a strongly diminishing willingness on the part of banks to provide financing.

The recovery of the US real estate markets was also slow in 2012, whereby there were, however, disparities in relation to regions and asset classes. Loan loss provisions for US real estate loans were reduced in 2012, whereas they were increased for European real estate loans, especially for commitments in the Netherlands.

The trend in the shipping portfolio of the Restructuring Unit reflects the extremely difficult situation in the shipping market. The market situation resulted in additional restructuring and workout cases in the shipping loan portfolio in 2012, which is why loan loss provisions in this loan portfolio were increased.

The credit environment also remained difficult for the foreign corporate client/leveraged buy-out (LBO) business with structured financing. As a result of increasing pricing pressure and continuing refinancing problems on the part of clients, loan quality declined further resulting in a moderate increase in non-performing loans. In the domestic corporate client business in the field of leasing/retail, repayments continued on schedule.

The winding down of the aircraft loan portfolio transferred from the Core Bank to the Restructuring Unit at the end of 2011 was well on track in the reporting year.

Capital market portfolios influenced by market fluctuations

The capital market portfolios consolidated in the Restructuring Unit primarily include the public sector financing business and the credit investment portfolio that mainly contains ABS structures as well as government bonds and bank bonds of individual issuers. The amounts held in capital market portfolios were further reduced as at 31 December 2012 through principal repayments and selective winding down measures.

In light of the improved market environment at the 2012 year-end the risk premiums on high-risk debt instruments decreased significantly. Positive measurement effects were accordingly recognised in the various capital market portfolios of the Restructuring Unit. Bonds issued by the European periphery countries as well as bank bonds benefited at the end of 2012 from this development. Risk in the ABS portfolio was also further reduced by a high level of principal repayments.

The majority of commitments in the public sector financing portfolio developed positively throughout 2012, as the instruments issued by public sector German borrowers contained therein are regarded by investors as safe assets and there is accordingly a strong demand for them. Yields on German government bonds reached new and at the same time historical lows in the course of the aggravating sovereign debt crisis.

While winding down measures under the winding down strategy were carried out only selectively on individual positions, large parts of the capital market portfolios could be used as collateral for the Bank's funding transactions and thereby contributed to the further optimisation of the refinancing processes.

OUTLOOK RESTRUCTURING UNIT SEGMENT

Portfolio reduction affected by market conditions

The loss-minimising winding down of the Restructuring Unit portfolios will continue to be driven forward over the coming years through regular principal repayments and active measures.

The successes of the Restructuring Unit are significantly influenced by developments in the industry sectors affected. We expect particularly in respect of the shipping loan portfolio under the responsibility of the Restructuring Unit that there will be a further need for the restructuring of commitments as a result of the continued difficult situation in the sector and the associated economic deterioration in the loan commitments. In the real estate area the potential for further recovery in most European real estate markets may be limited for the time being. The outlook for the Danish and Dutch markets in particular has deteriorated further.

The financial markets are likely to be still subject to greater volatility as a result of the failure to overcome the sovereign debt crisis. A favourable market environment would be used to further reduce capital market positions on a selective basis.

Net income of the Restructuring Unit segment for 2013 is expected to be characterised by an increased need for loss provisions for risks in the shipping and real estate portfolios. For 2014 we are assuming that segment net income will be positively affected compared to 2013 by the expected decrease in the need for impairment losses.

Consolidation columns

Net income elements not allocated to divisions are also reported in the consolidation columns of the Core Bank and the Restructuring Unit.

The negative total income in the consolidation column of the Core Bank (€ – 407 million) is attributable to negative net trading income in particular. This includes changes in the fair value of EUR/USD basis swaps, differences arising on the mapping of economic hedging relationships and effects of creditworthiness on own issues measured at fair value, which are not allocated to a segment. The negative total income in the consolidation column of the Restructuring Unit (€ – 353 million) is attributable to changes in fair value arising on EUR/USD basis swaps.

The consolidation loan loss provision item mainly includes effects arising from the balance sheet hedging effect of the second loss guarantee (net, i. e. after deducting the fee expense for the guarantee), which are not allocated to the segments. In the loan loss provisions of the Core Bank (€ 109 million) this resulted in a relieving effect that is lower than the effect on the loan loss provisions of the Restructuring Unit (€ 468 million).

The second loss guarantee expenses and restructuring expenses are also not allocated to the segments.

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.

Expectations as well as risks and rewards are assessed differently in the individual segments of HSH Nordbank due to the specific market conditions prevailing in the sectors. Details on the anticipated developments in the segments are explained in the "Segment reporting" section; these form an integral part of this outlook. Details on default risk are set out in the Risk Report in this Management Report.

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 (EBA) 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 %, we are planning to achieve a core Tier 1 capital ratio of at least 10 % 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 consolidated 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.

Group 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 at the Group level for 2013 as well. We expect for 2014 that loan loss provisions will decrease compared to the previous two years and that the Bank's core business will continue to develop positively. We are also assuming that the capital protection clause will have a significant positive impact on earnings. We therefore expect that a clearly positive net result will be reported for the Group for 2014. The manner in which the guarantee and capital protection clause take effect is described in detail in the Notes to the consolidated financial statements, Note 2.

We expect that a loss will have to be reported 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

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, continuously 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 jointly responsible 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 focusses 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)

	2012			2011		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
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)

	2012			2011		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
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)

	2012			2011		
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
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 (PD) for each borrower and hence an allocation to a concrete rating category.

The Bank uses an identical rating master scale for all modules which not only allows comparison of differing portfolio segments but also mapping with external ratings. 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)

			2012			2011
	Core Bank	Restructuring Unit	**Total**	Core Bank	Restructuring Unit	Total
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
(€ m)

	Country		Banks		Corporates/Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Greece	7	258	0	0	1,780	1,256	1,787	1,514
Ireland	0	0	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 IFRS carrying amounts of our exposure in selected European countries. In accordance with their IAS 39 category, the values were determined at fair value, including pro-rata interest, taking into account any impairments and/or measurements. The IFRS carrying amount for these countries totalled € 6,406 million as at the reporting date.

IFRS CARRYING AMOUNT IN SELECTED EUROPEAN COUNTRIES
(€ m)

	Country		Banks		Corporates/Other		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Greece	2	51	0	0	1,351	1,126	1,353	1,177
Ireland	0	0	156	358	319	399	475	757
Italy	602	557	125	216	737	706	1,464	1,479
Portugal	257	267	3	22	52	62	312	351
Spain	173	180	1,333	1,329	1,296	1,362	2,802	2,871
Total	**1,034**	**1,055**	**1,617**	**1,925**	**3,755**	**3,655**	**6,406**	**6,635**

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 IFRS carrying amount of this CLN of € 44 million is taken into account for Portugal only, since the worst rating of the countries stated above is assigned to Portugal.

Note 54 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 in the event of 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 portfolio valuation allowances for groups of financial assets with a comparable risk profile. Default risk, which has already been incurred at the reporting date but is not yet known to the Bank, is thereby covered having regard to the Basel II criteria.

In addition to workout cases, restructuring exposures are also included under problem loans. These loans are subject to a two-step, comprehensive review process every quarter. In a first step, a review is carried out on the basis of objective criteria (so-called trigger events) to determine whether the receivable could be impaired (impairment identification). If this is the case, the loans identified are reviewed in a second step to determine whether a loan loss provision is actually required and the amount thereof (impairment measurement). The amount of the loan loss provision is calculated by deducting the present value of all expected future incoming payments from the IFRS carrying amount of the receivable. The expected incoming payments comprise in particular all expected interest and redemption payments, as well as payments from the liquidation of collateral. The appropriateness of the loan loss provision is monitored continuously as part of the problem loan processing. The loan loss provisions to be expected for the financial year are determined on an on-going basis and reported to the Management Board at the end of each quarter.

The item "Loan loss provisions" amounted to € – 656 million at the end of 2012 compared to € 389 million in the previous year. This includes a reduction in the loan loss provisions resulting from the balance sheet hedging effect of the second loss guarantee (compensation item). The following table provides an overview by segments.

CHANGES IN LOAN LOSS PROVISIONS
(€ m)

	01.01.–31.12.2012				
	Individual valuation allowances/ Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Corporate and Private Clients	–387	–51	29	0	–409
Products, Capital Markets and Corporate Center	–11	0	–1	0	–12
Consolidation Core Bank	9	1	0	99	109
Total Core Bank	**–389**	**–50**	**28**	**99**	**–312**
Restructuring Unit	–953	112	29	0	–812
Consolidation Restructuring Unit	0	0	0	468	468
Total Restructuring Unit	**–953**	**112**	**29**	**468**	**–344**
Group	**–1,342**	**62**	**57**	**567**	**–656**

CHANGES IN LOAN LOSS PROVISIONS
(€ m)

	01.01.–31.12.2011				
	Individual valuation allowances/ Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Corporate and Private Clients	–344	141	0	0	–203
Products, Capital Markets and Corporate Center	–2	0	–13	0	–15
Consolidation Core Bank	4	5	2	172	183
Total Core Bank	**–342**	**146**	**–11**	**172**	**–35**
Restructuring Unit	–553	143	–37	0	–447
Consolidation Restructuring Unit	0	0	0	871	871
Total Restructuring Unit	**–553**	**143**	**–37**	**871**	**424**
Group	**–895**	**289**	**–48**	**1,043**	**389**

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.

Detailed information regarding developments within individual business areas as well as our expectations for the 2013 calendar year are contained in the chapters entitled "Segment report" and "Outlook".

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

TOTAL LOAN LOSS PROVISIONS
(€ m)

	2012	2011
Loans and advances to customers	80,570	90,607
Loans and advances to banks	8,353	8,036
Volume of impaired loans	13,191	12,375
Individual valuation allowances for loans and advances to customers	–4,867	–4,212
Portfolio valuation allowances for loans and advances to customers	–504	–564
Individual valuation allowances for loans and advances to banks	–133	–187
Portfolio valuation allowances for loans and advances to banks	–1	–1
Total loan loss provisions for balance sheet items	**–5,505**	**–4,964**
Provisions for individual risks in the lending business	–398	–323
Provisions for portfolio risks in the lending business	–57	–70
Loan loss provisions for off-balance sheet items	**–455**	**–393**
Total loan loss provisions (before compensation item)	**–5,960**	**–5,357**
Compensation item	1,924	1,361
Total loan loss provisions (including compensation item)	**–4,036**	**–3,996**

The loss rate in the Group amounted to 0.36 % in the reporting year (previous year: 0.39 %). The loss rate is calculated based on the actual amounts in default as a ratio of the credit risk exposure. The total amount in default in 2012 was € 484 million (previous year: € 552 million) and the credit risk exposure € 134,451 million (previous year: € 141,877 million). The credit risk exposure includes all balance sheet and off-balance sheet assets, taking account of the loan loss provision as an individual and portfolio valuation allowance for loans and advances to customers and banks that are subject to default risk. Total loan loss provisions (including compensation item) for the Group amounted to € – 4,036 million as at 31 December 2012 (previous year: € – 3,996 million).

Total specific loan loss provisions amounted to € – 5,398 million (previous year: € – 4,722 million), comprising individual valuation allowances of € – 5,000 million (previous year: € – 4,399 million) for loans and advances to banks and customers, € – 385 million (previous year: € – 307 million) for contingent liabilities and irrevocable loan commitments and € – 13 million (previous year: € – 16 million) for other off-balance sheet transactions. The changes in the portfolio are partly related to currency factors.

The portfolio valuation allowances totalled € – 562 million (previous year: € – 635 million) and were composed of portfolio valuation allowances of € – 505 million (previous year: € – 565 million) for loans and advances to banks and customers and € – 57 million (previous year: € – 70 million) for contingent liabilities and irrevocable loan commitments.

Details regarding the total loan loss provisions are presented in Notes 14, 25 and 41.

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 is presented in the Notes. In particular we refer to Section I. F) of Note 7 "Accounting policies", Note 10 "Result from hedging", Note 26 "Positive fair values of hedging derivatives", Note 39 "Negative fair values of hedging derivatives" and Note 57 "Report on business in derivatives".

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

The VaR model used and continuously enhanced by 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 addition, there were also improvements in the measurement and calculation of risk for certain products in 2012, which, however, did 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]		Credit spread risk [1]		Foreign exchange risk		Equity risk		Commodity risk		Total [2]	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**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 macroeconomic 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.

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 doing so 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 on-going 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 of 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

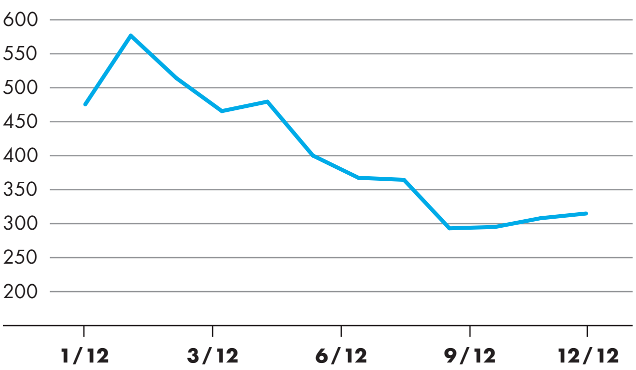
Risk tolerance of the Bank with regard to liquidity risk is reflected, among other things, in the definition of a survival period in the sense of a minimum survival period, which describes how long a utilisation of a liquidity potential under 100 % is to be maintained under the normal and stress cases 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 1.00 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

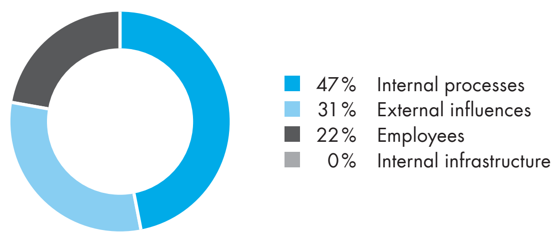
The identification, analysis, evaluation and monitoring of operational risk and the promotion of a corresponding risk culture in the Group represents an important success factor for HSH Nordbank. Different procedures and instruments are used in this process.

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 know-how 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.

Hamburg/Kiel, 21 March 2013

von Oesterreich   Ermisch   Temp

Wartenweiler   Wittenburg

GROUP FINANCIAL STATEMENTS

GROUP STATEMENT OF INCOME

for the period 1 January to 31 December 2012

STATEMENT OF INCOME
(€ m)

	Note	2012	Following adjustment (see Note 3) 2011	Change in %
Interest income		8,601	11,654	–26
Interest expenses		–7,549	–10,335	–27
Net income from hybrid financial instruments		468	31	>100
Net interest income	8	**1,520**	**1,350**	**13**
Net commission income	9	119	120	–1
Result from hedging	10	6	4	50
Net trading income	11	–238	–173	–38
Net income from financial investments	12	53	90	–41
Net income from financial investments accounted for under the equity method	13	–14	–67	79
Total income		**1,446**	**1,324**	**9**
Loan loss provisions	14	–656	389	>100
Administrative expenses	15	–821	–837	–2
Other operating income	16	191	36	>100
Net income before restructuring		**160**	**912**	**–82**
Result from restructuring	17	–43	–235	82
Expenses for government guarantees	18	–302	–883	–66
Net income before taxes		**–185**	**–206**	**10**
Income tax expenses (–)/income (+)	19	61	–59	>100
Group net income/loss		**–124**	**–265**	**53**
Group net income attributable to non-controlling interests		–4	–1	>–100
Group net income attributable to HSH Nordbank shareholders		–120	–264	55

EARNINGS PER SHARE
(€)

	Note	2012	Following adjustment (see Note 3) 2011
Undiluted	21	–0.40	–1.00
Diluted	21	–0.40	–1.00
Number of shares (millions)		**297**	**263**

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 31 December 2012

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS

(€ m)

	2012	Following adjustment (see Note 3) 2011
Group net income / loss	**–124**	**–265**
Changes in:		
Revaluation reserve (before taxes)	281	28
of which: from exchange rate effects	–2	17
Income taxes not recognised in the income statement	–104	–13
of which: from exchange rate effects	–	–2
	177	**15**
Currency conversion reserve	–10	16
	–10	**16**
Actuarial gains / losses (before taxes)	–156	–46
Income taxes not recognised in the income statement	51	14
	–105	**–32**
Other comprehensive income for the period	**62**	**–1**
Total comprehensive income	**–62**	**–266**
Total comprehensive income attributable to non-controlling interests	–4	–1
Total comprehensive income attributable to HSH Nordbank shareholders	–58	–265

GROUP STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

ASSETS
(€ m)

	Note	**2012**	Following adjustment (see Note 3) 2011	Change in %
Cash reserve	22	6,745	1,866	>100
Loans and advances to banks	23	8,353	8,036	4
Loans and advances to customers	24	80,570	90,607	–11
Loan loss provisions	25	–3,581	–3,603	–1
Positive fair value of hedging derivatives	26	2,170	2,165	0
Positive adjustment item from portfolio fair value hedges		403	311	30
Trading assets	27	11,817	11,981	–1
Financial investments	28	22,067	22,388	–1
Financial investments accounted for under the equity method	29	–	35	–100
Intangible assets	30	65	88	–26
Property, plant and equipment	31	260	240	8
Investment property	31	39	98	–60
Non-current assets held for sale and disposal groups	32	186	122	52
Current tax assets	33	105	226	–54
Deferred tax assets	34	1,267	1,156	10
Other assets	35	140	185	–24
Total assets		**130,606**	**135,901**	**–4**

LIABILITIES
(€ m)

	Note	**2012**	Following adjustment (see Note 3) 2011	Change in %
Liabilities to banks	36	29,934	24,685	21
Liabilities to customers	37	41,308	40,239	3
Securitised liabilities	38	31,459	39,381	–20
Negative fair values of hedging derivatives	39	943	680	39
Negative adjustment item from portfolio fair value hedge		1,545	1,354	14
Trading liabilities	40	11,450	12,900	–11
Provisions	41	1,664	1,593	4
Liabilities relating to disposal groups	43	183	–	–
Current tax liabilities	44	108	28	>100
Deferred tax liabilities	45	14	13	8
Other liabilities	46	1,335	1,904	–30
Subordinated capital	47	5,391	8,308	–35
Equity	48	5,272	4,816	9
Share capital		3,018	2,635	15
Capital reserve		594	809	–27
Retained earnings		1,876	1,904	–1
Revaluation reserve		–31	–208	–85
Currency conversion reserve		–59	–57	4
Group net loss/profit		–120	–264	–55
Total before non-controlling interests		5,278	4,819	10
Non-controlling interests		–6	–3	100
Total equity and liabilities		**130,606**	**135,901**	**–4**

GROUP STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY
(€ m)

	Note	Share capital	Capital reserve
As at 1 January 2011		**2,635**	**1,028**
Changes due to restatements		–	–
Changes in the scope of consolidation		–	–
Adjusted as at 1 January 2011		**2,635**	**1,028**
Group net income/loss		–	–
Changes due to restatements		–	–
Changes not recognised in the income statement		–	–
Changes recognised in the income statement		–	–
Exchange rate changes		–	–
Comprehensive income as at 31 December 2011		**–**	**–**
Changes in retained earnings		–	–
Change in the capital reserve		–	–219
Transactions with shareholders		–	–
Adjusted as at 31 December 2011		**2,635**	**809**
Changes in the scope of consolidation		–	–
Adjusted as at 1 January 2012		**2,635**	**809**
Group net income/loss		–	–
Changes not recognised in the income statement		–	–
Changes recognised in the income statement		–	–
Exchange rate changes		–	–
Comprehensive income as at 31 December 2012		**–**	**–**
Dividend payments and distributions		–	–
Capital increases [1)]		383	116
Changes in retained earnings		–	–
Change in the capital reserve		–	–331
Changes in the scope of consolidation		–	–
As at 31 December 2012	48	**3,018**	**594**

[1)] The cash and non-cash capital increase amounts to € 500 million before deducting transaction costs of the capital increase.

Retained earnings	including actuarial gains/losses as per IAS 19	Currency conversion reserve	Revaluation reserve	Group net profit/loss	Total before non-controlling interests	Non-controlling interests	**Total**
1,668	**135**	**-60**	**-227**	**53**	**5,097**	**-3**	**5,094**
-6	–	–	3	-1	-4	-2	**-6**
4	1	-13	–	–	-9	2	**-7**
1,666	**136**	**-73**	**-224**	**52**	**5,084**	**-3**	**5,081**
–	–	–	–	-257	-257	-6	**-263**
–	–	–	-1	-7	-8	5	**-3**
-32	-32	–	26	–	-6	–	**-6**
–	–	–	-13	–	-13	–	**-13**
–	–	16	4	–	20	–	**20**
-32	**-32**	**16**	**16**	**-264**	**-264**	**-1**	**-265**
52	–	–	–	-52	–	–	**–**
219	–	–	–	–	–	–	**–**
-1	–	–	–	–	-1	1	**–**
1,904	**104**	**-57**	**-208**	**-264**	**4,819**	**-3**	**4,816**
10	–	–	–	–	10	–	**10**
1,914	**104**	**-57**	**-208**	**-264**	**4,829**	**-3**	**4,826**
–	–	–	–	-120	-120	-4	**-124**
-105	-105	–	185	–	80	–	**80**
–	–	–	-9	–	-9	–	**-9**
–	–	-10	1	–	-9	–	**-9**
-105	**-105**	**-10**	**177**	**-120**	**-58**	**-4**	**-62**
–	–	–	–	–	–	-1	**-1**
–	–	–	–	–	499	–	**499**
-264	–	–	–	264	–	2	**2**
331	–	–	–	–	–	–	**–**
–	–	8	–	–	8	–	**8**
1,876	**-1**	**-59**	**-31**	**-120**	**5,278**	**-6**	**5,272**

GROUP CASH FLOW STATEMENT

GROUP CASH FLOW STATEMENT
(€ m)

		2012		Following adjustment (see Note 3) 2011
Net result for the period		–124		–265
Reconciliation with cash flow from operating activities				
Depreciation, impairments and write-ups on loans and advances, property, plant and equipment, financial investments, intangible assets and investment property		1,723		1,117
a) Loans and advances to customers and banks	1,399		799	
b) Financial investments	173		215	
c) Property, plant and equipment/intangible assets/investment property	151		103	
Changes in provisions		230		364
Other non-cash expenses/income		–76		–1,161
Profit/loss from disposal of financial investments and property, plant and equipment/investment property		–48		–287
a) Financial investments	–53		–283	
b) Property, plant and equipment/investment property	5		–4	
Other adjustments		–1,596		–1,275
Subtotal		**109**		**–1,507**
Changes in loans and advances		8,939		14,261
a) to banks	–576		5,758	
b) to customers	9,515		8,503	
Changes in trading assets		–597		–1,773
Changes in other assets from continuing operations		35		322
Changes in liabilities		6,480		–11,503
a) to banks	5,332		–17,783	
b) to customers	1,148		6,280	
Changes in securitised liabilities		–7,653		–5,261
Changes in trading liabilities		–886		2,582
Changes in other liabilities from continuing operations		–622		174
Interest and dividends received		8,647		11,894
Interest paid		–7,889		–11,010
Income tax payments		171		49
Cash flow from operating activities		**6,734**		**–1,772**
Receipts from disposals of		4,961		6,432
a) securities	4,942		5,716	
b) interests in affiliated companies and equity holdings	173		1,115	
c) property, plant and equipment	–154		–399	
Purchases of		–4,752		–3,804
a) securities	–4,749		–3,961	
b) interests in affiliated companies and equity holdings	37		188	
c) property, plant and equipment	–40		–31	
Cash flow from investing activities		**209**		**2,628**

GROUP CASH FLOW STATEMENT
(€ m)

	2012	Following adjustment (see Note 3) 2011
Payments from equity contribution	498	–
Payments made (–)/payments received (+) from subordinated capital	–2,550	–378
Payments made (–)/payments received (+) from silent participations	–	–3
Distributions on equity	–21	–
Cash flow from financing activities	**–2,073**	**–381**
Cash and cash equivalents at the beginning of the period	**1,866**	**1,410**
Cash flow from operating activities	6,734	–1,772
Cash flow from investing activities	209	2,628
Cash flow from financing activities	–2,073	–381
Changes in cash and cash equivalents due to exchange rate fluctuations	9	–19
Cash and cash equivalents at the end of the period	**6,745**	**1,866**

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

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

Please refer to footnote 5 for cash flows in connection with the disposal and the acquisition of subsidiaries. Beyond that, the acquisition and disposal of subsidiaries and the involved cash flows have no material influence on the cash flow statement.

GROUP EXPLANATORY NOTES

GENERAL INFORMATION

1. ACCOUNTING PRINCIPLES

HSH Nordbank has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (5) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of July 19, 2002 in conjunction with Section 315a (1) of the German Commercial Code (HGB), to draw up its consolidated financial statements in accordance with International Accounting Standards (IFRS/IAS). International accounting standards, hereafter IFRS or standards, refer to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

The supplementary provisions of Section 315a HGB are taken into account and are shown individually in Note 65.

The consolidated financial statements are prepared in accordance with IFRS as published by the IASB and adopted as European law by the European Union (EU).

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

Amendments to IFRS 7 –
Disclosures – Transfers of Financial Assets
Amendments to IFRS 7 affect expanded disclosure obligations in the case of a transfer of financial assets. The intent is to make more transparent the relationship between financial assets which are not to be fully derecognised and the corresponding financial liabilities. Furthermore, the form and, in particular, the risks of a continuing involvement in the case of financial assets which have been derecognised should be subject to better assessment. The changes also require additional disclosures in the event a disproportionately large number of transfers with continuing involvement, for example, at the end of a reporting period, occur.

HSH Nordbank has complied with the expanded disclosure obligations (see Note 59).

EU endorsement has already taken place:

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income
This amendment changes the presentation of Other comprehensive income in the statement of comprehensive income. The items of Other comprehensive income which are subsequently reclassified to the income statement ("recycling") must in future be presented separately from the items of Other comprehensive income which are never reclassified. To the extent the item is stated as a gross figure, that is without netting with effects of deferred taxes, deferred taxes must no longer be stated in total but rather are to be allocated to both groups of items.

The amendment is to be applied for the first time in financial years which start on or after 1 July 2012.

Amendments to IAS 12 –
Recovery of Underlying Assets
In the case of investment property it is often difficult to assess whether existing temporary tax differences will be reversed in the course of continued use or in the case of a disposition. The amendment to IAS 12 clarifies that deferred taxes must be measured on the basis of the rebuttable presumption that they will be reversed as a result of a disposition.

IAS 19 – Employee Benefits (revised 2011)
In addition to more comprehensive disclosure obligations related to employee benefits, the revised standard results in the following changes in particular:

There is currently an option regarding the manner in which unexpected fluctuations in pension obligations, so-called actuarial gains and losses, can be presented. These may be recognised either (a) in the income statement, (b) in Other comprehensive income (OCI), or (c) on a deferred basis by means of the so-called corridor method. Under the revised IAS 19 this option has been removed in favour of a more transparent and comparable presentation so that only immediate and full recognition in OCI is permitted in future. Furthermore, the past service cost is now directly recognised through profit or loss in the year in which it is incurred.

Furthermore, the expected rate of return on plan assets is currently determined at the beginning of the accounting period on the basis of the management's expectations with regard to the performance of the investment portfolio. The application of IAS 19 (revised 2011) now only permits the standardised rate of return on the plan assets equal to the amount of the discount rate applicable to the pension obligations at the beginning of the period.

The expected amount of administrative costs charged for the plan assets had previously been recognised in Net interest income. In accordance with the amendments administrative costs charged for the plan assets are to be recognised as a component of the revaluation items in OCI, whereas other administrative costs are to be allocated to operating income at the time they are incurred.

IAS 19 (revised 2011) to be applied to financial years commencing on or after 1 January 2013 does not entail any changes to the accounting treatment applied by HSH Nordbank to pension obligations with regard to recognitions of actuarial gains and losses as these had also been previously recognised in equity in OCI. It is not expected that standardisation of the expected interest income earned on plan assets using the discount rate will have a material impact on the consolidated financial statements.

The changed definition of benefits triggered by the termination of the employment contract (termination benefits) will affect the accounting treatment for top-up commitments agreed under partial retirement arrangements. Up to now the top-up amounts were classified as benefits triggered by the termination of the employment contract and were consequently provided for in their full amount at the time the partial retirement arrangement was agreed. As a result of the change in the definition of benefits triggered by the termination of the employment contract the top-up amounts no longer meet the conditions for the existence of benefits triggered by the termination of the employment contract when applying IAS 19 (revised 2011). In essence, these constitute other long-term employee benefits, which are generally accrued rateably over the period from the origination of the claim until the end of the active phase.

HSH Nordbank does not expect this to materially affect the consolidated financial statements.

The amendment is to be applied for the first time in financial years which start on or after 1 January 2013.

Amendments to IAS 27 – Separate Financial Statements

As part of the adoption of IFRS 10 Consolidated Financial Statements, the rules for the control concept and the requirements for the preparation of consolidated financial statements are being removed from IAS 27 and finally addressed in IFRS 10 (see comments on IFRS 10). As a result, IAS 27 will in future only contain rules related to accounting for subsidiaries, joint ventures and associates in IFRS single-entity financial statements.

The amendment is to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IAS 28 – Investments in Associates and Joint Ventures

Amendments were also made to IAS 28 as part of the adoption of IFRS 11 Joint Arrangements. IAS 28 continues to govern the application of the equity method. However, the scope of application has been considerably expanded through the adoption of IFRS 11, as not only investments in associates but also in joint ventures (see IFRS 11) have to be measured using the equity method. The use of proportionate consolidation for joint ventures is therefore no longer permitted.

Potential voting rights and other derivative instruments are also to be taken into account in future in assessing whether an entity has significant influence.

A further change relates to the accounting treatment under IFRS 5, if only part of an investment in an associate or a joint venture is held for sale. In this case IRFS 5 is to be partially applied, if only part of an investment in an associate or a joint venture is held for sale.

The amendment is to be applied for the first time in financial years which start on or after 1 January 2014.

Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities
This addition to IAS 32 clarifies the requirements for offsetting financial instruments. It addresses the significance of the current legally enforceable right of offset and clarifies which methods including a gross offset may be deemed to be a net offset within the meaning of the standard. The rules regarding explanatory notes in IFRS 7 were expanded as part of these clarifications.

The amendment of IAS 32 is to be applied for the first time in financial years which start on or after 1 January 2014.

The amendment of IFRS 7 is to be applied for the first time in financial years which start on or after 1 January 2013.

IFRS 10 – Consolidated Financial Statements
This standard includes a new, comprehensive definition of the term "control". If an entity controls another entity, the parent company must include the subsidiary in its consolidated financial statements. According to the new definition of control, control exists if the potential parent has decision-making authority with respect to the potential subsidiary by means of voting or other rights, it has exposure to positive or negative variable returns from the subsidiary and it has the ability to use its power over the subsidiary to affect the amount of the returns.

The new standard may have an impact on the scope of consolidation, amongst others, concerning special purpose vehicles.

The new standard is to be applied for the first time in financial years which start on or after 1 January 2014. In the event the qualification of an investment as a subsidiary yields different results under IAS 27/SIC-12 and IFRS 10, IFRS 10 must be applied retroactively. Early application is only permissible in conjunction with the application of IFRS 11 and IFRS 12 as well as in conjunction with the application of IAS 27 and IAS 28 which were amended in 2011.

IFRS 11 – Joint Arrangements
IFRS 11 imposes new rules on accounting for joint arrangements. On the basis of the new rules, a decision must be made as to whether a joint operation or a joint venture is involved. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The individual rights and obligations are accounted for in the consolidated financial statements on a pro rata basis. By contrast, a joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. This right is presented in the consolidated financial statements using the equity method thereby eliminating the option of including it in the consolidated financial statement on a pro rata basis.

The new standard is to be applied for the first time in financial years which start on or after 1 January 2014. Specific guidelines are applicable during the transition, for example, from pro rata consolidation to the use of the equity method. Early application is only permissible in conjunction with the application of IFRS 10 and IFRS 12 as well as in conjunction with the application of IAS 27 and IAS 28 which were amended in 2011.

IFRS 12 – Disclosure of Interests in Other Entities
This standard governs disclosure obligations related to investments in other entities. The information required to be disclosed is significantly more comprehensive than has previously been the case under IAS 27, IAS 28 and IAS 31.

The new standard is to be applied for the first time in financial years which start on or after 1 January 2014.

IFRS 13 – Fair Value Measurement
This standard imposes uniform rules on fair value measurement in IFRS financial statements. In future, all fair value measurements required under other standards must comply with the uniform guidelines of IFRS 13; additional, specific rules are only provided in the case of IAS 17 and IFRS 2.

Fair value under IFRS 13 is defined as the exit price, that is the price that would be realised upon the sale of an asset/the price that would need to be paid in order to transfer a liability. As is currently the case with respect to the fair value measurement of financial instruments, IFRS introduces a three level hierarchy based on the dependence on observable market prices. The new fair value measurement may lead to values that differ from those calculated under the previously applicable rules.

The new standard is to be applied for the first time in financial years which start on or after 1 January 2013.

EU endorsement still pending.

Improvements to IFRS 2009 – 2011
Amendments to five standards were made as part of the annual improvement project. Amendments to the wording of the individual IFRS should serve to clarify the existing rules. In addition, there were changes that affected recognition, the accounting approach, measurement as well as note disclosures. IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1 are affected by this.

Subject to the still-pending adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 1 January 2013.

IFRS 9 – Financial Instruments
The accounting treatment of financial instruments in accordance with IFRS 9 will replace IAS 39.

In future, financial assets are only to be classified and measured in two groups: At amortised costs and at fair value. The group of financial assets accounted for at amortised cost consists of those financial assets which provide for the payment of principal and interest payments only at set intervals and, in addition, are held as part of a business model the goal of which is the holding of assets. All other financial assets fall under the fair value group. Under certain conditions, financial assets within the first category may – as has been the case to date – be designated as at fair value ('fair value option').

As a matter of principle, changes in value with respect to financial instruments within the fair value category must be recognised in profit or loss. However, in the case of certain equity instruments, an option may be exercised to recognise changes in value in OCI. Claims to dividends from such assets must, however, be recognised in profit or loss.

The guidelines applicable to financial liabilities have been generally adopted from IAS 39. The most important difference relates to the recognition of changes in value in financial liabilities measured at fair value. In future they must be allocated as follows: The portion allocated to a company's own credit risk must be charged or credited directly to equity in Other comprehensive income, the remaining portion of the change in value needs to be reported directly in income or loss.

Subject to the still-pending adoption into EU law – IFRS 9 needs to be applied for the first time in financial years which start on or after 1 January 2015.

Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures
The amendments allow previous year figures not to be restated on the initial application of IFRS 9. This relief was originally only possible on an early application of IFRS 9 before 1 January 2012.

The relief entails additional note disclosures in accordance with IFRS 7 at the time of transition.

Subject to the still-pending adoption into EU law – the amendments need to be applied for the first time in financial years which start on or after 01 January 2015 in line with IFRS 9.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance

The amendments include clarification and rules making transition to IFRS 10, IFRS 11 and IFRS 12 easier. Adjusted comparative information is only required for the preceding comparative period now. In connection with the note disclosures on non-consolidated structured entities the obligation to provide comparative information for periods before the period in which IFRS 12 is applied for the first time is also removed.

Subject to the still-pending adoption into EU law – the amendments of IFRS 10, IFRS 11 and IFRS 12 need to be applied for the first time in financial years which start on or after 1 January 2014.

The consolidated financial statements of the HSH Nordbank are prepared in line with IAS 27.24 according to uniform Group-wide accounting policies. The consolidated financial statements include the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement and the notes, including segment reporting. In addition to the consolidated financial statements a Group management report in accordance with Section 315 of the German Commercial Code was prepared.

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

In addition, 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 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's business model be preserved even in the event of potential new conditions being imposed.

Group income and expenses are accrued on a pro rata temporis basis in the Group. They are recorded and reported in the period to which they must be economically assigned. Accounting for assets, liabilities, income and expenses takes place on a consistent basis. Deviations are only made in justified exceptional cases and are explained separately in the Notes on the relevant items in the HSH Nordbank consolidated financial statements.

Unless explicitly stated otherwise, all amounts are in millions of euros (€ m).

The reporting year corresponds to the calendar year.

IFRS 7.31 et seq. contains rules on presenting risks arising from financial instruments. In this regard, IFRS 7.B6 allows for the possibility of disclosing risk in a suitable medium separate from the consolidated financial statements. Availing itself of this option, HSH Nordbank has published disclosures about financial instruments as permitted by IFRS 7.31 et seq. predominantly in the Group Risk Report within the Group Management Report.

Specifically, this relates to the overall qualitative and quantitative risk information disclosed under IFRS 7.33 et seq. and the total market risk reporting under IFRS 7.40 – 42 as well as the description of how liquidity risk is managed as required by IFRS 7.39 (c). Like this, a uniform presentation of the risk situation of HSH Nordbank in addition to Section 315 HGB and GAS 5 and GAS 5 – 10 is achieved.

In addition, as part of the supplementary German commercial regulations the Group observed the following German Accounting Standards (GAS) in preparing these consolidated financial statements and this Group Management Report:

- GAS 5 – 10 Risk Reporting of Banks
- GAS 15 Management Reporting
- GAS 17 Reporting on the Remuneration of Members of Governing Bodies.

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 regarding the provision of a guarantee facility as well as a related recapitalisation of the Bank are subject to approval by the European Commission in accordance with the law regarding state aid. The EU Commission concluded these state aid proceedings at the end of September 2011 and entered into an agreement on commitments with all the parties involved and imposed conditions. The 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 as well as equity instruments. Partial guarantee 1 is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9. Partial guarantee 2, however, is recognised as a credit derivative.

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 consolidated 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 existing 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 the expense for public guarantees line item.

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

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 cases 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 at that time. 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 totalling € 752 million were made on the due dates for 2009 to 2011. An amount of € 274 million with a payment date of 7 March 2013 was recognised for 2012.

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 under the framework agreement that falls under the definition of a credit derivative under IFRS, subject to approval from the trustee appointed by the guarantor. The maximum guarantee amount is not altered by the creation of the partial guarantee 2, as the sum of the individual amounts remains the same.

Accounting impact of the second loss guarantee in the 2012 financial year

The hedging effect of the guarantee facility granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the face of the balance sheet for the first time as at 31 December 2010, amounted to € 2,807 million as at 31 December 2012 (previous year: € 1,525 million).

We are assuming that the expected payment defaults in the lending business portfolio covered by the guarantee will exceed the amount retained by the Bank of € 3.2 billion. Future expected fees (base and additional premium) for the second loss guarantee were recognised for the first time in the reporting period in loan loss provisions on the basis of this. These amounted to € 473 million at the end of the 2012 financial year and are offset against the compensation item. € 302 million is attributable to the future additional premium (ex-ante additional premium) and € 171 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 initially recognised income of € 718 million for this, which was offset by an expense of € 713 million resulting from the recognition of the debtor warrant as a liability. Both amounts are included in the compensation item.

Amounts of € 2,807 million were therefore initially offset in the loan loss provisions line item 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 € 412 million recognised as an expense in loan loss provisions (€ 247 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 € 302 million as well as the ex-ante base premium of € 171 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), the claim for compensation of interest, the base premium (ex-ante) as well as the debt waiver and the debtor warrant are netted. The compensation item amounts to € 1,924 million net.

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

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. ADJUSTMENTS TO PREVIOUS YEAR COMPARATIVE FIGURES

These financial statements contain various adjustments of the comparative figures.

The adjustments made were reviewed in accordance with the requirements of IAS 8 and classified as changes in accordance with IAS 8.14 et seq. or correction of errors in accordance with IAS 8.41 et seq.

Due to immaterial effects on the presentation of the third balance sheet such a third balance sheet was not prepared.

I. CHANGE IN ACCORDANCE WITH IAS 8.14 ET SEQ.

Change in the classification of subordinated financial investments

Subordinated financial instruments, the invested capital of which can participate in losses, were assigned to the AfS holding category instead of – as previously – the LaR category due to a change in market practice. Nine securities with a carrying amount of € 27 million are affected by this change in the accounting policy as at 31 December 2011. This did not give rise to any profit or loss effect. It had only an effect on individual notes on financial instruments. The revaluation reserve was reduced by € 0.3 million.

II. CORRECTION IN ACCORDANCE WITH IAS 8.41 ET SEQ.

Correction of impaired Loans and advances to customers (LaR) and the presentation of the credit quality in the Note Credit risk analysis of financial assets

When presenting impaired financial assets (see Note 55), financial instruments were included in the comparative figure of Loans and advances to customers (LaR) which were corrected due to an error in the data provided. The comparative figure was adjusted by € 370 million to € 12,148 million as a result. This required an adjustment to the comparative figures in the presentation of credit quality for loans and advances to customers (LaR) in Table I Credit quality of financial instruments which were neither impaired nor overdue and Table III Impaired financial assets.

Changed disclosure and measurement of non-controlling interests in German partnerships

Minority interests in German partnerships had been previously accounted for under IAS 27 in the same way as for non-controlling interests in public limited liability companies. Due to the special company law features of German partnerships a different accounting treatment has to be applied to non-controlling interests in these entities.

The unwaivable statutory termination rights of partners in German partnerships (Sections 131 et seq. of the German Commercial Code (HGB) in conjunction with Section 723 (1) and (2) of the German Civil Code (BGB)) are settlement claims against the partnership and the other partners. In the IFRS consolidated financial statements the amount of the claim of the non-controlling partner constitutes a debt instrument under IAS 32 AG 29A.

This is accounted for using the so-called anticipated purchase method. It is feigned that, on initial recognition, the group acquires control by means of a 100 % equity holding. The non-controlling interest is not subject to disclosure under IAS 27 but a financial liability in the amount of the fair value of the settlement obligation is recorded and recognised through profit or loss over time.

If the present value of the settlement claim of the non-controlling partner is positive, the settlement obligation is disclosed in the other liabilities line item from a Group perspective. In the event that there is in exceptional cases a contractual settlement obligation on the part of the non-controlling partners in respect of negative own funds of a group company, a receivable from the partner is recognised in the other assets line. The amounts recognised from the updating of the settlement obligation or settlement receivable due to/from the partners are recognised in Other operating income.

Other operating income increased by € 4 million as a result of the implementation of these changes and Group net income attributable to non-controlling interests by € 5 million. Group net income attributable to HSH Nordbank shareholders decreased by € 1 million. This had the following impact on the balance sheet: Other assets and Other liabilities increased by € 1 million and € 4 million, respectively. This was offset by a reduction in retained earnings by € 6 million and in the Group net loss by € 1 million disclosed in the equity line item. The Non-controlling interests item increased by € 3 million.

Each individual adjustment did not have a material effect on earnings per share. The total effect amounted to € – 0.03.

Associates consolidated under the equity method

Under IAS 28.21 the consolidated financial statements form the basis for the application of the equity method for an associate which itself prepares consolidated financial statements.

Only amounts in the single-entity financial statements of associates or joint ventures to be consolidated were previously used for the application of the equity method in the consolidated financial statements of HSH Nordbank.

This accounting treatment, which did not conform to the Standard, was retroactively corrected in the consolidated financial statements as at 31 December 2012. As a result of the adjustments made net income from financial investments accounted for under the equity method changed by € – 6 million as did the Group net result attributable to HSH shareholders in the same amount. This gave rise to changes in the following balance sheet line items: Financial investments accounted for under the equity method (€ – 6 million), Retained earnings (€ – 1 million), Revaluation reserve (€ 2 million) and Group net income/loss (€ – 6 million).

Disclosures for the previous year period were adjusted. The following tables show the effects of the adjustments on the income statement and the statement of financial position:

ADJUSTMENTS
INCOME STATEMENT
(€ m)

2011	Before adjustment	Adjustment	Following adjustment
Other items (without adjustment)	1,391	–	1,391
Net income from financial investments accounted for under the equity method	– 61	– 6	– 67
Total income	**1,330**	**– 6**	**1,324**
Loan loss provisions	389	–	389
Administrative expenses	– 837	–	– 837
Other operating income	32	4	36
Net income before restructuring	**914**	**– 2**	**912**
Result from restructuring	– 235	–	– 235
Expenses for government guarantees	– 883	–	– 883
Net income before taxes	**– 204**	**– 2**	**– 206**
Income tax expenses (–)/income (+)	– 59	–	– 59
Net loss after taxes/Group net loss	**– 263**	**– 2**	**– 265**
Group net loss attributable to non-controlling interests	– 6	5	– 1
Group net loss attributable to HSH Nordbank shareholders	– 257	– 7	– 264

ADJUSTMENTS
STATEMENT OF FINANCIAL POSITION
Assets (€ m)

2011	Before adjustment	Adjustment	Following adjustment
Financial investments accounted for under the equity method	41	– 6	35
Other assets	184	1	185
Other items (without adjustment)	135,681	–	135,681
Total assets	**135,906**	**– 5**	**135,901**

ADJUSTMENTS
STATEMENT OF FINANCIAL POSITION
Liabilities (€ m)

2011	Before adjustment	Adjustment	Following adjustment
Other liabilities	1,900	4	1,904
Other items (without adjustment)	129,181	–	129,181
Equity	4,825	–9	4,816
Share capital	2,635	–	2,635
Capital reserve	809	–	809
Retained earnings	1,911	–7	1,904
Revaluation reserve	–210	2	–208
Currency conversion reserve	–57	–	–57
Group net loss/profit	–257	–7	–264
Total before non-controlling interests	4,831	–12	4,819
Non-controlling interests	–6	3	–3
Total equity and liabilities	**135,906**	**–5**	**135,901**

4. CONSOLIDATION PRINCIPLES

The consolidated financial statements present the parent company HSH Nordbank AG together with the consolidated subsidiaries, including special purpose entities (SPEs), as an economic unit.

Special purpose entities and specific funds included thereunder are included in the scope of consolidation if they are subsidiaries and are material for the presentation of HSH Nordbank's net assets, financial position and results of operation. All special purpose entities affected in the year under review were required to be fully consolidated, some of them on the basis of SIC-12.

The figures of the financial statements of consolidated subsidiaries used to draw up the consolidated financial statements use the same reporting date as the parent company with one exception. In this case inclusion is based on updated financial statements dated 9 December 2012. There were no material transactions or other events between this financial statement reporting date and the reporting date of HSH Nordbank AG.

The purchase method was used to consolidate subsidiaries, in accordance with IAS 27.18 in conjunction with IFRS 3.

Shares held by third parties in the equity of subsidiaries are shown as non-controlling interests in Group equity, provided these are not shares of external shareholders in consolidated commercial partnerships. Non-controlling interests are that part of the net results for the period and net assets of a subsidiary related to shares not directly held by the parent company or by a Group subsidiary. Shares of external shareholders in consolidated commercial partnerships constitute puttable financial instruments, which are to be classified as debt in the consolidated financial statements under IAS 32 and disclosed under Other liabilities. Changes in value are recognised in Other operating income in the consolidated income statement.

In accordance with IAS 27.20, intra-Group receivables, liabilities and income are eliminated within the framework of debt and/or expense and income consolidation for the purpose of the consolidated financial statements. Expenses and gains arising from the transfer of assets within the Group are eliminated in accordance with IAS 27.21.

Shares in subsidiaries which were not consolidated because of their subordinate importance are accounted for as Available for Sale (AfS) financial instruments using the reporting and measurement guidelines of IAS 39.

Joint ventures are based on contractual agreements under which two or more partners establish an economic activity under shared management. Associates are companies where the HSH Nordbank AG can exercise a significant but not controlling influence directly or indirectly via subsidiaries.

Interests in joint ventures and associates that are material to the proper presentation of the Group's net assets, financial position and results of operations are consolidated under the equity method. In doing so, the Group's interest in a joint venture/share in an associate is initially measured at cost of acquisition and thereafter increased or decreased depending on the Group's share in the joint venture's/associate's profit or loss. The relevant shares are stated in the statement of financial position under a separate line item.

Interest in joint ventures and associates, respectively, which were not consolidated under the equity method because of their subordinate importance have been stated in the statement of financial position as available-for-sale instruments using the reporting and measurement guidelines of IAS 39 and are reported under financial investments. Where HSH Nordbank has no information as of the reporting date which would allow for the fair value of these interests to be reliably determined, measurement is based on acquisition cost analogously to the practice for non-consolidated subsidiaries.

Due to agreements ceding control, legal disputes and on-going insolvency proceedings, HSH Nordbank holds in part voting rights in companies exceeding 50 % which do not result in a corresponding degree of control. In such cases, for purposes of defining the scope of consolidation as well as for purposes of preparing the list of share holdings, the voting rights ratios were adjusted to the extent deemed reasonable under the special circumstances described above. The same method was applied in cases in which voting rights of 20 % and more were held but in which there is no significant influence on the basis of the special circumstances described above.

Please refer to Note 64 with regard to actual voting rights.

5. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, 75 companies (31 December 2011: 83) have been consolidated. This includes six (31 December 2011: seven) special purpose entities which need only be consolidated due to the requirements of SIC-12.

The following subsidiaries or special purpose entities are included in the consolidated financial statements of HSH Nordbank AG:

FULLY CONSOLIDATED COMPANIES

		Registered office	**2012** Share of equity capital in %	2011 Share of equity capital in %
1.	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG	Wiesbaden	0.0	0.0
2.	AGV Irish Equipment Leasing No. 1 unlimited	Dublin	99.6	100.0
3.	AGV Irish Equipment Leasing No. 4 Limited	Dublin	15.1	100.0
4.	Amentum Lux S.à.r.l.	Luxembourg	100.0	100.0
5.	Anthracite Balanced Company Limited	George Town	100.0	100.0
6.	AVUS Fondsbesitz und Management GmbH 8)	Berlin	100.0	100.0
7.	AVUS Grundstücksverwaltungs-GmbH 8)	Berlin	100.0	100.0
8.	Bu Wi Beteiligungsholding GmbH	Hamburg	100.0	100.0
9.	Capcellence Private Equity Beteiligungen GmbH & Co. KG 7)	Hamburg	100.0	100.0
10.	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	83.3
11.	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	83.3
12.	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	83.3
13.	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	83.3
14.	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	83.3
15.	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	83.3
16.	Capcellence Vintage Year 12 Beteiligungen GmbH & Co. KG 3)	Hamburg	83.3	0.0
17.	CHIOS GmbH	Hamburg	100.0	100.0
18.	CPM Luxembourg S.A. 6)	Luxembourg	3.2	3.2
19.	CPM Securitisation Fonds S.A. 6)	Luxembourg	3.2	3.2
20.	DEERS Green Power Development Company S.L. 11)	Zaragoza	99.0	99.0
21.	DMS Beteiligungs GmbH 2)	Radolfzell	100.0	100.0
22.	DMS Dynamic Micro Systems Semiconductor Equipment GmbH 4)	Radolfzell	100.0	100.0
23.	EALING INVESTMENTS LIMITED	London	100.0	100.0
24.	Einkaufs-Center Plovdiv G.m.b.H. & Co. KG 12)	Hamburg	75.0	75.0
25.	Enders Holdings LLC	Dover	100.0	100.0
26.	Endor 9. Beteiligungs GmbH & Co. KG 8)	Hamburg	100.0	100.0
27.	Feronia GmbH	Hamburg	100.0	100.0
28.	GBVI Gesellschaft zur Beteiligungsverwaltung von Immobilien mbH & Co. KG	Hamburg	100.0	100.0
29.	GODAN GmbH	Hamburg	100.0	100.0
30.	Grundstücksgesellschaft Barstrasse GbR (GEHAG-Fonds 18) 1)	Berlin	72.5	70.9
31.	Grundstücksgesellschaft Rudow-Süd/Strasse 633 GbR (GEHAG-Fonds 20) 1)	Berlin	67.0	67.0
32.	HGA Capital Grundbesitz und Anlage GmbH 8)	Hamburg	100.0	100.0
33.	HGA Fondsbeteiligung GmbH 8)	Hamburg	100.0	100.0
34.	HGA Objekte Hamburg und Hannover GmbH & Co. KG 9)	Hamburg	71.9	71.9
35.	HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0	100.0
36.	HSH Care+Clean GmbH 5)	Hamburg	51.0	51.0
37.	HSH Corporate Finance GmbH	Hamburg	100.0	100.0
38.	HSH Debt Advisory ApS	Copenhagen	100.0	100.0
39.	HSH Facility Management GmbH	Hamburg	100.0	100.0
40.	HSH Gastro+Event GmbH 5)	Hamburg	100.0	100.0
41.	HSH Kunden- und Kontenservice GmbH	Hamburg	100.0	100.0
42.	HSH Move+More GmbH 5)	Kiel	51.0	51.0
43.	HSH N Finance (Guernsey) Limited	St. Peter Port	100.0	100.0
44.	HSH N Financial Securities LLC	Wilmington	100.0	100.0
45.	HSH N Funding I	George Town	66.3	66.3
46.	HSH N Funding II	George Town	56.3	56.3
47.	HSH N Residual Value Ltd.	Hamilton	100.0	100.0

FULLY CONSOLIDATED COMPANIES

		Registered office	2012 Share of equity capital in %	2011 Share of equity capital in %
48.	HSH Nordbank Securities S.A.	Luxembourg	100.0	100.0
49.	HSH Private Equity GmbH	Hamburg	100.0	100.0
50.	HSH Real Estate GmbH	Hamburg	100.0	100.0
51.	HSH Real Estate US Invest, LLC [8]	Wilmington	100.0	100.0
52.	HSH Restructuring Advisory ApS	Copenhagen	100.0	100.0
53.	HSH Security GmbH	Kiel	100.0	100.0
54.	International Fund Services & Asset Management S.A. [6]	Munsbach	51.5	51.5
55.	Jantar GmbH	Hamburg	100.0	100.0
56.	KAPLON GmbH & Co. KG [8]	Hamburg	100.0	100.0
57.	Kipper Corporation	Wilmington	100.0	100.0
58.	Kontora Family Office GmbH	Hamburg	75.0	75.0
59.	Löddeköpinge Handel AB	Stockholm	100.0	0.0
60.	Neptune Finance Partner S.à.r.l.	Luxembourg	100.0	100.0
61.	Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0	100.0
62.	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0	100.0
63.	RESPARCS Funding Limited Partnership I	Hong Kong	0.0	0.0
64.	RESPARCS Funding II Limited Partnership	St. Helier	0.0	0.0
65.	SBF II, LLC [10]	Wilmington	100.0	100.0
66.	Senior Assured Investment S.A.	Luxembourg	0.0	0.0
67.	Senior Preferred Investments S.A.	Luxembourg	0.0	0.0
68.	Solar Holding S.à.r.l.	Luxembourg	100.0	100.0
69.	Sotis S.à.r.l. [6]	Luxembourg	100.0	100.0
70.	Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG	Hamburg	100.0	99.8
71.	TERRANUM „die Zweite" GmbH & Co. KG [8]	Hamburg	100.0	100.0
72.	Teukros GmbH	Hamburg	100.0	100.0
73.	Turis 1. Beteiligungs GmbH & Co. KG [8]	Hamburg	100.0	100.0
74.	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0	100.0
75.	2200 Victory LLC	Dover	100.0	0.0

[1] Subsidiaries of AVUS Fondsbesitz und Management GmbH
[2] Subsidiary of Bu Wi Beteiligungsholding GmbH
[3] Subsidiaries of Capcellence Private Equity Beteiligungen GmbH & Co. KG
[4] Subsidiary of DMS Beteiligungs GmbH
[5] Subsidiaries of HSH Facility Management GmbH
[6] Subsidiaries of HSH Nordbank Securities S.A.
[7] Subsidiary of HSH Private Equity GmbH
[8] Subsidiaries of HSH Real Estate AG
[9] Subsidiary of KAPLON GmbH & Co. KG
[10] Subsidiary of Kipper Corporation
[11] Subsidiary of Solar Holding S.à.r.l.
[12] Subsidiary of Turis 1. Beteiligungs GmbH & Co. KG

The companies RESPARCS Funding Limited Partnership I and RESPARCS Funding II Limited Partnership are consolidated under the provisions of IAS 27 based on the majority of voting rights.

The following companies were fully consolidated for the first time in the reporting period:

- Aircraft Rescue Acquisition LLC, Wilmington (the company has since been deconsolidated due to its liquidation on 22 December 2012)
- AVUS Grundstücksverwaltungs-GmbH, Berlin
- CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG
- Feronia GmbH, Hamburg
- GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg
- Löddeköpinge Handel AB, Stockholm
- TERRANUM "die Zweite" GmbH & Co. KG, Hamburg
- 2200 Victory LLC, Dover (Kent County)

The following companies included in the scope of consolidation as at 31 December 2011 are no longer consolidated:

- Alchemy Plan (HLB) L.P., St. Peter Port
- AMENTUM CAPITAL LIMITED, Dublin
- EQUILON GmbH, Hamburg
- Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG, Bremen
- HSH Equitypartners GmbH, Hamburg
- HSH N Composits GmbH, Kiel
- HSH Nordbank Private Banking S.A., Luxembourg
- HSH Rechnungswesen GmbH, Kiel
- Leashold Verwaltungs-GmbH & Co. KG, Hamburg
- Mesitis GmbH, Hamburg
- MINIMOA GmbH, Hamburg
- Northern Blue 2009 S.A., Luxembourg
- Nubes GmbH, Lockstedt
- PREGU GmbH, Hamburg
- THESTOR GmbH, Hamburg

A loss of € 0.3 million is disclosed in Other operating income due to the deconsolidation of Aircraft Rescue Acquisition LLC.

All shares in the company Alchemy Plan (HLB) L.P. were sold effective as at 10 August 2012. A loss in the amount of € 7.8 million results from the deconsolidation due to the loss of control, which is presented under Other operating income. The shares in AMENTUM CAPITAL LIMITED were sold on 21 December 2012. This results in a loss on deconsolidation of € 1.9 million that is disclosed in Other operating income.

The companies EQUILON GmbH, Mesitis GmbH, MINIMOA GmbH, PREGU GmbH and THESTOR GmbH were merged with the fully consolidated subsidiary Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG with effect from 26 June 2012.

With effect from 31 December 2012 HSH Nordbank AG sold 50 % of its shares in Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG and, as a result, lost control over the company, which is now an associate of the Bank. HSH Nordbank now holds only 31.8 % of the shares, which were accounted for under IFRS 5 as at the balance sheet reporting date. A positive result of € 8.3 million came from the loss of control, which is included in the Other operating income.

The company HSH Equitypartners GmbH was merged into the fully consolidated subsidiary HSH Real Estate AG on 21 August 2012.

The companies HSH N Composits GmbH and HSH Rechnungswesen GmbH were merged into HSH Nordbank AG on 15 August 2012 and 10 September 2012, respectively.

HSH Nordbank Private Banking S.A. was merged with the fully consolidated subsidiary HSH Nordbank Securities S.A. on 15 May 2012.

Furthermore, Leashold Verwaltungs-GmbH & Co. KG (on 5 September 2012) and Nubes GmbH (on 22 March 2012) were merged into the fully consolidated subsidiary, HSH Auffang- und Holdinggesellschaft mbH & Co. KG.

Northern Blue 2009 S.A. was dissolved as at 6 December 2012.

As at the reporting date 31 December 2012, the following shares in associates are included in the consolidated financial statements using the equity method:

COMPANIES CONSOLIDATED AT EQUITY

		Registered office	**2012** Share of equity capital in %	2011 Share of equity capital in %
1.	Amentum Aircraft Leasing No. Five Limited	Dublin	49.0	49.0
2.	Amentum Aircraft Leasing No. Six Limited	Dublin	49.0	49.0
3.	Amentum Aircraft Leasing No. Three Limited	Dublin	49.0	49.0
4.	Belgravia Shipping Ltd.	London	33.3	33.3
5.	GARDEUR Beteiligungs GmbH	Mönchengladbach	100.0	91.8
6.	PRIME 2006-1 Funding Limited Partnership	St. Helier	47.5	47.5
7.	Railpool Holding GmbH & Co. KG [1]	Munich	50.0	50.0
8.	SITUS NORDIC SERVICES ApS	Copenhagen	40.0	40.0

1) The company was consolidated under the equity method in 2012 for the first time.

Despite HSH Nordbank holding the majority of equity shares in GARDEUR Beteiligungs GmbH, Mönchengladbach, the voting rights interest is limited to 40 % resulting merely in a significant influence within the meaning IAS 28. Accordingly, the company is included in the consolidated financial statements using the equity method.

Even though HSH Nordbank holds no voting rights in PRIME 2006-1 Funding Limited Partnership, St. Helier, the Bank has a significant influence in the present case as it is represented by one employee on the five member board of directors in addition to its 47.5 % equity interest.

ALIDA Grundstücksgesellschaft mbH & Co. KG included in the scope of consolidation as at 31 December 2011 is no longer consolidated using the equity method since the shares in the company were sold on 5 April 2012.

FREIGHTER LEASING S.A., the shares in which were sold by HSH Nordbank AG on 30 July 2012, is also no longer included in the consolidation under the equity method. Due to a partial sale of its shares on 9 March 2012 Relacom Management AB lost its status as an associate of HSH Nordbank AG and is no longer included in the consolidation under the equity method as was the case as at 31 December 2011.

Additional information on companies to be consolidated under the equity method may be found under Notes 13 and 29.

Following the conclusion of a share transfer agreement on 17 October 2012 the Luxembourg branch of HSH Nordbank AG acquired all the voting shares in and therefore control within the meaning of IAS 27 of the Swedish Löddeköpinge Handel AB Stockholm (hereinafter: Löddeköpinge). The acquisition was made through the realisation of shares previously pledged as collateral for the loans granted by HSH Nordbank to the company.

The company is a real estate special purpose entity that owns a property in the “Center Syd” shopping centre, Löddeköpinge, for investment purposes.

The company Löddeköpinge was acquired within the framework of a bail-out purchase in order to secure the existing loan commitment from real estate financing and in order to restructure the company. Therefore, the purchase price for the acquisition of the shares was limited to the symbolic value of SEK 1 (€ 0.1) and was settled in cash. Furthermore, approximately € 11 million of the existing receivables of HSH Nordbank were converted into equity in the company.

An impairment loss of € 1.4 million was recognised on the property as part of the remeasurement at fair value of the assets acquired as at the acquisition date (as defined in IFRS 3). The table below provides an overview of the fair values at the time of acquisition of the identifiable assets and liabilities of Löddeköpinge which were used for the initial consolidation as at 17 October 2012:

(€ m)

	Carrying amount prior to acquisition	Pre-existing relationship	Adjustment	Fair value as of 17.10.2012
Assets				
Investment property	7.6	–	–1.4	6.2
	7.6	**–**	**–1.4**	**6.2**
Liabilities				
Liabilities to banks	18.3	–18.3	–	–
	18.3	**–18.3**	**–**	**0.0**
Net assets at the date of acquisition	**–10.7**	**18.3**	**–1.4**	**6.2**
Total consideration				**6.3**
Balance				**–0.1**

In addition to the purchase price of SEK 1 (€ 0.1), the consideration depicted in the overview is composed of the fair value of the loan relationship existing at the time prior to the business combination. The allocation of the purchase price of the shares in the company acquired within the meaning of IFRS 3 results in a negative balance to the amount of € 0.1 million, which was recognised through profit or loss and included in other operating income.

No additional expenses for the current financial year resulted from the termination of the previous business relationship.

The cumulative gains and losses of the company that are shown in the consolidated financial statements as of 31 December 2012 amount to € –2.6 million. The company contributed € –0.1 million to Other operating income.

Had the company already been consolidated as of 1 January 2012, this would have resulted in Other operating income of € 190 million and a Group net loss of € –135 million for the consolidated financial statements as of 31 December 2012.

6. MANAGEMENT ESTIMATES AND DISCRETIONARY DECISIONS

As permitted, estimates and assumptions for the measurement of assets and liabilities have been incorporated into the consolidated financial statements of HSH Nordbank. All estimates and judgments necessary for accounting and measurement according to IFRS were undertaken in accordance with the appropriate standard in each case, are continuously reassessed and are based on past experience and other factors including expectations of future events which appear reasonable under the circumstances. Specifically, the determination of the loan loss provisions taking into account the effects of the guarantee (see Note 7.I.C), provisions and pensions and similar obligations (see Note 7.III.5), as well as other provisions, goodwill (see Note 7.III.I) and measurement of fair value (see Note 7.I.D) and deferred taxes (see Note 7.III.6) are affected by uncertainty. Estimates are also needed for the future cash flows of hybrid financial instruments (see Note 7.I.E). In connection with internally generated software, estimates are necessary regarding technical feasibility and the ability to use the software.

Where estimates were necessary on a large scale, the underlying assumptions are presented in greater detail in the relevant note.

With the exception of estimates, major discretionary decisions by management in the application of accounting and measurement methods include:

- use of the fair value option for financial instruments (see Note 7.I.A);
- not classifying financial instruments as held to maturity (HtM);
- applying the current reclassification rules under IAS 39 (see Note 51);
- determining fair values for certain financial instruments, including a judgement regarding the existence of an active or inactive market.

7. ACCOUNTING POLICIES

I. FINANCIAL INSTRUMENTS

A) Categorisation of financial assets and liabilities
A financial instrument is an agreement which simultaneously creates a financial asset for one company and a financial liability or equity instrument for the other company. Under IAS 39 all financial assets and liabilities including financial derivatives must be stated in the statement of financial position and measured according to the category to which they are assigned.

Financial assets and liabilities are stated in the statement of financial position if HSH Nordbank is a counterparty under the contract for the corresponding financial instrument. Expected future transactions or contracts are not recognised.

Pending transactions in the form of derivatives must always be stated in the statement of financial position as financial assets or liabilities and measured at fair value on the trading date. Spot transactions in non-derivative financial assets (so-called 'regular way contracts') are recognised as of the settlement date. The change in fair value between the trading date and settlement date is recognised according to the measurement rules for the category of asset. This means that changes in value of financial instruments in the category 'available for sale' must be recognised in the revaluation reserve, while changes in value for the categories 'designated at fair value' and 'held for trading' are recognised in the income statement in Net trading income.

Other non-derivative financial assets which do not result from spot transactions, for example loans granted, are recognised as of the settlement date.

Non-derivative financial liabilities are recognised if one of the two parties to the contract has fulfilled the contract (settlement date).

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

Derecognition of a financial asset takes place on the settlement date. In the case of derivatives, derecognition takes place on the trading date.

Subsequent measurement of financial assets and liabilities depends on which IAS 39 category they were assigned to at the time of acquisition. The following distinctions are made here:

1. Financial assets and liabilities which are financial instruments at fair value recognised in profit or loss include both instruments held for trading (HfT) as well as instruments which are voluntarily and irrevocably designated at fair value (DFV) at the time of first recognition:

   a. All financial instruments held for trading and derivatives which are not part of a hedge accounting transaction are classified as held for trading (HfT).

   Initial and subsequent measurement is at fair value, with transaction costs being recognised in profit or loss at the time of acquisition. In accordance with IAS 39.43, transaction costs are only included in the initial recognition in the case of financial assets or liabilities not measured at fair value and recognised in profit or loss. Where a market price exists in the form of an exchange quotation, this is used for the purposes of measurement. In other cases, the market price of comparable instruments or recognised measurement models, especially net present value methods and option pricing models, are used to determine fair value.

   These trading instruments and derivatives are stated under trading assets or trading liabilities on the statement of financial position. On-going measurement gains and losses and realised gains and losses on these financial instruments are incorporated into net trading income. Interest income and expenses as well as dividends arising from HfT transactions are recorded under net interest income.

   b. In addition, certain complex structures arising from issued instruments and assets that contain derivatives requiring separation, as well as certain financial instruments which are a component of an economic hedge without satisfying the requirements of IAS 39 for hedge accounting, are also classified as designated at fair value (DFV). Furthermore, the fair value option is applied at HSH Nordbank to portfolios whose management and performance measurement is done on a fair value basis in accordance with the documented risk management strategy. This is possible, for example, with special funds and similar assets to be consolidated.

   The designation at HSH Nordbank serves to avoid or reduce accounting mismatches from securities and loans hedged with interest rate derivatives. In addition, the fair value option is generally applied to any structures otherwise required to be segregated.

   Financial assets designated as DFV primarily relate to positions in the credit investment portfolio (Asset Backed Securities, synthetic Collateralized Debt Obligations, Credit Linked Notes) and convertible bonds. Financial liabilities designated as DFV specifically comprise structured registered and bearer instruments with imbedded interest, currency, equity and other risks.

Financial instruments in the fair value option are stated at fair value. These financial instruments are stated under Loans and advances to banks, Loans and advances to customers, Financial investments and Liabilities to banks, Liabilities to customers, Securitised liabilities and Subordinated capital. Gains or losses arising from on-going measurement and realised gains or losses are stated under Net trading income. Interest income and expenses for these financial instruments are stated under Net interest income. To the extent dividend income is received, it is disclosed under Net interest income.

2. Loans and receivables, which are stated in the statement of financial position at amortised cost:

   Non-derivative financial assets with fixed or determinable payments not traded on an active market when first recognised are shown under IAS 39.9 as loans and receivables (LaR). Exceptionally, this category also includes financial instruments which have been reclassified from the HfT and AfS categories in accordance with the changes in IAS 39 (rev. 2008) because there was no longer any active market and there is an intention and ability to hold the financial asset for the foreseeable future or to maturity.

   An active market exists when quoted prices are regularly provided, e. g. by an exchange or a broker, and these prices are representative of actual transactions between arms-length third parties.

   Financial instruments in this category are stated at cost of acquisition, equivalent to fair value at the time of initial recognition and taking transaction costs into account. They are measured subsequently at amortised cost; whereby premiums or discounts are amortised according to the effective interest method over the term and recognised in Net interest income. Financial instruments in the LaR category are shown under Cash reserves, Loans and advances to banks and Loans and advances to customers, Financial investments, Non-current assets held for sale and Disposal groups or Other assets.

3. Financial assets available for sale (AfS) recognised at fair value and not taken through the income statement:

   The category available for sale (AfS) encompasses all non-derivative assets which cannot be assigned to any of the other categories. The Group's AfS holdings relate primarily to marketable fixed income securities, investment fund units and equity instruments such as interests in affiliated companies and equity holdings which are recognised in accordance with IAS 39. They are recognised under cash reserves, loans and advances to banks, loans and advances to customers, financial investments, non-current assets held for sale and disposal groups or other assets.

   The initial measurement of financial assets available for sale is at the fair value at the time of acquisition plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. Subsequently, financial instruments AfS are measured at fair value in accordance with IAS 39.46, to the extent that this can be reliably determined. Particularly for equity securities which are not listed and whose fair value cannot be determined reliably by other methods, subsequent measurement takes place at cost in accordance with IAS 39.46 (c) in conjunction with IAS 39.A81. These are primarily equity instruments of unlisted companies for which no active market exists and realistic estimates of the parameters determining market value are not possible because future expectations are difficult to forecast.

Changes in value to AfS instruments stated at fair value are not attributable to impairment, they are recorded in the revaluation surplus in equity (after allowing for deferred taxes), without affecting net income. By contrast, where hedged AfS instruments are concerned, the fluctuation relating to the hedged risk is recognised in the income statement under net income from hedges and is separately disclosed as an adjustment item arising from the portfolio fair value hedge. By contrast, where hedged AfS instruments are concerned, the fluctuation relating to the hedged risk is recognised in the income statement under net income from hedges.

When an asset is sold and impaired the revaluation surplus is released and recognised as income or expense, so the gain or loss arising from the disposal is reflected in profit or loss. Any write-ups required after impairment are not recognised in profit or loss for equity securities and recognised in profit or loss for debt securities.

Amortisation of the difference between costs of acquisition and repayment amount for interest-bearing securities is stated under net interest income, using the effective interest method.

4. Other liabilities (LIA):

Other liabilities (LIA) include liabilities which are neither part of the trading portfolio nor classified as DFV.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs. Fair value at the time of acquisition generally corresponds to the transaction price. In subsequent periods, they are measured at amortised cost using the effective interest method.

B) Classification of financial instruments

The classification of financial instruments required for reporting by IFRS 7.6 is similar to the categorisation of financial instruments according to IAS 39 for the items in the statement of financial position, in order to ensure a uniform and clear picture of the financial position and performance. The table below shows the classes of financial instruments at HSH Nordbank:

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

C) Loan loss provision and impairment of financial instruments

At every reporting date, a check is performed to establish whether there is objective evidence for the impairment of a financial asset which is not measured at fair value recognised in profit or loss.

An impairment test is performed if, after initial recognition of a financial instrument, there is objective evidence of an impairment which would have an impact on the anticipated future cash flows from the financial instrument.

Criteria for impairment are essentially major financial difficulties for the borrower and indications that, based on current information, interest payments cannot be made and an improvement in the financial situation cannot be demonstrated. These also include in particular concessions such as the granting of restructuring loans to support the liquidity of the borrower as well as the insolvency risk.

In the case of securities, an initial check is performed as to whether the market value has decreased in the last twelve months, either permanently by at least 10 % or once in the last six months by 20 % below acquisition cost. This applies to both equity and debt instruments. If an equity instrument is involved, it must be written down to fair value in such a case.

However, if debt instruments meet either of these criteria, they are checked as part of a multi-step risk assessment process to see if there are any indicators for impairment. An indicator for an impairment of a security means, for example, a downgrade to below investment grade. Where a security is already below investment grade and the rating deteriorates by another three categories, this would be another indicator. Asset backed security (ABS) transactions are checked to see if the over-collateralisation mechanisms have seen a significant deterioration since purchase or issue. For collateralised debt obligations (CDOs) the par value and interest cover tests can normally be used, for example.

Individual valuation allowances for fixed income are generally recognised in the amount of the difference between acquisition cost and fair value.

Identifiable risks from the lending business are dealt with by making individual valuation allowances or the loan or advance in question. To calculate the amount of the individual valuation allowance, the net present value of the anticipated cash flows arising from the loan or advance – that is achievable amount – is compared to its carrying amount. The anticipated cash flows may comprise capital repayments, interest payments or the proceeds from disposal of collateral less liquidation costs. If the carrying amount is greater than the realisable amount, an individual valuation allowance is created in the amount of the difference.

Assessments as to the need for loan loss provisions are frequently made on the basis of information which is partly provisional in nature (e. g. planned restructuring of borrowers, draft reorganisation reports) or are subject to increased volatility (e. g. collateral value of real estate and ships). This results in increased uncertainty regarding estimates of key parameters of loan loss provisions. In such cases the large degree of uncertainty is mainly due to the assessment of expected cash flows which are dependent on borrowers, industries, the assessment of the overall economy and other factors.

With respect to risks which have already occurred but have not yet been identified, portfolio valuation allowances are created for groups of assets which are comparable on the basis of their default risk. When determining the portfolio valuation allowance, current developments in the economic environment are taken into account through parameters from an expected loss approach. The portfolio valuation allowances are determined as of the reporting date on the basis of risk parameters derived from the determination of internal economic counterparty default risk. For the calculation the parameters probability of default (PD), loss given default (LGD) and for off-balance sheet items the credit conversion factor (CCF) are used. The loss identification period (LIP) in the calculation represents the interval between the occurrence of a default event and its announcement, transforming the expected loss approach to an incurred loss approach.

As key risk parameters respond with a time lag to developments in the real economy, this time lag is assessed to determine whether a collateral premium is to be recognised on the general loan loss provisions ("management adjustment").

Risks of uncertainties in assessment are assumed by the guarantor under the second loss guarantee.

As the posting of the valuation allowance depends on the category of financial assets, the following distinctions must be made with regard to measurement:

a. Financial instruments belonging to the category LaR which are measured at amortised cost.

Impairments to loans and advances to banks and customers are recorded in separate valuation allowance accounts under the item Loan loss provisions. Loan loss provisions thus created are written off at the time when the amount of the actual default of the receivable is determined or the receivable defaults. Irrecoverable receivables for which there was no individual valuation allowance are written off directly as is the case for losses in the case of impaired receivables which exceed the recorded loan loss provisions. Impairments to LaR securities are recorded by means of direct write-downs to the securities. Recoveries on receivables written-off are recognised in profit or loss.

b. Financial instruments belonging to the AfS category which are measured at fair value and not recognised in the income statement.

In the case of permanent or significant impairment to an AfS equity financial instrument, a direct write-down is recognised in profit or loss. In the process, the cumulative gains taken through the income statement and recognised as equity are rebooked to net income from financial investments. This approach is used for AfS debt instruments accordingly. In the case of debt securities only, if the reasons for impairment no longer apply, a write-up to the maximum of amortised cost is made in profit or loss. Amounts beyond this and write-ups to equity securities are recognised directly in the revaluation reserve.

c. Equity securities belonging to the AfS category not quoted on an active market and measured at the cost of acquisition as their fair value cannot be reliably determined.

In the case of impairment to an AfS financial instrument measured at acquisition cost depreciation to the financial instrument is made, which is recognised in profit or loss.

Individual and portfolio valuation allowances are also made for off-balance-sheet transactions and carried on the statement of financial position as provisions in the lending business.

The individual and portfolio valuation allowances are determined without taking the hedging effect of the second loss guarantee into account, to start with. The hedging effect is then reflected in the balance sheet through the recognition of a compensation item, which reduces loan loss provisions accordingly (see Note 2).

D) Determining fair value

Fair value is defined in accordance with IAS 39 as the price at which a financial instrument can be traded between two informed, willing and independent parties who are under no obligation to deal. 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).

Fair value can be determined using the mark-to-market method if a market price is available at which a transaction could be performed or has been performed. This is generally the case for securities and derivatives traded on liquid markets. Such an unadjusted market price at the measurement date for the identical instrument is classified as level 1 of the valuation hierarchy under IFRS 7.

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, either it is derived from the prices of comparable financial instruments or a model valuation is conducted with 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. A distinction can be drawn between procedures based exclusively on observable market data or only to an insignificant extent on non-observable parameters (mark-to-matrix) and those based to a significant extent on non-observable parameters. Observable market data is usually available for liquid securities and simple OTC derivatives traded on liquid markets (for example interest rate swaps, forward foreign exchange transactions and foreign exchange options in certain currencies as well as derivatives of certain listed equities or indices). If the valuation procedure uses exclusively observable market data or non-observable parameters with only insignificant influence, the fair value is classified as level 2 in the valuation hierarchy under IFRS 7.

Fair value is determined by the mark-to-model valuation using a suitable model (e. g. option price model, discounted cash flow method, collateralised debt obligation model) if using the mark-to-market or mark-to-matrix method a valuation cannot be derived either of adequate quality or at all. Valuation models that are based on non-observable parameters, and which therefore require assumptions about these parameters, are often 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 this case, assumptions include, for example, probabilities of default and the losses given default. If the valuation procedure uses non-observable parameters with only insignificant influence on the fair value, the fair value is classified as level 3 in the valuation hierarchy under IFRS 7.

The following section gives an overview of the parameters and assumptions used.

1. Parameters employed in valuation techniques and models

The following assumptions are used to determine the fair value for each class of financial assets and liabilities.

a. Trading assets/trading liabilities (HfT):

Securities in the trading portfolio are valued using quoted market prices to a large extent. 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.

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

OTC derivatives are valued using valuation techniques and models. A distinction is drawn between plain vanilla derivatives traded in liquid markets, such as interest rate swaps, cross currency interest rate swaps, FX forwards, FX options, single-name and index credit default swaps and complex derivatives where markets are illiquid. The former are valued using recognised techniques and models that are based on non-observable market parameters to an insignificant extent at most. while the latter require a significant number of judgements to be made with regard to the selection of both the model and the parameter estimates.

b. Positive/negative fair values of hedging derivatives:

This class contains exclusively plain vanilla interest rate and cross currency interest rate swaps which can be measured using recognised techniques and models that use non-observable market parameters to an insignificant extent, if at all.

c. Financial investments (AfS):

HSH Nordbank's financial investments comprise mainly fixed income securities. Substantial parts are valued using 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.

The financial investments also include ABS as partial holdings in the credit investment business. These are valued using the pricing hierarchy described above.

Fair value is not calculated for unlisted equity instruments (holdings in affiliated companies and equity holdings treated under IAS 39) as there is no active market for them and the necessary estimates cannot be made within an acceptable range of variation and suitable probability of occurrence. Therefore these financial instruments are recognised at cost of acquisition.

d. Assets/liabilities designated at fair value (DFV):

Assets designated at fair value carried under financial investments and loans and advances to customers or banks primarily comprise holdings in the credit investment business (ABS, synthetic CDOs, CLNs). For measuring CDOs, a standard market model (Gauss-Copula) is used which includes both observable and non-observable market parameters. The pricing hierarchy described above is used for the other products.

DFV liabilities stated under securitised liabilities, liabilities to customers or banks and subordinated capital include complex structured registered and bearer securities with embedded interest, currency, equity and other risks. Where current market prices are available for securitised liabilities on liquid markets, these are used. However, the predominant majority of DFV liabilities are measured using valuation techniques and models. These make extensive use of complex techniques and models which also use market parameters which are not directly observable. DFV liabilities are principally hedged through offsetting derivatives so that there are positions which compensate for model risks or parameter uncertainties.

Separate determination of the change in fair value attributable to credit risk of DFV holdings is done on the basis of the carrying amount, the expected residual maturity of the financial instrument or transaction, information from external rating agencies and market spreads for instruments of the same rating and maturity. For liabilities categorised as DFV, a distinction is made in assigning an appropriate spread between instruments with and without guarantee obligation.

2. Value adjustments

If the value of a financial instrument as determined by a valuation technique or model does not take adequate account of factors such as bid-offer spreads, closing costs, liquidity and credit or counterparty default risks, the Bank makes corresponding value adjustments. The methods applied for this draw to some extent on non-observable market parameters in the form of estimates.

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

3. Day One Profit and Loss

   Use of a valuation model based to a significant extent on non-observable market data can lead to differences between the transaction price and model price at the acquisition date. For financial instruments measured at fair value with fair value changes recognised in profit or loss, such differences ('day one profit and loss') are accrued and spread over the maturity.

E) Hybrid financial instruments

IAS 39.AG 8 states that for financial instruments, not to be measured at fair value, the carrying amount of financial assets and liabilities must be adjusted and recognised in profit or loss if the estimated future cash flows associated with the instrument change. The new carrying amount is given by the present value of the newly estimated future cash flows using the financial instrument's original effective interest rate for discounting. In subsequent years the discount effect reduces with constant effective interest rate, leading to a write-up for financial liabilities which is recognised in Net interest income.

Application of IAS 39.AG 8 had an effect in the year under review on valuation of the hybrid financial instruments issued by HSH Nordbank, as the estimated future cash flows differ from the contractual cash flows.

The term 'hybrid financial instruments' covers silent participations, profit participations and two bonds issued by consolidated subsidiaries measured at amortised acquisition cost. A key common feature of these instruments is that their interest depends on profit and they participate in an annual net loss of the Bank.

The future cash flows whose amount and payment dates have to be estimated are payments of interest and principal which take into account:

- participations in loss by investors, where these will probably not be made up by the expected redemption date of an instrument,
- any contractually agreed retrospective coupon payments.

The loss situation of the reporting period is not viewed in isolation on the measurement of hybrid instruments in accordance with IAS 39.AG 8. Specifically, it involves more than assigning the prorated loss in the period under review. In addition, the possible effects of possible future assignment of loss and the cancellation or postponement of future interest payments must be recognised in profit or loss in the period in which the estimate is changed. This can mean that in future loss-making periods it is not possible to recognise any further loss participations in profit or loss, if these future losses correspond to the estimates made previously. The loss participation recognised in profit or loss is accordingly anticipated, rather than being left to the period in which the loss arises. Future loss-related reductions in interest also do not result in full relief to interest expenses, if the reduction in interest has already been taken into account in the estimate. Instead, the reversal of the effect of discounting applied in the year the estimate was changed is recognised in expenses (write-up of the liability due to the passage of time).

The estimation of future cash flows from hybrid financial instruments required in applying IAS 39.A8 requires material assumptions which are associated with uncertainties. Among the key sources of uncertainty in estimation are the future income of HSH Nordbank, which depends specifically on the development of the economy. Assumptions are also required about the exercise of termination or extension options associated with the individual transactions. Based on the degree of knowledge about uncertainties at the time financial statements are drawn up, the possibility cannot be excluded that changing information in subsequent periods will require departure from previous assumptions, which would require new adjustments to the carrying value of hybrid financial instruments recognised in profit or loss. In the case of declining expectations of loss, the participation in loss of investors would also decrease, which would be associated with an increase in our repayment obligations recognised in expenses. The same considerations apply to the reverse case.

Net income from hybrid financial instruments is shown as a separate item under net interest income, and in addition to current interest expenses it includes the effects of applying IAS 39.AG 8 (see Note 8). Deferred taxes arise because of the difference between valuation for tax purposes and measurement in the consolidated financial statements. The associated effects on net income are recognised under income taxes. Hybrid financial instruments are shown either as securitised liabilities or as subordinated capital (see Notes 38 and 47).

F) Hedge accounting

Under IFRS, changes in value of items in IAS 39 categories AfS, LaR and LIA are not recognised in profit or loss. Changes in the value of derivatives are always recognised in profit or loss. If underlying transactions in IAS 39 category AfS, LaR or LIA are hedged with derivatives, the result is to distort the income statement so that it does not correspond to the economic reality. One possibility to avoid these distortions is to use fair value hedge accounting. In fair value hedge accounting the changes in value of hedged items, which are attributable to the hedged risk, are recognised in profit or loss.

HSH Nordbank uses derivatives to hedge market risks resulting from loans, issues and securities portfolios. Individual loans, issues and securities items as well as entire portfolios of such financial instruments are hedged in this way.

Micro and portfolio fair value hedge accounting are used to avoid distortions in the income statement. Currently only hedges of fair value against interest rate risk are taken into account. Fixed-interest rate loans, issued instruments and securities positions are designated as underlying transactions (hedged items), while only interest rate and interest rate currency swaps are designated as hedging instruments.

Where individual lending, issuing or securities transactions are hedged by derivatives with non-Group counterparties and this hedging arrangement satisfies the requirements of IAS 39, micro fair value hedge accounting is applied.

Where portfolios of hedged items are hedged, the hedging of these items with matching external derivatives is shown under portfolio fair value hedge accounting to the extent that this meets the requirements of IAS 39.

In the case of a micro fair value hedge, the carrying value of the underlying transaction is adjusted through the income statement for the fair value change attributable to the hedged risk. The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

In the case of portfolio fair value hedge for interest rate change risks, portfolios of assets and liabilities hedged for interest rate change risks are taken into account. This involves an iterative procedure. At the start of a hedging period, the financial instruments in the portfolios are allocated to maturity ranges on the basis of their anticipated maturity or interest adjustment dates, and the hedged amount is then determined for each maturity range. The hedging transactions are also allocated at the start of the hedging period. At the end of the hedging period, the hedge is recognised and measured and a new hedge is designated. The changes in the fair value of the hedged amounts of the underlying transactions due to the hedged risk are recognised in a separate item in the statement of financial position (asset or liability reconciling items from the portfolio fair value hedge). The fair value changes which are not attributable to the hedged risk are treated in accordance with the general rules for the corresponding IAS 39 category.

Using fair value hedge accounting requires a series of conditions to be met. These principally relate to the documentation of the hedge and its effectiveness. HSH Nordbank documents all hedging relationships in accordance with the requirements of IAS 39, including the hedging instrument, the hedged item (underlying transaction), the hedged risk and the result and method of measuring effectiveness.

Future changes in value of underlying and hedging transactions are simulated using a regression model within the framework of the prospective effectiveness test. Any actual changes in value are used in retrospective effectiveness testing. The results of retrospective and prospective effectiveness measurement in micro fair value hedge accounting are analysed using regression analyses. In portfolio fair value hedge accounting, HSH Nordbank uses the dollar offset method to measure effectiveness retrospectively. This tests whether the relationship between the changes in value of underlying and hedging transactions lies within an interval of 80 % to 125 %.

Changes in value of underlyings and hedging transactions in effective hedges which are attributable to the hedged risk are recognised in the Result from hedging.

Income and expenses from the depreciation of reconciling items for the fair value hedge portfolio and proceeds from the closing of the underlying transactions which contributed to reconciliation items are reported as part of the Net interest income.

G) Derecognition

A financial asset is derecognised when all material risks and opportunities associated with ownership of the asset have been transferred, i. e. when contractual claims on cash flows from the asset have been extinguished. Where not all risks and opportunities are transferred, the HSH Nordbank carries out a control test to ensure that no continuing involvement due to opportunities and risks retained prevents it from being derecognised. Financial assets are also derecognised if the contractual rights to cash flows have expired. Financial liabilities are derecognised when they are repaid, i. e. when the associated liability is settled or lifted, or when due.

H) Repurchase agreements and securities lending transactions

HSH Nordbank only enters into genuine repo transactions. Genuine repo transactions, repo agreements or sell-and-buy-back transactions combine the spot purchase or sale of securities with their forward sale or repurchase, the counterparty being the same in both cases.

For genuine repo transactions with assets sold under repurchase agreements, the securities continue to be recognised by HSH Nordbank, as the interest, credit rating and other material risks associated with the securities continue to be borne by HSH Nordbank. According to counterparty, the inflow of liquidity from the repo transaction is shown in the statement of financial position as a liability either to banks or customers. Interest payments are recognised under interest expense over the term of the transaction. Outflows of liquidity caused by reverse repos are reported as loans and advances to banks or customers. Correspondingly, the securities bought under repurchase agreements are not carried or measured in the statement of financial position. Agreed interest payments are booked as interest income over the term of the transaction. Receivables arising from repos are not netted against liabilities from repos involving the same counterparty.

The emphasis in repo transactions is on bonds from German public sector issuers and from eurozone bank issuers and the Bank's own bonds. Securities lending transactions are carried on the statement of financial position in a similar way to genuine repurchase agreements. Lent securities remain in the securities portfolio, while borrowed securities are not capitalized on the statement of financial position. Cash collateral furnished for securities lending transactions is shown as a receivable, while collateral received is shown as a liability. Repo and securities lending transactions are carried out in equities with the emphasis being on bonds.

I) Financial guarantee contracts

Pursuant to IAS 39.9, a financial guarantee is a contract that requires the issuer of the contract to make specified payments to reimburse the holder of the contract for the loss that the holder incurs because a specified debtor fails to make payment when due under the original or amended terms of a debt instrument. A credit derivative is treated as a financial guarantee based on the provisions of IAS 39 if the requirements of IAS 39.9 for the financial guarantee are met. Credit derivatives that do not meet the definition of a financial guarantee are allocated in accordance with the general valuation rules for the HfT category and valued at fair value.

Financial guarantees at HSH Nordbank are provided in the form of warranties, bank guarantees and letters of credit. Corresponding contingent liabilities are based on past events that may result in possible liabilities in the future. These liabilities arise as a result of the occurrence of unspecified future events where the amount required to meet them cannot be estimated with sufficient reliability. Financial guarantees are stated in accordance with the net method. If the premium payment to HSH Nordbank is distributed over the term of the financial guarantee, the guarantee will be stated as zero and the premium payment recognised on an accrual basis. If HSH Nordbank is the holder of a contract, the financial guarantee will be presented as collateral for the Group.

II. NOTES ON SELECTED ITEMS RELATING TO FINANCIAL INSTRUMENTS IN THE STATEMENT OF FINANCIAL POSITION

1. Cash reserve

Cash on hand, balances with central banks, treasury bills and discounted treasury notes are stated under cash reserve.

Both initial and subsequent measurement of assets (LaR) stated under cash reserve takes place at par value, which is equivalent to fair value due to its short-term nature.

Treasury bills and discounted treasury notes recognised under AfS are measured at fair value.

2. Loans and advances

Primarily assets from the loans and receivables (LaR) category are recognised in the statement of financial position under loans and advances to banks and loans and advances to customers. In addition, financial instruments in the categories DFV and AfS are recognised here. Carrying amounts of receivables which are an element of micro fair value hedge accounting are adjusted by the change in value attributed to the hedged risk.

Loans and receivables of the category LaR are stated gross (before deduction of impairments). Allowances for impairments are stated in a separate item Loan loss provisions, shown under receivables as a deduction. Financial instruments in the DFV and AfS categories are stated net. Where loans and receivables have been acquired or incurred with the intention of trading, they are stated under trading assets.

Interest income from loans and advances to banks and customers is recorded under interest income from lending and money market transactions. This also includes early repayment penalties from premature repayment of receivables. Premiums and discounts are accrued using the effective interest rate method. Accrued interest is also allocated to this item in the statement of financial position.

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

3. Positive and negative market values of hedging derivatives

This item shows the market values of derivatives which have a positive or negative fair value and which are used in hedge accounting. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets or Trading liabilities.

4. Reconciling asset and liability items from the fair value hedge portfolio

The asset-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for assets. Similarly, the liability-side reconciling item from portfolio fair value hedge accounting contains the value change of the hedged object to be attributed to the hedged risk from portfolio fair value hedges for liabilities.

5. Trading assets and trading liabilities

Only financial assets classified as HfT are stated under trading assets. These include primary financial instruments held for trading purposes, particularly fixed income securities and pro rata interest, and also equities and other trading portfolios such as precious metals. Loans and loan commitments with hard syndication conditions are also reported here. A significant component continues to be derivatives with a positive market value which are either trading derivatives or not designated as a hedging derivative because they do not meet the requirements of hedge accounting.

Measurement gains and losses are recognised in net trading income. Interest and dividend income is recognised as net interest income and commission income and expenses are recognised in net commission income.

In a similar way to trading assets, trading liabilities only include financial obligations belonging to the category held for trading (HfT), which includes derivatives with a negative market value which are either trading derivatives or which have not been designated as hedging derivatives because they do not meet the requirements of hedge accounting. Delivery commitments from short sales of securities and pro rata interest from these are also stated in this category.

6. Financial investments

Financial investments include particularly securities in category AfS, and also securities or holdings in categories LaR and DFV. This item includes fixed-interest securities not held for trading including accrued interest, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, and holdings in joint ventures and associates not carried at equity. Realised gains and losses from financial investments are shown in the income statement in net income from financial investments to the extent they are not DFV holdings. Net interest income from financial investments is shown in net interest income. If the disposal of equity holdings or interests in affiliated companies was decided and initiated at the balance sheet date and it is highly probable that it can be completed within the following twelve months, they are reclassified as non-current assets held for sale and disposal groups.

7. Financial investments accounted for under the equity method

Shares in associates included in the consolidated financial statements under the equity method are reported in this item. Such ownership interests are measured in accordance with the guidelines of IAS 28 in conjunction with IAS 31.

For the impairment testing of financial investments accounted for under the equity method the total carrying amount of the investment measured under the equity method is assessed for impairment as a single asset in accordance with IAS 36. Its realisable amount is always compared with the carrying amount for this purpose, if there are indications on applying IAS 39 that the investment could be impaired.

The realisable amount is defined as the greater of fair value less costs to sell and value in use. (See also Note 7.III.1 for details on the calculation of the value in use.)

8. Liabilities

Liabilities include financial liabilities in categories LIA and DFV. They are recognised as liabilities to banks, liabilities to customers and securitised liabilities.

Financial liabilities are recognised at fair value at the time of issue plus transaction costs, which generally corresponds to the transaction price. In subsequent periods securities categorised as LIA are measured pursuant to IAS 39.47 at amortised cost applying the effective interest method. Changes in the measurement of LIA financial instruments are only recorded when the relevant instrument is sold. Differences between acquisition costs and repayment amount (e.g. premiums and discounts) are allocated according to the effective interest rate method and taken to net interest income. Current gains and losses from measuring DFV financial instruments are stated under Net trading income.

The carrying amount of hedged liabilities which fulfil the requirements of micro fair value hedge accounting are adjusted by the gains and losses arising from fluctuations in fair value attributable to the hedged risk.

Repurchased own debentures are set off against securitised liabilities.

9. Subordinated capital

No obligation to other creditors for premature redemption of subordinated liabilities is possible. In the case of liquidation or insolvency, subordinated liabilities may only be repaid after the claims of all senior creditors have been met. Subordinated liabilities, silent participations and profit-sharing certificates are shown under subordinated capital, due to their different nature from other liabilities. Silent participations are structured as so-called hybrid financial instruments without exception and so are some profit-sharing certificates (see Note 7.I.E.).

Based on their contractual structure and financial character, the participations of the typical silent partner represent debt, which is why they are stated under Subordinated capital.

Subordinated capital categorised as LIA is recognised and measured initially at fair value (taking the transaction costs into account) and at amortised acquisition cost subsequently. Premiums and discounts are allocated on a constant effective interest rate basis.

Current gains and losses from measuring subordinated capital categorised as DFV are stated under Net trading income.

See Note 7.I.E. with regard to the treatment of hybrid financial instruments in the year under review.

III. NOTES ON OTHER ITEMS IN THE STATEMENT OF FINANCIAL POSITION

1. Intangible assets

Software acquired or developed in-house, acquired goodwill and other intangible assets are recognised and measured under intangible assets. In accordance with IAS 38.21, HSH Nordbank capitalises software development costs if the production of the in-house software is likely to generate an economic benefit and the costs can be reliably determined. If the criteria for capitalisation are not met, expenses are recognised in profit or loss in the year they are incurred. Since HSH Nordbank does not apply the full goodwill approach, goodwill arises on acquisition of subsidiaries, when the cost of acquisition exceeds the Groups' share in the remeasured net assets (shareholders' equity) of the company acquired.

The initial measurement of intangible assets is made at acquisition or production costs in accordance with IAS 38.24. They are subsequently measured at amortised acquisition or production cost.

Software developed in-house is subject to linear depreciation over two to ten years.

If there are indications of impairment, intangible assets are subject to an impairment test. For this test the carrying amount of these intangible assets is compared with the realisable amount. The realisable amount is defined as the greater of fair value less costs to sell and value in use. An asset is impaired if its carrying amount exceeds its realisable amount. Intangible assets with an indefinite useful life, intangible assets not ready for use as well as goodwill are subject to an annual impairment test even if there are no signs which suggest impairment.

Examination of the value of goodwill is carried out on the basis of cash-generating units. With effect from 1 January 2012 HSH Nordbank has adjusted the definition of cash-generating units for non-strategic investments to the internal management level (global head structure). Each global head unit forms an own cash-generating unit. A company is regarded as a non-strategic investment if underlying subsidiaries are integrally involved in the business activities of the respective global heads. In the past, segments were defined as cash-generating units in accordance with the segment reporting applicable up to the realignment carried out in the 2009 financial year. The monitoring and management are improved by the change to the lower, internal management level, also for the impairment testing of goodwill. However, if the value in use is expected to be realised by cash inflows or an increase in value of a subsidiary alone, then the subsidiary itself continues to be a cash-generating unit (so-called strategic investment). Where the anticipated benefit can no longer be determined, a write-down is made.

The value in use of a cash-generating unit is determined on the basis of forecasted and discounted net cash flows. Net cash flows are determined on the basis of Group planning for a five-year period, allowing for a subsequent trend of 1.0 % (previous year: 1.0 %). The planned cash flows are based on a risk-adequate discount rate. For impairment tests, a capitalisation rate of 10.6 % (previous year: 11.5 %) was used.

2. Property, plant and equipment

Land and buildings, operating equipment and leasing assets under operating leases where HSH Nordbank acts as lessor are stated under this item. Property, plant and equipment is stated at cost of acquisition or production less linear depreciation in line with its expected useful life. Subsequent costs of acquisition or production are capitalised provided they increase the economic utility of the asset concerned. Interest paid to finance acquisition costs of property, plant and equipment is recorded as an expense in the period concerned.

Physical wear and tear, technical obsolescence and legal and contractual restrictions are taken into consideration when determining useful life. For property, plant and equipment, linear depreciation is calculated over the following periods:

TANGIBLE ASSET CATEGORY

	Useful life in years
Buildings	50
Leasehold improvements	[1]
Other operating equipment	4–13
Leasing assets	25

[1] Calculation of residual life is based on the remaining term of the rental agreement.

Property, plant and equipment is reviewed at each reporting date for signs which suggest impairment.

Gains and losses from the disposal of property, plant and equipment are shown under Other operating income in the income statement. Repairs, servicing and other maintenance costs are recorded as an expense in the period concerned.

3. Investment property

Under the item Investment property properties are disclosed that are held to earn rental income or make capital gains but are not used for own operations. For mixed-use properties a percentage allocation of carrying amount is made. Own-used properties are reported under property, plant and equipment; rented-out or empty parts are reported as investment property. The properties are recognised at acquisition cost and depreciated on a straight-line basis. A useful life of 50 years is used for depreciation purposes. The capitalised income method is used in determining the fair value of investment properties based on market data. The capitalisation rate (property rate of return) as well as the land value are key parameters for determining the fair value to be applied. The fair value is disclosed in Note 31.

4. Non-current assets held for sale and disposal groups and liabilities relating to disposal groups

Non-current assets whose carrying amounts will be predominantly or primarily realised through a sale and not through continuing use must be classified as held for sale in accordance with IFRS 5 on the condition that a sale has already been decided on and initiated as of the reporting date, and is extremely likely to be completed within the following twelve months.

A disposal group is a group of assets which are sold to the same purchaser in a single transaction and at a single price. A disposal group can also include liabilities, if these are taken over by the purchaser together with the assets. HSH Nordbank recognises as disposal groups and liabilities relating to disposal groups specifically the assets and liabilities of consolidated subsidiaries which meet the requirements of IFRS for classification as held for sale.

Non-current assets and disposal groups held for sale are measured at fair value less sale costs in cases where this is lower than the carrying amount. Financial instruments continue to be measured according to the requirements of IAS 39.

5. Provisions

Provisions are created where the Group has existing legal and actual obligations resulting from previous events and it is likely that meeting the obligation will require an outflow of resources and a reliable assessment of the amount of the obligation can be made. Provisions are examined and redetermined at least quarterly.

Pension provisions

The majority of employees of HSH Nordbank AG as well as employees of several domestic subsidiaries are entitled to benefits from different staff pension plans, which include both defined contribution and defined benefit plans.

In the case of defined contribution plans, contributions are paid to external pension providers, with employees also contributing a share. HSH Nordbank AG also participates in a multi-employer plan which is run by BVV Versorgungskasse des Bankgewerbes e. V. HSH Nordbank AG has no obligations to pensioners beyond the contribution payments. There are also policies with Provinzial Nord Lebensversicherung AG for direct insurance policies partly financed by employees. As the insurance company is required to be a member of Protektor Lebensversicherungs-AG, the insured employees are protected against its insolvency, so that HSH Nordbank AG is not burdened even in the event of Provinzial Nord Lebensversicherung AG's insolvency. These direct insurance policies represent insured benefits and are treated as defined contribution plans.

In the case of the defined benefit plans, the amount of benefit depends on various factors, such as age, salary and length of service. Pension plans include specifically retirement and disability pensions and survivor benefits. They are based primarily on employment contracts of Landesbank Schleswig-Holstein Girozentrale, the retirement plan of Hamburgische Landesbank Girozentrale, retirement pension guidelines of the Hamburgische Landesbank Girozentrale relief fund, the pension plan of Hamburgische Landesbank Girozentrale and section 2 (4) of the Investment Bank Act in the version of 23 January 1998. Pension provisions for defined benefit plans are equivalent to the net present value of the pension entitlements earned as of the reporting date, factoring in anticipated wage and salary increases and the trend in annuities. Calculations are based solely on actuarial reports based on IAS 19, which are prepared by independent actuaries using the projected unit credit method.

Actuarial gains and losses are recognised under other comprehensive income and under equity in retained earnings in the year in which they arise. Pension provisions are discounted as long-term liabilities. The interest expense included in expense for retirement pensions is recognised as part of Net interest income.

The following assumptions are made in calculating direct benefit pension liabilities:

ACTUARIAL ASSUMPTIONS

	2012	2011
Discount rate		
Domestic	3.5%	4.8%
Foreign (weighted)	3.5%	2.8%
Expected return on plan assets (weighted)	3.5%	3.3%
Salary growth (weighted)	2.0%	2.0%
Adjustment rate for pensions		
Domestic		
Employment contract 1/ old pension provision rules	individual	individual
New pension provision rules (weighted)	2.0%	2.0%
Employment contract 4 (weighted)	2.0%	2.0%
Foreign	–	3.7%
Staff turnover		
Age up to 30	6.0%	6.0%
Age 30–55	Linear decline to zero	Linear decline to zero
Age from 56	0.0%	0.0%
Retirement age in years	63 – 65	65 – 67
Mortality, disability, etc.	Based on the 2005G tables of K. Heubeck	Based on the 2005G tables of K. Heubeck

Defined benefit pension plans are partly financed from assets and qualified insurance policies used exclusively for pensions (plan assets). Plan assets are measured at fair value and recognised in the statement of financial position as reducing provisions.

Other provisions

Other provisions include, for example, provisions in the lending business, for restructuring, litigation risks and costs, for personnel expenses (without pensions) and other provisions.

Provisions in the lending business are created, among other reasons, for any sudden calls to pay under warranty bonds, guarantees and letters of credit. The parameters used for the calculation are presented in the section Loan loss provision and impairment of financial instruments (see Note 7.I.C).

Provisions for restructuring include restructuring expenses incurred by the Bank in connection with the implementation of the measures required to meet the conditions imposed by the EU Commission. Provisions were created to the extent HSH Nordbank had developed and communicated a sufficiently detailed plan for such measures and had started to implement such plan. As soon as a pending obligation becomes sufficiently certain or can be quantified – e.g. through the signing of agreements – it is transferred to other liabilities or provisions for pensions and similar obligations as a matter of principle.

Aside from additions to the relevant provisions, restructuring expense also includes expenses for additional measures that do not meet the requirements for the creation of a provision under the liability recognition provisions of IAS 37. This affects in particular expenses for the restructuring of future business activities as defined in the catalogue of conditions and undertakings of the EU and depreciation of assets recognised in the balance sheet the value in use of which has declined for the Bank.

Provisions for litigation costs comprise expected payments for court costs as well as for non-court costs in connection with litigation such as, e.g. attorneys' fees and other costs. For litigation in progress, only costs for the current jurisdictional level may be included within the provision.

Provision for litigation risks are to be created when HSH Nordbank is the defendant in an action and the probability that the Bank will lose the action is presumed to be greater than 50 %. Provisions include only payments for probable liability for damages and fines.

Under provisions for personnel expenses, in general all outstanding benefits within the personnel expenses are presented with the exception of pension obligations. In the HSH Nordbank, these are in particular provisions for variable performance-related pay, anniversary payments, partial retirement and long-term credits for hours. Provisions for personnel expenses likewise include benefits in connection with the termination of employment explicitly set out in IAS 19.

Other provisions mainly include provisions for archiving costs and discretionary benefits.

In accordance with IAS 37, provisions are mainly determined based on the best estimate of the expenditure necessary to meet the obligations identifiable on the reporting date. Long-term provisions are reported at present value to the extent discounting effects are significant. For discounting purposes, interest rates that are valid on the reporting date and are term-appropriate are used based on a risk-free swap curve. Addition of accrued interest to be performed during the reporting year is reported under net interest income.

Provisions for personnel expenses included in the other provisions are measured in accordance with IAS 19. The resulting effects are recognised as part of net interest income.

6. Income taxes

Current tax assets and liabilities are stated at the amount of the anticipated refund from, or payment to, the tax authorities, applying the tax provisions of the countries in question.

Deferred tax assets are created for all deductible timing differences between the value of an asset or liability as measured by IFRS standards and its assigned value in tax terms, provided it is probable that taxable income will be available against which such differences can be utilised. Deferred tax liabilities are created for all taxable temporary differences. Deferred taxes on tax loss carryforwards are stated as the amount likely to be used in future. Deferred taxes are calculated using the tax rates and rules anticipated to be valid at the time when the deferred tax assets are to be realised. The effects of tax rate changes on deferred taxes are taken into account on adoption of the legislative amendment. Deferred tax assets are recognised and measured as tax assets and deferred tax liabilities as tax liabilities.

The basis for capitalising deferred tax assets is the general bank planning for the next five years, which is used to derive tax results planning. For the further planning horizon, the result for the last planning year is continued. Despite possible estimation uncertainties due to the current economic crisis and its consequences, no impairment is anticipated for deferred tax assets.

Expenses and income from deferred taxes are in principle recognised on an accrual basis in the income statement under income taxes, separate from actual tax expenses and income. In doing so, the accounting treatment of the underlying situation is taken into account. Deferred taxes are recognised in the income statement if the item in the statement of financial position itself is recognised in profit or loss. Deferred taxes are charged or credited directly to equity, if the underlying items themselves are charged or credited directly to equity (IAS 12.61A).

7. Other assets and other liabilities

All remaining assets and liabilities not allocable to any other item are stated under other assets or other liabilities. These include accrued assets/liabilities amongst other things.

The general recognition and measurement criteria for assets are observed. Initial recognition is at cost. For financial instruments included in this item the provisions of IAS 39 apply.

IV. LEASING TRANSACTIONS

In accordance with IAS 17 a distinction is made between finance and operating leases. The allocation depends on whether substantially all the risks and rewards are transferred to the lessee or not.

A finance lease is considered to be present where the economic risks and rewards as defined by IAS 17 lie with the lessee; consequently, the leased asset is reported in the latter's statement of financial position. All other leasing arrangements are classified as operating leases. The classification is made at the beginning of each lease.

1. Finance leases

In the case of finance leases, HSH Nordbank acts solely as lessor and recognises a receivable in the amount of the net investment value either under loans and advances to banks or loans and advances to customers, depending on the lessee.

Leasing rates due are divided into a repayment part which is not recognised in profit or loss and an interest part which is. The part taken to profit or loss is recognised in net interest income.

2. Operating leases

   As lessor HSH Nordbank states leasing objects as assets measured at amortised cost under property, plant and equipment or as investment properties. Leasing instalments received are stated under other operating income, and the corresponding depreciation stated in administration expenses. HSH Nordbank reports rental expenses from contracts where HSH Nordbank acts as lessee as rental expenses under administration expenses.

V. CURRENCY TRANSLATION

The consolidated financial statements of HSH Nordbank AG are drawn up in euros. The euro is the functional currency of the overwhelming majority of the individual financial statements included in the consolidated statements. However, some Group companies have another functional currency.

The following principles are applied when translating foreign currency items within individual financial statements and for translating the financial statement of Group companies which do not draw up their accounts in euro.

1. Presentation of foreign currency transactions in the single entity financial statements

   Initial measurement of assets and liabilities from all foreign currency transactions takes place at the spot rate for the transaction.

   In subsequent measurement, monetary items are translated based on the spot mid-rate as of the reporting date. Non-monetary items that are stated in the statement of financial position at fair value are translated using the spot mid-rate applicable at the time of measurement and any other non-monetary items at the historical rate.

   Expenses and income in foreign currency arising from the measurement of items in the statement of financial position are translated using the rates applied for translating the items in question. The transaction rates are used for all other expenses and income.

   For monetary and non-monetary items measured at fair value, currency translation differences are always recognised in the income statement of the period when the result arose. An exception is currency translation gains and losses from the measurement of non-monetary AFS financial instruments recognised at fair value, which are included in OCI.

2. Translation of financial statements prepared in foreign currency for inclusion in the consolidated financial statements

   Assets and liabilities from financial statements denominated in foreign currencies are translated at the period-end rate. Average rates for the reporting period are used to translate expenses and income. With the exception of the revaluation reserve in the parent company financial statements, which is translated at the period-end rate, equity is translated at historic rates.

   Any differences arising from this method of translation are reported under equity in a separate item.

NOTES ON THE GROUP INCOME STATEMENT

8. NET INTEREST INCOME

NET INTEREST INCOME
(€ m)

	2012	2011
Interest income from		
Lending and money market transactions	2,520	2,907
Fixed-interest securities	588	632
Trading transactions	14	29
Derivative financial instruments	5,193	7,762
Unwinding	233	193
Disposal of receivables	11	28
Current income from		
Equities and other non-fixed-interest securities	12	12
Associated companies	10	5
Equity holdings	12	78
Other holdings	8	8
Interest income	**8,601**	**11,654**
of which attributable to financial instruments not classified as HfT or DFV	3,257	3,643
Interest expenses for		
Liabilities to banks	503	605
Liabilities to customers	1,069	1,191
Securitised liabilities	873	1,095
Subordinated capital	229	264
Other liabilities	7	12
Disposal of receivables	20	27
Derivative financial instruments	4,848	7,141
Interest expenses	**7,549**	**10,335**
of which attributable to financial instruments not classified as HfT or DFV	2,069	2,747
Net income from re-estimating interest and repayment cash flows	631	188
Net income from discounting and compounding	–163	–157
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	**468**	**31**
of which attributable to financial instruments not classified as HfT or DFV	468	31
Total	**1,520**	**1,350**

Interest income and expenses relating to trading and hedging derivatives are disclosed under interest income and expenses from derivative financial instruments.

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

In case of unchanged payment expectations, a change in the present value of impaired loans and advances (unwinding) occurs over time. The interest income from such loans and advances is calculated as the present value by adding accrued interest using the original effective interest rate.

Net interest income includes no one-off expenses from the disposal of finance lease transactions (previous year: € 8 million).

The term hybrid financial instruments covers silent participations, profit participations and bonds measured at amortised acquisition cost. Their interest depends on the profit or loss of the Bank.

The total of current participation in losses (not allowing for anticipated reversals of impairment losses) relating to the 2012 financial year was € 157 million (previous year: € 153 million).

Net income or loss from hybrid financial instruments includes both the effects on profit/loss resulting from the application of IAS 39.A8 as well as the current interest income from the instruments that fall under the scope of application of this standard.

The cumulative net income from hybrid financial instruments in 2012 amounts to € 711 million (previous year: € 243 million). € 1,421 million are attributable to the result from re-estimating interest and repayment cash flows (previous year: € 790 million) and € – 710 million are attributable to the income/loss from discounting and compounding (previous year: € – 547 million).

The difference between the valuation for tax purposes of hybrid financial instruments and the measurement of such instruments under IAS 39.AG 8 result in deferred tax liabilities of € 39 million (previous year: € 6 million of deferred tax assets).

9. NET COMMISSION INCOME

NET COMMISSION INCOME
(€ m)

	2012	2011
Commission income from		
Lending business	85	68
Securities business	74	79
Guarantee business	19	25
Payments and account transactions as well as documentary business	22	24
Other commission income	12	17
Commission income	**212**	**213**
Commission expenses from		
Lending business	10	14
Securities business	67	66
Guarantee business	2	–
Payments and account transactions as well as documentary business	3	4
Other commission expenses	11	9
Commission expenses	**93**	**93**
Total	**119**	**120**

Other commission expenses include a payment of € 3 million in the context of the repurchase of two subordinated issues.

Financial instruments not classified as HfT or DFV accounted for € 123 million (previous year: € 124 million) of Net commission income.

10. RESULT FROM HEDGING

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

RESULT FROM HEDGING
(€ m)

	2012	2011
Fair value changes from hedging transactions	302	475
Micro fair value hedge	– 46	– 55
Portfolio fair value hedge	348	530
Fair value changes from underlyings	– 296	– 471
Micro fair value hedge	39	57
Portfolio fair value hedge	– 335	– 528
Total	**6**	**4**

11. NET TRADING INCOME

Net trading income comprises realised income/loss and the valuation result for financial instruments classified as Held for Trading (HfT) or Designated at Fair Value (DFV). Interest income and expenses for financial instruments of these categories are shown under Net interest income.

Gains and losses on currency translation are recorded in this income statement item as a matter of principle. The results from the translation of loan loss provisions denominated in foreign currency not hedged against foreign exchange risk are disclosed in the loan loss provisions.

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

NET TRADING INCOME
(€ m)

	Bonds and interest rate derivatives		Equities and equity derivatives		Other products		**Total**	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Realised net income								
Held for trading	373	–72	–4	19	24	104	393	51
Designated at fair value	–161	–15	2	–	–	–	–159	–15
Subtotal	**212**	**–87**	**–2**	**19**	**24**	**104**	**234**	**36**
Valuation result								
Held for trading	–460	–286	184	129	–2	–79	–278	–236
Designated at fair value	–16	–15	–178	42	–	–	–194	27
Subtotal	**–476**	**–301**	**6**	**171**	**–2**	**–79**	**–472**	**–209**
Total	**–264**	**–388**	**4**	**190**	**22**	**25**	**–238**	**–173**

Net trading income includes net income from foreign currency of € 10 million (previous year: € 27 million).

During the reporting period € 139 million (previous year: € –266 million) of the changes in fair value of the financial assets categorised as Designated at Fair Value (DFV) related to changes in the credit spread rather than changes in market interest rates. In cumulative terms, a total of € –366 million (previous year: € –935 million) is attributable to changes in the credit spread.

In the period under review changes in value related to changes in the credit spread rather than to market interest rate changes for liabilities in the category DFV amounted to € –108 million (previous year: € –62 million). In cumulative terms, a total of € 107 million (previous year: € 285 million) is attributable to changes in the credit spread.

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), which is why it has become standard market practice that collateral is also explicitly taken into account in the valuation of OTC derivatives. The collateral effect is taken into account in the form of an adjustment (in the amount of € –22 million) and net trading income is impacted by the same amount.

12. NET INCOME FROM FINANCIAL INVESTMENTS

In addition to any realised gains and losses from financial investments classified as Loans and Receivables (LaR) and Available for Sale (AfS), write-downs and write-ups and portfolio valuation allowances are reported under this item. In the case of financial investments classified as AfS, write-ups are only recognised in the income statement for debt instruments up to a maximum of the amortised cost.

NET INCOME FROM FINANCIAL INVESTMENTS
(€ m)

	2012	2011
Classified as AfS		
+ Realised gains/losses (–)	193	272
– Write-downs	26	90
+ Write-ups	7	2
Subtotal	**174**	**184**
Classified as LaR		
+ Realised gains/losses (–)	19	26
– Write-downs	183	182
+ Write-ups	77	58
Subtotal	**–87**	**–98**
– Additions to portfolio valuation allowances (LaR portfolios)	43	40
+ Reversal of portfolio valuation allowances (LaR portfolios)	9	44
Subtotal	**–34**	**4**
Total	**53**	**90**

In the year under review, equity instruments classified as AfS not measured at fair value with a carrying amount of € 97 million (previous year: € 423 million) were disposed of. This resulted in realised income of € 12 million (previous year: € 137 million). Remaining instruments of this kind were written down by € 19 million (previous year: € 52 million).

Market values instead of model prices as was previously the case were used as at 31 December 2012 to measure the individual valuation allowance for a portfolio of residential mortgage backed securities of home equity loans classified as LaR. This change was made on the basis of the improved liquidity in the relevant markets of these financial instruments and reduced net income from financial instruments by € – 168 million.

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

As at the 31 December 2012 balance sheet date, the HSH Nordbank Group owns shares in eight associates (previous year: nine) that are included in the consolidated financial statements under the equity method (see Note 5).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 31 December 2012 is summed up below:

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD
(€ m)

	2012	2011
Pro rata net income for the period	– 4	– 10
Other income / expenses from addition / disposal of financial investments accounted for under the equity method	– 6	– 3
Impairments	– 4	– 54
Total	**– 14**	**– 67**

The total net income from financial investments accounted for under the equity method amounted to € – 14 million (previous year: € – 67 million). The total amount of the impairment losses included therein is attributable to the shares held in Belgravia Shipping Ltd that are accounted for under the equity method. As at 31 December 2012 an additional impairment loss of € – 2 million relating to the company was offset in Other comprehensive income without impacting income.

€ – 5 million of Other income / expenses from addition / disposal of financial investments accounted for under the equity method as at 31 December 2012 is attributable to the loss on disposal caused by the deconsolidation of ALIDA Grundstücksgesellschaft mbH & Co. KG as at 31 March 2012 due to its sale at the beginning of April 2012.

In the single-entity financial statements of HSH Nordbank AG the disposal of the shares results in a book profit of € 4 million which is disclosed in Net income from financial investments. Total net income resulting from the disposal of shares therefore amounted to € – 1 million at the Group level. Furthermore, deconsolidation of the shares in Relacom Management AB as at 31 March 2012 resulted in positive net income of € 0.3 million. The sale of the shares in FREIGHTER LEASING S.A. as at 30 July 2012 resulted in a deconsolidation result of € – 2 million.

A review of the value of the remaining shares measured using the equity method under IAS 36 as at 31 December 2012 did not result in the need to recognise an additional impairment loss.

Given the full impairment for some of the financial investments accounted for under the equity method, HSH Nordbank's share in the current losses of these companies, amounting to € – 19 million, was no longer recorded in the current period. The accumulated non-recognised pro rata share in the losses of these companies amounts to € – 44 million.

Net income from financial investments accounted for under the equity method is disclosed in the segment report as a part of Net income from financial investments.

The results of ALIDA Grundstücksgesellschaft mbH & Co. KG are presented in the segment Products, Capital Markets and Corporate Center of the Core Bank and the results of FREIGHTER LEASING S.A. and Relacom Management AB are presented in the Restructuring Unit segment.

14. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS
(€ m)

	2012	2011
– Expenses from allocations to loan loss provisions	2,389	2,246
+ Income from reversal of loan loss provisions	1,061	1,519
Subtotal	**–1,328**	**–727**
– Expenses from allocations to provisions in the lending business	243	152
+ Income from reversal of provisions in the lending business	180	210
Subtotal	**–63**	**58**
– Direct write-downs	44	32
+ Payments received on loans and advances previously written down	155	95
Subtotal	**111**	**63**
+ Foreign currency income from loan loss provisions denominated in foreign currency	57	–48
Total before compensation	**–1,223**	**–654**
+ Compensation item	567	1,043
Total	**–656**	**389**

With regard to the compensation item to HSH Finanzfonds AöR please refer to Note 2.

Direct write-downs of € 44 million (previous year € 32 million) related entirely to Loans and advances to customers.

Loan loss provisions in on-balance-sheet lending business relate exclusively to loans and advances classified as LaR. The following table shows the net changes:

NET CHANGES IN LOAN LOSS PROVISIONS
(€ m)

	2012	2011
Individual valuation allowances	–1,377	–994
Portfolio valuation allowances	49	267
Subtotal	**–1,328**	**–727**
Compensation item	567	1,043
Total	**–761**	**316**

The net changes in provisions in the lending business during the period under review are presented below:

NET CHANGES IN PROVISIONS IN THE LENDING BUSINESS
(€ m)

	2012	2011
Individual loan loss provisions		
for contingent liabilities	47	78
for loan commitments	–122	–35
for other credit risks	–1	–6
Subtotal	**–76**	**37**
Portfolio valuation allowances		
for contingent liabilities	4	16
for loan commitments	9	5
Subtotal	**13**	**21**
Total	**–63**	**58**

15. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES
(€ m)

	2012	2011
Personnel expenses	357	409
Operating expenses	313	344
Depreciation on property, plant and equipment and amortisation on intangible assets	151	84
Total	**821**	**837**

PERSONNEL EXPENSES
(€ m)

	2012	2011
Wages and salaries	299	337
Social security contributions	40	44
Expenses for pensions and support	18	28
Total	**357**	**409**

Please refer to Note 42 for detailed information on expenses for pensions and support as well as expenses for defined contribution plans.

OPERATING EXPENSES
(€ m)

	2012	2011
IT costs	86	113
Costs for external services and project work	59	65
Legal service costs	53	51
Expenses for land and buildings	42	46
Obligatory contributions and expenses related to corporate law	10	7
Costs of advertising, PR and promotional work	9	8
Expenses on plant and equipment	2	2
Other expenses	52	52
Total	**313**	**344**

Depreciation on property, plant and equipment and amortisation on intangible assets are broken down as follows:

DEPRECIATION
(€ m)

	2012	2011
Scheduled depreciation on		
Plant and equipment	12	10
Property	3	4
Acquired software	13	14
Software developed in-house	15	14
Leasing assets	9	13
Unscheduled depreciation on		
Property	11	18
Leasing assets	–	11
Technical equipment and machinery	28	–
Non-current assets held for sale and disposal groups	60	–
Total	**151**	**84**

€ 3 million (previous year: € 3 million) of scheduled depreciation on property is on investment property. € 11 million (previous year: € 18 million) of unscheduled depreciation on property relates to investment property and € 60 million to assets held for sale and disposal groups (see Note 32).

Both the scheduled and unscheduled depreciation relate to the Restructuring Unit segment.

The unscheduled depreciation on assets held for sale and disposal groups relate to property held by the HSH Real Estate Group that is to be sold in 2013.

€ 7 million of unscheduled depreciation on property relate to investment property, which were recognised due to the expected sustainable deterioration in the market value for office properties in the Netherlands.

16. OTHER OPERATING INCOME

OTHER OPERATING INCOME
(€ m)

	2012	2011
Income		
from the repayment of subordinated issues	261	–
from reversal of other provisions and release of liabilities	53	32
from interest on receivables from the tax office	24	5
from leasing transactions	8	15
from investment property (rental income)	–	8
from write-ups on property, plant and equipment and investment property	–	1
Total income	**346**	**61**
Expenses		
from additions to other provisions	63	46
Interest expenses pursuant to Section 233 AO	53	8
from unscheduled depreciation on assets	52	–
incurred in connection with the acquisition of buildings	27	–
from the amortisation of goodwill	–	20
from investment property	–	2
Total expenses	**195**	**76**
Income from disposal of property, plant and equipment	–5	3
Income/expense from the updating of the settlement claims of minority interests in German partnerships	–10	5
Other income and expenses (netted)	55	43
Total	**191**	**36**

Unscheduled depreciation on assets relates to assets held by the HSH Real Estate Group that are to be sold in the 2013 financial year (see Note 32). They are assigned in full to the cash-generating Restructuring Unit.

The amortisation on goodwill reported in the previous year are fully attributable to the cash-generating Restructuring Unit.

Rental income on investment property of the previous year is the result of operating leasing transactions.

17. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING
(€ m)

	2012	2011
Personnel expenses	5	208
Operating expenses	52	73
Income from the reversal of provisions and the release of liabilities	14	46
Total	**–43**	**–235**

Restructuring expenses for 2012 mainly comprised current expenses as well as additions to provisions for IT projects resulting from the implementation of the set of conditions imposed by the EU. Income from the reversal of provisions and the release of liabilities consists in more or less equal shares of reversals in the field of human resources and operating expenses.

18. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES
(€ m)

	2012	2011
Financial Market Stabilisation Fund (SoFFin)	18	69
HSH Finanzfonds AöR	284	814
Total	**302**	**883**

The guarantee facility issued by the bank rescue fund, SoFFin, was fully reduced on schedule through maturities on 20 January 2012 and 23 July 2012.

In 2011 HSH Nordbank AG has reduced the guarantee granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg in three tranches to € 7 billion. In the previous year, this item also included a one-off payment of € 500 million (see Note 2).

19. INCOME TAXES

INCOME TAXES
(€ m)

	2012	2011
Corporate tax and solidarity surcharge		
Domestic	4	11
Foreign	1	2
Current income tax	**5**	**13**
Income tax from previous years	97	3
Subtotal current income tax	**102**	**16**
Income from deferred tax		
from temporary differences	–330	137
from losses carried forward	169	–77
from consolidation	–2	–17
Subtotal deferred income tax	**–163**	**43**
Income tax expense (+)/income (–)	**–61**	**59**

Taxes for previous years amounting to € 97 million are primarily attributable to additions to provisions for current domestic taxes at the parent company level.

RECONCILIATION INCOME TAXES
(€ m)

	2012	2011
Group net income/loss for the year	–124	–265
Income taxes	–61	59
Income before taxes incl. income from transfer of losses	–185	–206
Domestic income tax rate to be applied in %	31.69	31.68
Imputed income tax expenses in the financial year	**–59**	**–65**
Tax effects due to		
Appreciation/Depreciation deferred taxes on losses carried forward	220	–12
Differing effective tax rates in Germany and abroad	–38	32
Non-deductible expenses	69	79
Corrections to trade taxes	–51	–19
Changes in tax rate	–3	–
Taxes for previous years	97	16
Tax-free income	–337	–44
Depreciation deferred taxes on temporary differences and miscellaneous	41	72
Total tax expense (+)/income (–)	**–61**	**59**

In calculating taxes for 2012, a rate of 31.69 % (previous year: 31.68 %) was assumed for the domestic income tax rate due to the change in the trade earnings tax rate.

As at 31 December 2012, deferred tax assets concerning financial investments in other comprehensive income were reduced by € 104 million (previous year: reduction by € 14 million) and deferred tax liabilities concerning actuarial gains and losses on pension provisions were reduced by € 51 million (previous year: reduction of deferred tax liabilities by € 14 million).

20. NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS

Net gains and losses from financial instruments include both realised gains and measurement gains within net trading income and net income from financial investments together loan loss provisions with regard to business shown on the statement of financial position, broken down into IAS 39 categories. Neither net interest nor net commission income is included in this item.

NET GAINS AND LOSSES FROM FINANCIAL INSTRUMENTS
(€ m)

	2012	2011
Designated at Fair Value (DFV)	–353	12
Available for Sale (AfS)	174	184
Loans and Receivables (LaR)	–714	237
Held for Trading (HfT)	115	–185
Total	**–778**	**248**

Derecognition of the fair value changes cumulated in equity associated with value adjustments and sales of financial instruments categorised as AfS is shown in Note 48.

21. EARNINGS PER SHARE

To calculate Earnings per share, the Group net result attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the year under review. The calculation was based on non-rounded values.

EARNINGS PER SHARE

	2012	2011
Attributable Group net result (€ m) – undiluted/diluted	–120	–264
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted/diluted	297	263
Earnings per share (€)		
Undiluted	–0.40	–1.00
Diluted	–0.40	–1.00

NOTES ON THE GROUP STATEMENT OF FINANCIAL POSITION

22. CASH RESERVE

CASH RESERVE
(€ m)

	2012	2011
Cash on hand	14	10
Balances at central banks	6,349	1,505
of which: at the Deutsche Bundesbank	6,043	761
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	382	351
of which: eligible for refinancing at the Deutsche Bundesbank	375	342
Total	**6,745**	**1,866**

The cash reserve increased significantly from € 1,866 million to € 6,745 million compared to the end of the previous year. Amongst other things, the Bank has increased its deposits at the ECB in order to ensure compliance with liquidity ratios.

23. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS
(€ m)

			2012			2011
	Domestic	Foreign	Total	Domestic	Foreign	Total
Payable on demand	794	3,398	4,192	1,001	4,285	5,286
Other loans and advances	3,808	353	4,161	2,040	710	2,750
Total before loan loss provisions	**4,602**	**3,751**	**8,353**	**3,041**	**4,995**	**8,036**
Loan loss provisions	–	134	134	–	188	188
Total after loan loss provisions	**4,602**	**3,617**	**8,219**	**3,041**	**4,807**	**7,848**

Of Loans and advances to banks, holdings of € 1,839 million (previous year: 2,072 million) have a residual maturity of more than one year.

Loans and advances to banks include money market transactions in the amount of € 3,682 million (previous year: € 5,036 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

24. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS
(€ m)

	2012			2011		
	Domestic	Foreign	**Total**	Domestic	Foreign	**Total**
Retail customers	1,008	48	1,056	1,535	48	1,583
Corporate clients	32,852	40,387	73,239	34,495	47,917	82,412
Public authorities	5,648	627	6,275	5,992	620	6,612
Total before loan loss provisions	**39,508**	**41,062**	**80,570**	**42,022**	**48,585**	**90,607**
Loan loss provisions	2,595	2,776	5,371	2,044	2,732	4,776
Total after loan loss provisions	**36,913**	**38,286**	**75,199**	**39,978**	**45,853**	**85,831**

Of Loans and advances to customers, holdings of € 51,569 million (previous year: € 58,733 million) have a residual maturity of more than one year.

Loans and advances to customers include money market transactions in the amount of € 1,354 million (previous year: € 1,516 million).

Loans and advances to customers include receivables under finance lease transactions in the amount of € 155 million (previous year: € 177 million). The gross investment value of the leasing transactions amounts to € 130 million (previous year: € 143 million). Further details on leasing transactions can be found in Note 58.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

25. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS
(€ m)

	2012	2011
Loans and advances to banks	134	188
Loans and advances to customers	5,371	4,776
Loan loss provisions for items in the statement of financial position	**5,505**	**4,964**
Provisions in the lending business	455	393
Subtotal	**5,960**	**5,357**
Compensation item	–1,924	–1,361
Total	**4,036**	**3,996**

The individual and portfolio valuation allowances are determined without taking the hedging effect of the second loss guarantee into account, to start with. The hedging effect is then mapped in the balance sheet through the recognition of a compensation item, which directly reduces loan loss provisions (see Note 2).

The development of loan loss provisions for banks during the period under review was as follows:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO BANKS BEFORE COMPENSATION
(€ m)

	Individual valuation allowances		Portfolio valuation allowances		Total	
	2012	2011	2012	2011	**2012**	2011
As at 1 January	**187**	**191**	**1**	**3**	**188**	**194**
Additions	11	4	2	4	13	8
Reversals	15	5	2	6	17	11
Utilisation	62	3	–	–	62	3
Reclassifications	14	–	–	–	14	–
Unwinding	–1	–1	–	–	–1	–1
Exchange rate changes	–1	1	–	–	–1	1
As at 31 December	**133**	**187**	**1**	**1**	**134**	**188**

Loan loss provisions for customers during the period under review developed as follows:

DEVELOPMENT OF LOAN LOSS PROVISIONS FOR LOANS AND ADVANCES TO CUSTOMERS BEFORE COMPENSATION
(€ m)

	Individual valuation allowances		Portfolio valuation allowances		Total	
	2012	2011	2012	2011	**2012**	2011
As at 1 January	**4,212**	**3,890**	**564**	**827**	**4,776**	**4,717**
Changes in the scope of consolidation	–	–14	–	–	–	–14
As at 1 January following adjustment	**4,212**	**3,876**	**564**	**827**	**4,776**	**4,703**
Additions	2,376	2,216	–	23	2,376	2,239
Reversals	996	1,220	48	288	1,044	1,508
Utilisation	435	528	–	–	435	528
Reclassifications	–15	–	–	–	–15	–
Unwinding	–232	–191	–	–	–232	–191
Changes in the scope of consolidation	–3	–	–	–	–3	–
Exchange rate changes	–40	59	–12	2	–52	61
As at 31 December	**4,867**	**4,212**	**504**	**564**	**5,371**	**4,776**

€ 1 million of the individual valuation allowances were transferred to Assets held for sale.

The valuation allowances relate exclusively to items classified as loans and receivables (LaR). The total volume of loans impaired in the 2012 reporting period amounted to € 13,191 million (previous year: € 12,375 million).

26. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

The positive fair value of derivatives used in hedge accounting is accounted for in this item. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading assets. Hedge accounting is used solely for interest rate risks.

Hedging derivatives of € 2,059 million (previous year: € 2,051 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Negative fair value of hedging derivatives. The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES
(€ m)

	2012	2011
Positive fair value of derivatives used in micro fair value hedges	271	318
Positive fair value of derivatives used in portfolio fair value hedges	1,899	1,847
Total	**2,170**	**2,165**

27. TRADING ASSETS

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

Trading assets of € 10,999 million (previous year: € 11,075 million) have a residual maturity of more than one year.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

TRADING ASSETS
(€ m)

	2012	2011
Debentures and other fixed-interest securities		
Bonds and debentures		
from public-sector issuers	481	839
Negotiable and listed	481	839
from other issuers	117	541
Negotiable and listed	92	515
Negotiable and not listed	25	26
Bonds and debentures	**598**	**1,380**
Debentures and other fixed-interest securities	**598**	**1,380**
Shares and other non-fixed-interest securities		
Negotiable and listed	5	10
Shares and other non-fixed-interest securities	**5**	**10**
Positive fair value of financial derivatives		
Interest rate-related business	9,686	9,231
Currency-related business	232	241
Other business	1,191	1,107
Positive fair value of financial derivatives	**11,109**	**10,579**
Other, including promissory notes held for trading	34	12
Receivables from syndicated transactions	71	–
Total	**11,817**	**11,981**

28. FINANCIAL INVESTMENTS

Financial investments include specifically financial instruments not held for trading classified as AfS and LaR and, to a lesser extent, as DFV. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associates not carried at equity in the consolidated financial statements.

FINANCIAL INVESTMENTS
(€ m)

	2012	2011
Debentures and other fixed-interest securities	21,483	21,671
Negotiable and listed	19,885	19,420
Negotiable and not listed	1,598	2,251
Shares and other non-fixed-interest securities	387	447
Negotiable and listed	36	28
Negotiable and not listed	156	168
Equity holdings	183	205
Negotiable and listed	3	5
Negotiable and not listed	23	22
Interests in affiliated companies	14	65
Total	**22,067**	**22,388**

Financial investments of € 19,608 million (previous year: € 20,465 million) have a residual maturity of more than one year.

Individual valuation allowances with regard to debentures and other fixed-interest securities amounted to € 556 million (previous year: € 628 million) and with regard to shares and other non-fixed-interest securities they amounted to € 19 million (previous year: € 24 million).

Portfolio valuation allowances amounted to € 64 million (previous year: € 30 million).

Changes in individual and portfolio valuation allowances are recognised directly in Net income from financial investments.

This portfolio also contains shares and other non-fixed-interest securities classified as AfS and measured at cost of € 154 million (previous year: € 319 million). Equity capital instruments measured at cost, relating to holdings in affiliated companies and equity holdings, amounted to € 195 million (previous year: € 265 million). At present, there are no specific plans to dispose of these equity instruments.

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

Developments with regard to equity holdings and interests in affiliated companies are presented below:

DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES
(€ m)

2012	Equity holdings	Interests in affiliated companies	Total
Cost of acquisition as at 1 January 2012	**435**	**153**	**588**
Changes in the scope of consolidation	–	5	5
Cost of acquisition as at 1 January 2012 following adjustment	**435**	**158**	**593**
Additions	9	2	11
Disposals	17	43	60
Reclassifications	–64	–86	–150
Changes in the scope of consolidation	2	–	2
As at 31 December 2012	**365**	**31**	**396**
Impairment loss as at 1 January 2012	**230**	**88**	**318**
Additions	16	5	21
Disposals	5	8	13
Reclassifications	–58	–68	–126
Changes in revaluation gains and losses recognised directly in equity	–1	–	–1
As at 31 December 2012	**182**	**17**	**199**
Carrying amount as at 31 December 2012	**183**	**14**	**197**
Carrying amount as at 1 January 2012	**205**	**65**	**270**

Reclassifications were undertaken from Equity holdings and interest in affiliated companies to the item Non-current assets held for sale and disposal groups at a carrying amount of € –38 million, to Financial investments accounted for under the equity method at a carrying amount of € –1 million and in the amount of € –3 million to Financial investments in consolidated subsidiaries. In addition an amount of € 17 million was reclassified from equities and other fixed-interest securities to equity holdings.

DEVELOPMENT IN EQUITY HOLDINGS AND INTERESTS IN AFFILIATED COMPANIES
(€ m)

2011	Equity holdings	Interests in affiliated companies	Total
Cost of acquisition as at 1 January 2011	**1,192**	**323**	**1,515**
Changes in the scope of consolidation	82	65	147
Cost of acquisition as at 1 January 2011 following adjustment	**1,274**	**388**	**1,662**
Additions	28	53	81
Disposals	355	72	427
Reclassifications	–515	–219	–734
Exchange rate changes	3	3	6
As at 31 December 2011	**435**	**153**	**588**
Impairment loss as at 1 January 2011	**357**	**155**	**512**
Changes in the scope of consolidation	34	52	86
Impairment loss as at 1 January 2011 following adjustment	**391**	**207**	**598**
Additions	38	15	53
Disposals	68	3	71
Reclassifications	–136	–131	–267
Changes in revaluation gains and losses recognised directly in equity	3	–	3
Exchange rate changes	2	–	2
As at 31 December 2011	**230**	**88**	**318**
Carrying amount as at 31 December 2011	**205**	**65**	**270**
Carrying amount as at 1 January 2011	**835**	**168**	**1,003**

The HSH Nordbank Group holds shares in 38 associates and joint ventures which are not consolidated under the equity method but rather are accounted for as equity holdings under IAS 39 in 28 cases and as non-current assets held for sale under IFRS 5 in ten cases. The complete list of these equity holdings is set out in Note 64.

Financial information regarding the non-consolidated associates and HSH Nordbank Group joint ventures is presented here:

NON-CONSOLIDATED ASSOCIATES / JOINT VENTURES
(€ m)

	2012	2011
Total assets	1,131	1,556
Total liabilities	557	874
Revenues	94	81
Net income/loss for the year	36	149

29. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Shares in associates and joint ventures included in the consolidated financial statements under the equity method are reported in this item.

As at the reporting date, 31 December 2012, HSH Nordbank owns shares in eight associates that are included in the consolidated financial statements under the equity method (previous year nine associates and one joint venture). The carrying amount of these equity holdings was € 0 million as at 31 December 2012 (previous year: € 35 million).

All of the shares in the joint venture FREIGHTER LEASING S.A. accounted for under the equity method were sold as at 30 July 2012.

An overview of the associated companies and joint ventures included in the consolidated financial statements under the equity method can be found in Note 5. Net income from financial investments accounted for under the equity method is disclosed in Note 13.

A summary of the financial information as to the associates included in the consolidated financial statements under the equity method is presented here. This information reflects the figures of the companies determined in accordance with local accounting standards (100 %).

ASSOCIATES ACCOUNTED FOR UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)

	2012	2011
Total assets	540	1,367
Total liabilities	–585	–976
Sales revenue	61	114
Net income/loss for the year	–27	–45

JOINT VENTURES ACCOUNTED FOR UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)

	2012	2011
Total current assets	–	6
Total non-current assets	–	14
Total current liabilities	–	–
Total non-current liabilities	–	–9
Sales revenue	–	13
Expenses	–	–10

The HSH Nordbank Group is not subject to any material contingent liabilities in respect of entities included in the consolidated financial statements under the equity method.

Financial statements of Belgravia Shipping Ltd. prepared as at 30 September 2012 were used to consolidate Belgravia Shipping Ltd as at 31 December 2012. There were no material transactions or other events between this financial statement reporting date and the reporting date of HSH Nordbank.

The financial years for each of GARDEUR Beteiligungs GmbH and PRIME 2006-1 Funding Limited Partnership ended 30 September 2012. These financial statements were used for applying the equity method as at 31 December 2012 as there were no subsequent material transactions that would have required an adjustment.

As at 31 December 2012, 9 associates were not included in the consolidated financial statements under the equity method, as the equity interests are classified as non-current assets held for sale and are accounted for under IFRS 5.

Please see Note 28 for a summary of financial information related to financial investments not accounted for under the equity method.

30. INTANGIBLE ASSETS

The Intangible assets item comprises software developed in-house or acquired.

INTANGIBLE ASSETS
(€ m)

	2012	2011
Software	61	85
Developed in-house	39	53
Acquired	22	32
Software in development	4	3
Developed in-house	2	2
Acquired	2	1
Total	**65**	**88**

Changes in the carrying amount of intangible assets are shown below.

DEVELOPMENT IN INTANGIBLE ASSETS
(€ m)

2012	Goodwill	Software: Software developed in-house	Software: Acquired software	Software in development: Software developed in-house	Software in development: Acquired software	**Total**
Acquisition costs as at 1 January 2012	**261**	**95**	**188**	**2**	**1**	**547**
Additions	–	–	3	1	1	5
Disposals	6	–	13	–	–	19
Reclassifications	–	1	–1	–1	–	–1
As at 31 December 2012	**255**	**96**	**177**	**2**	**2**	**532**
Amortisation as at 1 January 2012	**261**	**42**	**156**	**–**	**–**	**459**
Additions	–	15	13	–	–	28
Disposals	6	–	13	–	–	19
Reclassifications	–	–	–1	–	–	–1
As at 31 December 2012	**255**	**57**	**155**	**–**	**–**	**467**
Carrying amount as at 31 December 2012	**–**	**39**	**22**	**2**	**2**	**65**
Carrying amount as at 1 January 2012	**–**	**53**	**32**	**2**	**1**	**88**

DEVELOPMENT IN INTANGIBLE ASSETS
(€ m)

2011		Software		Software in development		
	Goodwill	Software developed in-house	Acquired software	Software developed in-house	Acquired software	**Total**
Acquisition costs as at 1 January 2011	**249**	**86**	**165**	**9**	**18**	**527**
Changes in the scope of consolidation	–	–	4	–	–	4
As at 1 January 2011 following adjustment	**249**	**86**	**169**	**9**	**18**	**531**
Additions	20	–	5	2	–	27
Disposals	–	–	3	–	–	3
Reclassifications	–	9	17	–9	–17	–
Changes in the scope of consolidation	–8	–	–	–	–	–8
As at 31 December 2011	**261**	**95**	**188**	**2**	**1**	**547**
Amortisation as at 1 January 2011	**249**	**28**	**142**	**–**	**–**	**419**
Changes in the scope of consolidation	–	–	3	–	–	3
As at 1 January 2011 following adjustment	**249**	**28**	**145**	**–**	**–**	**422**
Additions	20	14	14	–	–	48
Disposals	–	–	3	–	–	3
Changes in the scope of consolidation	–8	–	–	–	–	–8
As at 31 December 2011	**261**	**42**	**156**	**–**	**–**	**459**
Carrying amount as at 31 December 2011	**–**	**53**	**32**	**2**	**1**	**88**
Carrying amount as at 1 January 2011	**–**	**58**	**23**	**9**	**18**	**108**

In the year under review no research costs were incurred in connection with the implementation of software developed in-house (previous year: € 1 million).

Acquisition costs and amortisation in the amount of € 1 million were transferred to Non-current assets held for sale and disposal groups.

31. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

PROPERTY, PLANT AND EQUIPMENT
(€ m)

	2012	2011
Land and buildings	82	17
Plant and equipment	59	65
Leasing assets	12	156
Assets under construction	1	–
Technical equipment and machinery	106	2
Total	**260**	**240**

Further details on the existing leasing business can be found in Note 58.

Under the item Investment property all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Real estate leased as lessor in the operating leasing business is also included in this item.

INVESTMENT PROPERTY
(€ m)

	2012	2011
Investment property	39	98
Total	**39**	**98**

The fair value of investment property amounted to € 38 million (previous year: € 89 million).

The development in property, plant and equipment and investment property in the financial year was as follows:

DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY
(€ m)

2012	Land and buildings	Plant and equipment	Assets under construction	Investment property	Leasing assets	Technical equipment and machinery
Acquisition costs as at 1 January 2012	**20**	**150**	**–**	**218**	**224**	**3**
Additions	78	6	1	28	–	3
Disposals	7	9	–	2	–	2
Reclassifications	–6	–1	–	–149	–196	196
Exchange rate changes	–	–	–	–	–4	–
Changes in the scope of consolidation	–	–1	–	–40	–	–1
As at 31 December 2012	**85**	**145**	**1**	**55**	**24**	**199**
Depreciation as at 1 January 2012	**3**	**85**	**–**	**120**	**68**	**1**
Additions	–	12	–	14	9	28
Disposals	–	9	–	–	–	–
Reclassifications	–	–1	–	–93	–65	65
Changes in the scope of consolidation	–	–1	–	–25	–	–1
As at 31 December 2012	**3**	**86**	**–**	**16**	**12**	**93**
Carrying amount as at 31 December 2012	**82**	**59**	**1**	**39**	**12**	**106**
Carrying amount as at 1 January 2012	**17**	**65**	**–**	**98**	**156**	**2**

A carrying amount of € 6 million in respect of land and buildings was reclassified to Investment property. Furthermore, a total carrying amount of € 62 million was reclassified from plant and equipment and investment property to Non-current assets held for sale and disposal groups. A carrying amount of € 131 million was reclassified from Leasing assets to technical equipment and machinery.

Further details on depreciation can be found in Note 15.

DEVELOPMENT IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY
(€ m)

2011	Land and buildings	Plant and equipment	Assets under construction	Investment property	Lease assets	Technical equipment and machinery
Acquisition costs as at 1 January 2011	**58**	**142**	**–**	**22**	**24**	**–**
Changes in the scope of consolidation	–	5	–	222	193	2
Acquisition costs as at 1 January 2011 following adjustment	**58**	**147**	**–**	**244**	**217**	**2**
Additions	–	5	–	–	–	1
Disposals	20	2	–	17	–	–
Reclassifications	–18	–	–	–10	–	–
Exchange rate changes	–	–	–	1	7	–
As at 31 December 2011	**20**	**150**	**–**	**218**	**224**	**3**
Depreciation as at 1 January 2011	**13**	**65**	**–**	**8**	**6**	**–**
Changes in the scope of consolidation	–	3	–	94	36	1
Depreciation as at 1 January 2011 following adjustment	**13**	**68**	**–**	**102**	**42**	**1**
Additions	1	19	–	21	23	–
Disposals	6	2	–	–	–	–
Reclassifications	–5	–	–	–2	–	–
Write-ups	–	–	–	–1	–	–
Exchange rate changes	–	–	–	–	3	–
As at 31 December 2011	**3**	**85**	**–**	**120**	**68**	**1**
Carrying amount as at 31 December 2011	**17**	**65**	**–**	**98**	**156**	**2**
Carrying amount as at 1 January 2011	**45**	**77**	**–**	**14**	**18**	**–**

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

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS
(€ m)

	2012	2011
Loans and advances to banks	141	–
Loans and advances to customers	–	24
Financial investments	32	80
Investment property	1	18
Other assets	12	–
Total	**186**	**122**

This item mainly contains equity holdings and loans and advances to banks. It is highly likely that these will be sold within the next twelve months in the course of the strategic realignment. This mainly relates to the planned sale of the HSH Real Estate Group, which is assigned to the "Restructuring Unit" segment. The planned sale is a consequence of the implementation of the conditions imposed by the EU proceedings. Unscheduled depreciation of € 112 million to fair value was recognised for the disposal group. The expense is mainly disclosed under Administrative expenses as well as Other operating income.

Following the balance sheet date, but still during the period for preparing the consolidated financial statements, one security classified as LaR fulfilled the requirements for classification as non-current assets held for sale under IFRS 5.6 et seq. This asset is not included in the above presentation under IFRS 5.12 and is a security assigned to the Wind-Down Assets division. The sale occurred as part of the winding down business of this segment.

33. CURRENT TAX ASSETS

CURRENT TAX ASSETS
(€ m)

	2012	2011
Domestic	67	171
Foreign	38	55
Total	**105**	**226**

34. DEFERRED TAX ASSETS

Deferred tax assets arose due to temporary differences in the tax base of the following items in the statement of financial position and tax losses carried forward:

DEFERRED TAX ASSETS
(€ m)

	2012	2011
Assets		
Loans and advances to banks	–	6
Loans and advances to customers	181	–
Loan loss provisions	400	108
Trading assets	45	–
Financial investments	124	602
Property, plant and equipment	14	4
Other assets	100	238
Liabilities		
Liabilities to banks	54	24
Liabilities to customers	103	22
Securitised liabilities	220	–
Negative fair values of hedging derivatives	295	211
Negative adjustment item from portfolio fair value hedges	490	429
Provisions	258	350
Other liabilities	292	625
Tax losses carried forward	258	427
Subtotal for deferred tax assets	**2,834**	**3,046**
Thereof long-term	119	349
Netting off deferred tax liabilities	–1,567	–1,890
Total	**1,267**	**1,156**

Deferred tax assets on tax loss carried forward were recognised in the amount of € 258 million (previous year: € 427 million). Based on HSH Nordbank Group's medium term planning there are convincing substantial indications justifying the conclusion that the Bank will in future have adequate taxable income to use the available tax losses carried forward.

In addition, as at the reporting date, there were unused tax losses carried forward amounting to € 3,243 million, of which € 934 million relates to domestic corporation tax and € 318 million to domestic trade tax at the parent company level (previous year: € 2,617 million) and some € 428 million (previous year: approx. € 285 million) to temporary differences, for which deferred tax assets were not recognised.

Of the deferred tax assets, € 1,137 million (previous year: € 911 million) were incurred in Germany and € 130 million (previous year: € 245 million) were incurred abroad.

The difference between the valuation for tax purposes of hybrid financial instruments (Note 7.I.E) and the measurement of such instruments under IAS 39.A8 resulted in deferred tax liabilities of € 39 million (previous year: € 6 million of deferred tax assets).

35. OTHER ASSETS

OTHER ASSETS
(€ m)

	2012	2011
Tenant loans	20	17
Prepaid expenses	10	12
Receivables from fund transactions	4	7
Receivables from other taxes	3	6
Receivables from participations and affiliated companies	3	2
Other assets	100	141
Total	**140**	**185**

Other assets of € 33 million (previous year: € 39 million) have a residual maturity of more than one year.

36. LIABILITIES TO BANKS

LIABILITIES TO BANKS
(€ m)

	2012			2011		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Payable on demand	688	384	1,072	510	364	874
Other term liabilities	21,980	6,882	28,862	17,999	5,812	23,811
Total	**22,668**	**7,266**	**29,934**	**18,509**	**6,176**	**24,685**

Liabilities to banks of € 13,692 million (previous year: € 13,910 million) have a residual maturity of more than one year.

The difference between the carrying amount of liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € – 13 million as at 31 December 2012 (previous year: € – 16 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

37. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS BY CUSTOMER GROUP
(€ m)

	2012	2011
Corporate clients	35,888	35,037
Public authorities	4,860	4,608
Retail customers	560	594
Total	**41,308**	**40,239**

LIABILITIES TO CUSTOMERS
(€ m)

	2012			2011		
	Domestic	Foreign	**Total**	Domestic	Foreign	Total
Savings deposits with agreed notice periods of						
3 months	57	1	58	59	1	60
> 3 months	3	–	3	3	–	3
Other liabilities						
Payable on demand	7,597	1,261	8,858	6,634	1,059	7,693
Term liabilities	28,710	3,679	32,389	30,143	2,340	32,483
Total	**36,367**	**4,941**	**41,308**	**36,839**	**3,400**	**40,239**

Liabilities to customers of € 15,763 million (previous year: € 18,144 million) have a residual maturity of more than one year.

The difference between the carrying amount of the liabilities designated at fair value and their par value, which corresponds to the contractually agreed repayment amount at the due date, amounted to € – 344 million as at 31 December 2012 (previous year: € – 130 million).

Information on collateral transferred which also contains information regarding securities lending and repurchase agreements can be found in Note 59.

38. SECURITISED LIABILITIES

SECURITISED LIABILITIES
(€ m)

	2012	2011
Debentures issued	30,938	39,204
Money market securities issued	521	177
Total	**31,459**	**39,381**

Securitised liabilities of € 23,652 million (previous year: € 25,745 million) have a residual maturity of more than one year.

Debentures issued include € 527 million of hybrid financial instruments (previous year: € 660 million). The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 7.I.E.).

In the item Securitised liabilities repurchased own debentures in the amount of € 4,471 million (previous year: € 5,834 million) were deducted.

The difference between the carrying amount of Securitised liabilities categorised as designated at fair value and their par value, which indicates the contractually agreed repayment amount at the due date, amounted to € – 586 million as at 31 December 2012 (previous year: € – 304 million).

39. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

This item shows the negative fair values of derivatives used in hedge accounting. Only interest rate and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under Trading liabilities. Hedge accounting is used solely for interest rate risks.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES
(€ m)

	2012	2011
Negative fair value of derivatives used in micro fair value hedges	191	205
Negative fair value of derivatives used in portfolio fair value hedges	752	475
Total	**943**	**680**

Negative fair values of hedging derivatives of € 925 million (previous year: € 673 million) have a residual maturity of more than one year.

Changes in this item are directly related to changes in the item Positive fair value of hedging derivatives (see Note 26). The overall changes in this item are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

40. TRADING LIABILITIES

Only financial liabilities classified as HfT are disclosed under Trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting. Delivery commitments from short sales of securities are also stated in this category.

Trading liabilities of € 10,878 million (previous year: € 11,135 million) have a residual maturity of more than one year.

For details of collateral transferred please see Note 59.

TRADING LIABILITIES
(€ m)

	2012	2011
Negative fair values from derivative financial instruments		
Interest rate-related business	10,627	11,346
Currency-related business	159	838
Other business	664	716
Total	**11,450**	**12,900**

41. PROVISIONS

PROVISIONS
(€ m)

	2012	2011
Provisions for pension obligations and similar obligations	854	644
Other provisions		
Provisions for personnel expenses	61	66
Provisions in the lending business	455	393
Provisions for restructuring	149	276
Provisions for litigation risks and costs	80	108
Miscellaneous	65	106
Total	**1,664**	**1,593**

Provisions of € 1,586 million (previous year: € 1,466 million) have a residual maturity of more than one year.

Provisions for restructuring of € 101 million (previous year: € 224 million) are created for personnel expenses and € 48 million (previous year: € 52 million) for operating expenses.

Changes in pension provisions are presented in Note 42.

Other provisions changed as follows:

CHANGES IN OTHER PROVISIONS
(€ m)

2012	For personnel expenses	In the lending business	For restructuring	For litigation risks and costs	Miscel-laneous	Total
As at 1 January 2012	**66**	**393**	**276**	**108**	**106**	**949**
Additions	47	243	33	14	86	423
Reversals	5	180	14	35	8	242
Compounding	1	6	1	1	2	11
Reclassifications	−2	–	−63	–	−109	−174
Changes in exchange rates	–	−3	–	–	–	−3
Changes in the scope of consolidation	–	1	−1	–	–	–
Utilisation in the financial year	46	5	83	8	12	154
As at 31 December 2012	**61**	**455**	**149**	**80**	**65**	**810**

Reclassifications were mainly made to pension provisions in the amount of € 55 million and to liabilities relating to disposal groups in the amount of € 113 million.

CHANGES IN OTHER PROVISIONS
(€ m)

2011	For personnel expenses	In the lending business	For restructuring	For litigation risks and costs	Miscel-laneous	Total
As at 1 January 2011	**60**	**454**	**69**	**101**	**83**	**767**
Changes in the scope of consolidation	1	–	2	–	13	16
As at 1 January 2011 following adjustment	**61**	**454**	**71**	**101**	**96**	**783**
Additions	54	152	260	19	45	530
Reversals	3	211	43	2	16	275
Compounding	1	8	1	3	4	17
Reclassifications	1	–	13	–	−9	5
Changes in exchange rates	1	1	–	–	–	2
Utilisation in the financial year	49	11	26	13	14	113
As at 31 December 2011	**66**	**393**	**276**	**108**	**106**	**949**

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

PROVISIONS IN THE LENDING BUSINESS
(€ m)

	2012	2011
Specific loan loss provisions for		
Contingent liabilities	38	90
Irrevocable loan commitments	347	217
Other credit risks	13	16
Subtotal	**398**	**323**
Portfolio loan loss provisions for		
Contingent liabilities	46	50
Irrevocable loan commitments	11	20
Subtotal	**57**	**70**
Total	**455**	**393**

42. PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS

In recognising and measuring direct benefit pension plans, the net present value of the obligations is reduced by the fair value of the plan assets.

PROVISIONS FOR PENSION OBLIGATIONS AND SIMILAR OBLIGATIONS
(€ m)

	2012	2011	2010	2009	2008
Net present value of obligations, wholly or partly financed through funds	12	37	23	21	16
Net present value of obligations not financed through funds	850	639	572	602	557
Net present value of pension obligations and similar obligations	**862**	**676**	**595**	**623**	**573**
Fair value of plan assets	8	32	15	12	10
Pension plan deficit (provisions for pension obligations and similar obligations)	**854**	**644**	**580**	**611**	**563**

The net present value of pension provisions has changed as follows:

CHANGES IN NET PRESENT VALUE
(€ m)

	2012	2011
Net present value as at 1 January	**676**	**595**
Changes in the scope of consolidation	–	16
1 January 2012 following adjustment	**676**	**611**
Actuarial gains (–)/losses	156	45
Interest expense	30	32
Past service cost	6	–
Net present value of plan settlements	–27	15
Current service cost	9	8
One-time expense	–1	2
Changes in exchange rates	–	–1
Benefits paid	–36	–36
Reclassifications	49	–
Net present value as at 31 December	**862**	**676**

The total actuarial losses for the financial year recorded in other comprehensive income before deferred taxes amounted to € 156 million (previous year: loss of € 45 million). Allowing for deferred taxes, this results in a loss of € 105 million (previous year: loss of € 31 million), which is recorded directly in retained earnings. As at 31 December 2012 the balance of actuarial gains/losses in retained earnings amounted to € 0 million (previous year: € 156 million) before tax and € – 1 million (previous year: € 104 million) after tax.

The net present value of plan settlements is attributable to the transfer of pension obligations to an insurance company. The pension obligations were transferred at the occasion of the closure of the London branch. No risk remains with the Bank following the transfer of the obligations.

Restructuring provisions were recognised in 2011 for personnel-related measures in connection with the implementation of the EU conditions. The early retirement agreements concluded in 2012 as part of this were transferred from restructuring provisions to pensions and similar obligations (€ 49 million).

The fair value of plan assets changed as follows:

CHANGE IN FAIR VALUE OF PLAN ASSETS
(€ m)

	2012	2011
Fair value of plan assets as at 1 January	**32**	**15**
Employer's contributions	1	16
Expected return on plan assets	–	2
Transfer of plan assets	–25	–
Benefits paid	–	–1
Fair value of plan assets as at 31 December	**8**	**32**

The decrease in plan assets is due to the transfer of pension obligations to an insurance company as a result of closing the London branch. Plan assets were also transferred in this context.

Plan assets are broken down as follows:

BREAKDOWN OF PLAN ASSETS
(%)

	2012	2011
Qualified insurance policies	81	16
Debentures and other fixed-interest securities	16	82
Other assets	1	2
Equities and other non-fixed-interest securities	1	–
Real estate	1	–
Total	**100**	**100**

The actual net income from plan assets amounted to € 52 thousand in the year under review (previous year: € 1,601 thousand).

Adjustments based on experience represent part of the actuarial gains and losses of direct benefit pension plans. They show the effects of differences between earlier actuarial assumptions and actual development.

The following table shows the effects of adjustments based on experience on the plan obligations and plan assets.

ADJUSTMENTS BASED ON EXPERIENCE
(€ m)

	2012	2011	2010	2009	2008
Adjustments to plan obligations based on experience	–7	–18	–3	–8	–7
Adjustments to plan assets based on experience	1	2	1	1	–2
Total	**–6**	**–16**	**–2**	**–7**	**–9**

Expenses for direct benefit pension plans in the 2012 reporting year amounted to € 44 million (previous year: € 57 million), which are broken down as follows:

EXPENSES RELATING TO PENSION OBLIGATIONS
(€ m)

	2012	2011
Interest expense	30	32
Net interest income	**30**	**32**
Net present value of plan settlements	–	15
One-time expense	–1	2
Service cost	9	8
Past service cost	6	–
Expected return on plan assets	–	1
Changes in exchange rates	–	1
Administrative expenses	**14**	**25**
Total	**44**	**57**

Pension obligations map future payment obligations and depend on discretionary decisions both as to the amount and the date they fall due. Fluctuations in the net present value of the pension obligations as at the balance sheet date result in particular from changes in the interest rate. The scenario of a change in the interest rate and its influence on the net present value (€ 862 million) is set out below:

A reduction in the discount rate by 0.5 % points results in a net present value of the pension obligations of € 933 million as at 31 December 2012.

An increase in the discount rate by 0.5 % points results in a net present value of the pension obligations of € 799 million as at 31 December 2012.

For the 2013 financial year HSH Nordbank Group expects payments to direct benefit pension plans totalling € 39 million (previous year: € 34 million).

Because of the market changes regarding high quality corporate bonds, which are used as the basis for determining the actuarial interest rate, the portfolio was expanded during the course of the year due to a change in estimate as defined under IAS 8.39F. Bonds rated AA by at least one rating agency are now included. The minimum amount for inclusion was reduced to € 50 million and information on corporate bonds with a rating of A was taken into account in the extrapolation after deducting the spread between AA and A. As the interest rate is no longer derived from the previous database, the effects of this expansion cannot be calculated as at the end of the financial year. If the expanded database had been already used from the beginning of the financial year, the defined benefit obligation (DBO) would have been higher by about € 20 million at that date.

Expenses for defined contribution pension plans without taking into account benefits from statutory pension schemes in the 2012 financial year were € 3 million (previous year: € 5 million).

43. LIABILITIES RELATING TO DISPOSAL GROUPS

LIABILITIES RELATING TO DISPOSAL GROUPS
(€ m)

	2012	2011
Liabilities to banks	52	–
Provisions	120	6
Other liabilities	11	–
Total	**183**	**6**

The holdings under this item are part of disposal groups classified as such under the Group's strategic realignment.

Comments on non-current assets held for sale and disposal groups are set out in Note 32.

44. CURRENT TAX LIABILITIES

INCOME TAX LIABILITIES
(€ m)

	2012	2011
Current tax liabilities		
Income tax liabilities to tax authorities	–	8
Provisions for income taxes	108	20
Total	**108**	**28**

Liabilities to tax authorities include liabilities on income taxes due to domestic and foreign tax authorities.

Provisions for income taxes include tax liabilities for which no legally binding tax assessment notice has been received.

45. DEFERRED TAX LIABILITIES

For temporary differences in the tax bases of the following items in the statement of financial position deferred tax liabilities were created:

DEFERRED TAX LIABILITIES
(€ m)

	2012	2011
Assets		
Cash reserve	18	11
Loans and advances to banks	4	–
Loans and advances to customers	115	372
Loan loss provisions	–	290
Trading assets	1	39
Positive fair value of hedging derivatives	688	686
Positive adjustment item from portfolio fair value hedges	127	99
Property, plant and equipment	13	17
Other assets	28	5
Liabilities		
Securitised liabilities	–	7
Trading liabilities	579	364
Other liabilities	8	13
Subtotal	**1,581**	**1,903**
Netting off deferred tax assets	–1,567	–1,890
Total	**14**	**13**

There were no timing differences as of the reporting date for which deferred tax liabilities had not been recognised.

As was the case in the previous year, the deferred tax liabilities of € 14 million (previous year: € 13 million) relate solely to Germany.

46. OTHER LIABILITIES

OTHER LIABILITIES
(€ m)

	2012	2011
Collateral provided for assumed liabilities	974	1,096
Outstanding payments for the second loss guarantee	72	72
Liabilities for outstanding invoices	34	46
Deferred income	26	38
Liabilities for restructuring	26	8
Liabilities from open bearer notes	15	–
Personnel liabilities	13	21
Other tax liabilities	11	10
Liability to HSH Finanzfonds AöR	–	500
Other	164	113
Total	**1,335**	**1,904**

Other liabilities of € 976 million (previous year: € 1,103 million) have a residual maturity of more than one year.

The collateral provided for assumed liabilities serves to hedge leasing transactions of our customers with third parties.

The € 500 million reported in the previous year under Liability to HSH Finanzfonds AöR relate to a one-off payment within the context of the EU state aid proceedings (see Note 2).

47. SUBORDINATED CAPITAL

HSH Nordbank Group discloses its subordinated liabilities, silent participations and profit participation capital under this item.

SUBORDINATED CAPITAL
(€ m)

	2012	2011
Subordinated liabilities	4,230	5,175
Maturing in less than two years	123	177
Silent participations	1,131	1,442
Profit participation capital	30	1,691
Maturing in less than two years	14	1,628
Total	**5,391**	**8,308**

Subordinated capital of € 5,240 million (previous year: € 6,467 million) has a residual maturity of more than one year.

The difference between the carrying amount of liabilities designated at fair value and their par value, which indicates the contractually agreed repayment amount at the due date, amounted as at 31 December 2012 to € – 30 million (previous year: € 114 million).

Hybrid financial instruments shown under subordinated capital include all silent participations as well as profit participation capital with a carrying amount of € 30 million (previous year: € 91 million). The carrying amount of these hybrid financial instruments was determined based on assumptions (see Note 7.I.E).

The following material Subordinated liabilities were in circulation as at the reporting date 31 December 2012:

CARRYING AMOUNT OF MATERIAL SUBORDINATED LIABILITIES IN CIRCULATION

Bearer securities over € 80 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
14.02.2007	499	499	€	HSH Nordbank	0.99	14.02.2017
14.02.2007	431	431	€	HSH Nordbank	1.03	14.02.2017
25.05.2005	297	297	€	HSH Nordbank	3.63	23.12.2015
30.06.2005	269	355	USD	HSH Nordbank	0.53	30.12.2015
23.05.2005	138	138	€	HSH Nordbank	0.50	23.12.2015
21.03.2001	109	144	USD	LBSH [1]	0.72	21.03.2031
15.10.2002	105	105	€	LBSH [1]	0.59	15.10.2015
30.06.2005	100	100	€	HSH Nordbank	0.39	30.12.2015
22.01.2001	92	92	€	HLB [2]	0.59	22.01.2041
25.11.1999	86	86	€	LBSH [1]	0.57	25.11.2039
30.10.2000	80	80	€	HLB [2]	0.58	30.10.2040

Registered securities over € 80 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
26.08.1997	115	13,093	JPY	HLB [2]	6.42	26.08.2017

1) Landesbank Schleswig-Holstein
2) Hamburgische Landesbank

As at the reporting date 31 December 2012 there were the following material Silent participations:

CARRYING AMOUNT OF MATERIAL SILENT PARTICIPATIONS

Over € 30 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
19.02.2002	345	345	€	HSH N Funding I	7.41	perpetual
17.06.2005	266	351	USD	HSH N Funding II	7.25	perpetual
24.07.2000	82	82	€	LBSH [1]	7.63	perpetual

1) Landesbank Schleswig-Holstein

As at the reporting date 31 December 2012 there was the following material profit participation capital:

CARRYING AMOUNT OF MATERIAL PROFIT PARTICIPATION CAPITAL

Registered securities over € 15 million

Commencement date	€ m	Million	Currency	Issuer	Interest rate %	Maturity
24.01.2000	16	16	€	HLB [1]	7.35	31.12.2016

1) Hamburgische Landesbank

48. EQUITY

EQUITY
(€ m)

	2012	2011
Share capital	3,018	2,635
Capital reserve	594	809
Retained earnings	1,876	1,904
Gains on pension obligations and similar obligations not recognised in the income statement	–	156
Deferred taxes on gains from pension obligations and similar obligations not recognised in the income statement	–	–52
Revaluation reserve	–31	–208
Currency conversion reserve	–59	–57
Group net profit/loss	–120	–264
Total before non-controlling interests	**5,278**	**4,819**
Non-controlling interests	–6	–3
Total	**5,272**	**4,816**

The increase in equity as at 31 December 2012 to € 5,272 million (previous year: € 4,816 million) is primarily attributable to the cash and non-cash increase in capital (€ 500 million, before transaction costs) carried out by HSH Finanzfonds AöR in the first quarter.

Share capital

The share capital of HSH Nordbank AG is divided into 301,822,453 registered shares each representing a notional of € 10 of share capital.

The direct and indirect shares held by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg amount to 85.38 % since the capital increase. At the reporting date HSH Finanzfonds AöR, held equally by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, is the largest shareholder with a direct share of voting rights of 65.00 % (previous year: 59.92 %). Further direct and indirect voting shares held by the Free and Hanseatic City of Hamburg amounted to 10.80 % as at the balance sheet date (previous year: 12.37 %) and the further direct and indirect shares of the Federal State of Schleswig-Holstein were 9.58 % (previous year: 10.97 %). The direct share of the Savings Bank Association for Schleswig-Holstein as at 31 December 2012 was 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 % of the voting rights (previous year: 10.66 %).

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 was 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 were issued to HSH Finanzfonds AöR. HSH Finanzfonds AöR transferred 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 within the framework of a non-cash contribution (see also 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 was transferred into the capital reserve in accordance with Section 272 (2) No. 1 of the 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. All shares issued as part of the capital increase were fully paid-in as at the balance sheet date.

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 owns a majority interest within the meaning of Section 16 AktG. The shares of HSH Nordbank AG held by Finanzfonds AöR are apportioned to the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in accordance with Section 16 (4) AktG. Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG.

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

CHANGES IN ORDINARY SHARES
(number of shares)

	2012	2011
Number at the beginning of the year	263,508,277	263,508,277
Capital increase	38,314,176	0
Number at end of the year	**301,822,453**	**263,508,277**

Capital reserve

The capital reserve was increased by € 116 million as part of the above-mentioned cash and non-cash capital increase after deducting the costs associated with this capital measure. Transaction costs of € 1 million related to the capital increase.

On the other hand, an amount of € 331 million was released from capital reserves to offset the losses of HSH Nordbank AG brought forward from 2011. On a net basis, the capital reserve decreased by € – 215 million to € 594 million as at 31 December 2012.

Retained earnings and dividends

The item Retained earnings mainly shows amounts allocated from previous year profits and the profits of the current year. There are no statutory reserves or legal reserve within the meaning of Section 150 (2) of the German Stock Corporation Act (AktG).

As was the case for the previous financial year 2011, no dividend payments were made for previous years during the current financial year 2012.

Revaluation reserve

The effects of the measurement of AfS financial instruments recognised at fair value directly in equity are disclosed in the revaluation reserve.

The changes in value associated with deferred taxes shown in the revaluation reserve are also presented in the revaluation reserve pursuant to IAS 12.61A.

The development of the revaluation reserve is broken down as follows:

DEVELOPMENT OF THE REVALUATION RESERVE
(€ m)

	2012	2011
Adjusted as at 1 January	**– 208**	**– 224**
Addition / Release of revaluation reserve due to measurement	188	15
Changes in the scope of consolidation	–	–
Changes due to foreign currency effects	– 2	14
Subtotal	**– 22**	**– 195**
Transfers to the income statement	– 9	– 14
Available for Sale due to impairment	10	1
Available for Sale due to disposal	– 24	– 24
Available for Sale due to reclassification	5	9
Transfers to the income statement from currency effects	–	1
Available for Sale due to disposal	–	1
As at 31 December	**– 31**	**– 208**
Of which: deferred taxes not recognised in the income statement	– 43	61

Deferred taxes of € – 104 million (previous year: € – 14 million) were recognised in the revaluation reserve in the financial year. As of the balance sheet date, deferred taxes in the revaluation reserve amounted to € – 43 million (previous year: € 61 million).

Currency conversion reserve

Assets and liabilities in financial statements of subsidiaries in foreign currencies are translated at the reporting date exchange rate in preparing the consolidated financial statements, while average rates for the reporting period are used to translate expenses and income. Equity is translated at historical rates, with the exception of revaluation reserves in individual financial statements in foreign currencies, which are translated at the reporting date exchange rate.

Any differences arising from this method of translation compared to complete translation at the reporting date exchange rate are reported in this item under equity.

Capital management

The capital management of HSH Nordbank Group aims to comply with regulatory minimum capital ratios. Furthermore, due to the provision to the Bank of liquidity guarantees by SoFFin (until they are completely repaid in the course of the financial year) and the EU state aid decision of September 2011, there is the requirement to comply with agreed minimum core capital ratios. In addition to this minimum requirement, capital management ensures that the Bank's capital meets the requirements of risk-bearing capacity.

The regulatory capitalisation is in accordance with the provisions of the German Banking Act and German Solvency Regulation as well as the requirements of the German banking supervision. The HSH Nordbank group regulatory Consolidation determines the capital requirements for counterparty risk in accordance with the approach permitted by BaFin and which is based on internal ratings (Advanced IRBA). The capital base is reported to the regulatory authorities quarterly. The regulatory minimum ratios were complied with on each reporting date in the course of the year under review.

REGULATORY FIGURES [1)]
(in %)

	2012	2011
Tier 1 capital ratio (incl. market risk position)	11.43	13.82
Total ratio/Regulatory capital ratio	17.77	21.00

1) Figures before the closing of annual financial statements of HSH Nordbank AG.

The regulatory capital commitment was monitored closely both at Bank and business unit level in the course of the financial year.

SEGMENT REPORTING

49. SEGMENT REPORT

(€ m/%)

	Corporate and Private Clients		Products, Capital Markets and Corporate Center		Consolidation Core Bank		Total Core Bank	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Net interest income	805	819	466	–59	–158	52	1,113	812
Net commission income	94	86	–	7	–12	–13	82	80
Result from hedging	–	–	–	–	6	4	6	4
Net trading income	41	40	120	246	–246	–332	–85	–46
Net income from financial investments [1]	–3	–7	15	35	3	–7	15	21
Total income	**937**	**938**	**601**	**229**	**–407**	**–296**	**1,131**	**871**
Loan loss provisions	–409	–203	–12	–15	109	183	–312	–35
Administrative expenses	–348	–357	–110	–169	–9	–3	–467	–529
Other operating income	29	11	249	45	–1	2	277	58
Net income before restructuring	**209**	**389**	**728**	**90**	**–308**	**–114**	**629**	**365**
Result from restructuring	–	–	–	–	–28	–169	–28	–169
Expenses for government guarantees	–	–	–	–	–92	–311	–92	–311
Net income before taxes	**209**	**389**	**728**	**90**	**–428**	**–594**	**509**	**–115**
Cost/Income Ratio (CIR) (%)	37	38					41	61
Return on equity before tax (%)	23	35					19	–4
Average equity	919	1,110	364	330	1,340	1,376	2,623	2,816

(€ bn)

	31.12.2012	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011	**31.12.2012**	31.12.2011
Segment assets	**40**	**43**	**35**	**34**	**–**	**–**	**75**	**77**

[1] incl. net income from financial investments accounted for under the equity method

(€ m / %)

	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Net interest income	408	541	–1	–3	407	538	1,520	1,350
Net commission income	37	40	–	–	37	40	119	120
Result from hedging	–	–	–	–	–	–	6	4
Net trading income	199	–311	–352	184	–153	–127	–238	–173
Net income from financial investments [1]	24	–2	–	4	24	2	39	23
Total income	**668**	**268**	**–353**	**185**	**315**	**453**	**1,446**	**1,324**
Loan loss provisions	–812	–447	468	871	–344	424	–656	389
Administrative expenses	–354	–308	–	–	–354	–308	–821	–837
Other operating income	–86	–26	–	4	–86	–22	191	36
Net income before restructuring	**–584**	**–513**	**115**	**1,060**	**–469**	**547**	**160**	**912**
Result from restructuring	–	–	–15	–66	–15	–66	–43	–235
Expenses for government guarantees	–	–	–210	–572	–210	–572	–302	–883
Net income before taxes	**–584**	**–513**	**–110**	**422**	**–694**	**–91**	**–185**	**–206**
Cost/Income Ratio (CIR) (%)							57	63
Return on equity before tax (%)							–4	–4
Average equity	2,421	2,139	–	–	2,421	2,139	5,044	4,955

(€ bn)

	31.12. 2012	31.12. 2011	**31.12. 2012**	31.12. 2011	**31.12. 2012**	31.12. 2011	**31.12. 2012**	31.12. 2011
Segment assets	**50**	**58**	**6**	**1**	**56**	**59**	**131**	**136**

[1] incl. net income from financial investments accounted for under the equity method

Segment reporting is in accordance with the provisions of IFRS 8. The segments are based on the internal organisational structure in alignment with product and customer groups.

HSH Nordbank's Core Bank consists of the segments Corporate and Private Clients as well as Products, Capital Markets and Corporate Center. Results of the Shipping, Energy & Infrastructure, Corporate Clients, Real Estate Clients and Private Banking divisions as well as of the administrative function of the segment are reported under the Corporate and Private Clients segment. Net income in this segment is earned primarily from loan and financial products as well as financing-related services. The development, structuring, sale and trading of financial products, support of savings banks, banks and insurance companies as well as overall bank items including strategic participations are included in the segment Products, Capital Markets and Corporate Center.

The Restructuring Unit of HSH Nordbank manages the winding-down of credit and capital market transactions that are not continued in the Core Bank. In view of the winding-down of business already achieved and the market conditions the Restructuring Unit adjusted its organisational structures as at 1 November 2012. The Special Loans division will continue to manage restructuring cases held in the loan portfolios. The newly formed Workout division is responsible for the liquidation of and realisation of collateral on increasingly onerous loan commitments. The focus is placed here on finding alternative portfolio solutions that can enable the risk potential to be reduced whilst minimising the effect on income. The Wind-Down-Assets division manages the remaining loan portfolios as well as the capital markets portfolio that were previously assigned to the Divestments division. The newly formed unit, Credit Assessment & Decision, supports the divisions in the effective management of credit risk and takes independent decisions as an independent unit.

The basis for the segment reporting is internal reporting to management. Income and expenses were assigned to the segments in which they originated.

In accordance with IFRS 8.32 and 8.33, neither geographical information nor information on products and services is disclosed.

The cost/income ratio and return on equity are not shown in the segment report for the segments 'Products, Capital Markets and Corporate Center' and 'Restructuring Unit'. The segment 'Products, Capital Market and Corporate Center' is a summary in accordance with IFRS 8.16. The ratios are not shown for this segment as a joint ratio for the three units in this segment provides little information. In the case of the Restructuring Unit, the segment involves business areas which are non-strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income is calculated in accordance with Fund Transfer Pricing (FTP). The planned investment and financing profit is distributed among the business segments on the basis of economic capital committed. The transformation contribution is allocated to the Corporate and Private Clients segment on the basis of average receivables. The costs of the SoFFin liquidity guarantee are taken into account in this allocation.

Total income recognised in the segments is exclusively generated from business conducted with external customers.

Costs arising at the Corporate Center are allocated to the business segments within the framework of internal cost allocations.

Net income elements not allocated to divisions are also reported in the consolidation columns of the Core Bank and the Restructuring Unit.

Measurement and recognition differences are principally reported under the consolidation of net interest income. These result among other things from costs for the SoFFin liquidity guarantee as part of expenses for public guarantees as well as from pending interest income from items measured at cost externally.

Consolidation of the net trading income includes, among other things, credit rating effects on issues of HSH Nordbank measured at fair value not subject to any segment allocation as well as differences in the mapping of economic hedging relationships.

In addition, changes in value arising from interest rate derivatives and currency derivatives, and, in particular, EUR/USD basis swaps not allocated to a particular segment, were reported in the net trading income within the framework of the refinancing of foreign currency assets.

Loan loss provisions are shown in the segments in which they originated. Effects on the basis of the hedging effects of the second loss guarantee are not subject to a segment allocation and are reported in the consolidation columns.

Average (reported) equity capital was allocated to the segments on the basis of economic capital tied up. The cost/income ratio is the ratio of administrative expenses to total income. Return on equity is the ratio of net income before taxes to average equity. See note 16 for comments on the depreciation of goodwill. See note 13 for comments on companies consolidated under the equity method recognised as part of net income from financial investments.

NOTES ON FINANCIAL INSTRUMENTS

50. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY
(€ m)

2012	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	Total
Assets							
Cash reserve	6,363	382	–	–	–	–	6,745
Loans and advances to banks	8,190	41	122	–	–	–	8,353
Loans and advances to customers	79,146	–	1,269	–	–	–	80,415
Receivables under finance leases	–	–	–	–	–	155	155
Positive fair values of hedging derivatives	–	–	–	–	–	2,170	2,170
Value adjustments from the Portfolio Fair Value Hedge	–	–	–	–	–	403	403
Trading assets	–	–	–	11,817	–	–	11,817
Financial investments	10,095	9,683	2,289	–	–	–	22,067
Non-current assets held for sale and disposal groups	156	29	–	–	–	–	185
Other assets	140	–	–	–	–	–	140
Total assets	**104,090**	**10,135**	**3,680**	**11,817**	**–**	**2,728**	**132,450**
Liabilities							
Liabilities to banks	–	–	215	–	29,719	–	29,934
Liabilities to customers	–	–	2,987	–	38,321	–	41,308
Securitised liabilities	–	–	5,203	–	26,256	–	31,459
Negative fair values of hedging derivatives	–	–	–	–	–	943	943
Value adjustments from the Portfolio Fair Value Hedge	–	–	–	–	–	1,545	1,545
Trading liabilities	–	–	–	11,450	–	–	11,450
Liabilities relating to disposal groups	–	–	–	–	63	–	63
Subordinated capital	–	–	133	–	5,258	–	5,391
Other liabilities	–	–	–	–	1,335	–	1,335
Total liabilities	**–**	**–**	**8,538**	**11,450**	**100,952**	**2,488**	**123,428**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY
(€ m)

2011	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	Total
Assets							
Cash reserve	1,515	351	–	–	–	–	1,866
Loans and advances to banks	7,876	37	123	–	–	–	8,036
Loans and advances to customers	89,224	–	1,206	–	–	–	90,430
Receivables under finance leases	–	–	–	–	–	177	177
Positive fair value of hedging derivatives	–	–	–	–	–	2,165	2,165
Value adjustments from the Portfolio Fair Value Hedge	–	–	–	–	–	311	311
Trading assets	–	–	–	11,981	–	–	11,981
Financial investments	12,652	7,583	2,153	–	–	–	22,388
Non-current assets held for sale and disposal groups	24	80	–	–	–	–	104
Other assets	185	–	–	–	–	–	185
Total assets	**111,476**	**8,051**	**3,482**	**11,981**	**–**	**2,653**	**137,643**
Liabilities							
Liabilities to banks	–	–	314	–	24,371	–	24,685
Liabilities to customers	–	–	3,579	–	36,660	–	40,239
Securitised liabilities	–	–	4,906	–	34,475	–	39,381
Negative fair values of hedging derivatives	–	–	–	–	–	680	680
Value adjustments from the Portfolio Fair Value Hedge	–	–	–	–	–	1,354	1,354
Trading liabilities	–	–	–	12,900	–	–	12,900
Subordinated capital	–	–	1,752	–	6,556	–	8,308
Other liabilities	–	–	–	–	1,904	–	1,904
Total liabilities	**–**	**–**	**10,551**	**12,900**	**103,966**	**2,034**	**129,451**

51. RECLASSIFICATION UNDER IAS 39 2008

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (2008 revision) as LaR where they meet the relevant requirements, were not intended for short-term sale at the time of reclassification and are due to be held for the foreseeable future. The assets were reclassified in 2008 and 2009 due to the global financial crisis and the consequences it has had on the valuation of securities holdings. The reclassifications were performed in accordance with IAS 39.50D or IAS 39.50E, respectively.

The reclassification as LaR measures fair value at the time of reclassification at cost or amortised cost, respectively.

At the time of reclassification an effective interest rate was determined which is used for subsequent measurement of the amortised acquisition cost. For reclassification of financial instruments from AfS to LaR the revaluation reserve recognised up to the point of reclassification is reversed through net interest income on a pro rata temporis basis in accordance with IAS 39.54 a).

During the third quarter of 2008, financial instruments were reclassified from the categories HfT and AfS into LaR. These reclassifications are shown in the following table:

(€ m)

		2012		2011	
	Carrying amount as at the time of Reclassification	Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	126	123	156	136
Reclassified from AfS to LaR	1,765	–	–	54	53
Total financial assets reclassified as LaR	**2,785**	**126**	**123**	**210**	**189**

The effective interest rate applied in the case of financial instruments in the HfT category was between 0.03 % and 14.72 % and between 2.97 % and 9.75 % for financial instruments in the AfS category. Anticipated repayments amounted to € 2,861 million.

More assets were reclassified in the second quarter of 2009. These are shown in the following table:

(€ m)

		2012		2011	
	Carrying amount as at the time of Reclassification	Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	399	268	274	292	298
Reclassified from AfS to LaR	6,336	3,963	4,025	5,322	5,296
Total financial assets reclassified as LaR	**6,735**	**4,231**	**4,299**	**5,614**	**5,594**

The effective interest rate applied in the case of financial instruments in the HfT category was between 1.21 % and 5.06 % and between 0.87 % and 5.00 % for financial instruments in the AfS category. Anticipated repayments amounted to € 6,859 million.

The decrease in carrying amounts and fair values of all reclassified financial instruments was due to extensive changes in holdings. At the time of reclassification as HfT, the carrying amount of the financial instruments affected was € 1,004 million and the carrying amount of assets classified as AfS was € 4,160 million. The changes in holdings result from sales as well as maturities. The sales were carried out following the realignment of the HSH Nordbank Group and were neither planned nor anticipated at the time of the restructuring.

Shown below is the impact all holdings reclassified to date would have had on the income statement and revaluation reserve if they had not been reclassified.

For financial instruments reclassified from HfT the valuation result in the income statement for the current reporting period would have been € 18 million (previous year: € – 6 million) for the financial instruments reclassified in the 2008 financial year and € 0 million (previous year: € – 2 million) for the financial instruments reclassified in the 2009 financial year.

For financial instruments reclassified from AfS the valuation result in the revaluation reserve for the current reporting period would have been € 0 million (previous year: € – 4 million) for the financial instruments reclassified in the 2008 financial year and € 107 million (previous year: € 53 million) for the financial instruments reclassified in the 2009 financial year.

Shown below is the actual impact of all holdings reclassified to date on the income statement of the current reporting period:

(€ m)

	2012			2011		
	From HfT	From AfS	Total	From HfT	From AfS	Total
Net interest income	14	135	149	17	166	183
Net trading income	– 1	– 24	– 25	–	1	1
Net income from financial investments	2	3	5	– 8	– 94	– 102
Total	**15**	**114**	**129**	**9**	**73**	**82**

52. RESIDUAL MATURITY BREAKDOWN OF FINANCIAL INSTRUMENTS

When determining the residual maturities of financial liabilities for purposes of presenting liquidity risk, the contractually agreed maturity dates of non-discounted cash flows are used as the basis.

FINANCIAL INSTRUMENTS
(€ m)

2012	Payable on demand	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Liabilities to banks	1,064	10,167	4,663	12,958	2,502	31,354
Liabilities to customers	11,540	13,331	4,878	9,486	12,136	51,371
Securitised liabilities	–	3,661	4,504	20,937	5,294	34,396
Negative fair values of hedging derivatives	–	89	124	577	164	954
Trading liabilities	–	245	559	4,675	6,017	11,496
thereof derivatives	–	245	559	4,675	6,017	11,496
Subordinated capital	–	53	188	3,811	2,593	6,645
Contingent liabilities	2,917	–	–	–	–	2,917
Irrevocable loan commitments	4,992	–	–	–	–	4,992
Total	**20,513**	**27,546**	**14,916**	**52,444**	**28,706**	**144,125**

FINANCIAL INSTRUMENTS
(€ m)

2011	Payable on demand	1 to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Liabilities to banks	828	5,655	4,212	13,017	2,680	26,392
Liabilities to customers	8,168	10,130	4,013	11,064	14,960	48,335
Securitised liabilities	–	5,355	8,081	24,640	6,487	44,563
Negative fair values of hedging derivatives	–	77	81	426	163	747
Trading liabilities	8	859	1,180	4,357	6,825	13,229
thereof derivatives	8	859	1,180	4,357	6,825	13,229
Subordinated capital	1,631	22	188	3,914	4,047	9,802
Contingent liabilities	2,741	–	–	–	–	2,741
Irrevocable loan commitments	6,767	–	–	–	–	6,767
Total	**20,143**	**22,098**	**17,755**	**57,418**	**35,162**	**152,576**

Interest rate swaps, cross currency interest rate swaps and equity swaps are presented on the basis of their future net payment obligations. Other derivatives are assigned to maturity bands by overall maturity at their carrying amount.

Liquidity management is described in detail in the risk report section of the Group management report.

53. DISCLOSURE OF FAIR VALUE IN ACCORDANCE WITH IFRS 7

I. FAIR VALUES OF FINANCIAL INSTRUMENTS

For each class of financial assets and financial liabilities, the fair values are disclosed by classes of financial instruments and compared with the respective carrying amount (IFRS 7.25).

FAIR VALUES OF FINANCIAL INSTRUMENTS
(€ m)

	2012			2011		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Assets						
Held for Trading (HfT)						
Trading assets	11,817	11,817	–	11,981	11,981	–
Designated at Fair Value (DFV)						
Loans and advances to banks	122	122	–	123	123	–
Loans and advances to customers	1,269	1,269	–	1,206	1,206	–
Financial investments	2,289	2,289	–	2,153	2,153	–
Available for Sale (AfS)						
Cash reserve	382	382	–	351	351	–
Loans and advances to banks	41	41	–	37	37	–
Financial investments	9,683	9,980	297	7,583	7,705	122
Non-current assets held for sale and disposal groups	29	29	–	80	80	–
Loans and Receivables (LaR)						
Cash reserve	6,363	6,363	–	1,515	1,515	–
Loans and advances to banks	8,056	8,101	45	7,688	7,770	82
Loans and advances to customers	73,775	74,198	423	84,448	83,657	–791
Financial investments	10,095	9,919	–176	12,652	12,071	–581
Non-current assets held for sale and disposal groups	156	156	–	24	24	–
Other assets	140	140	–	184	184	–
No IAS 39 category						
Positive fair value of hedging derivatives	2,170	2,170	–	2,165	2,165	–
Receivables from finance lease transactions	155	155	–	177	177	–
Value adjustments from the portfolio fair value hedge	403	–	–403	311	–	–311
Total assets	**126,945**	**127,131**	**186**	**132,678**	**131,199**	**–1,479**

The difference between the carrying amount and fair value of financial investments classified as available for sale (AfS) is attributable to the fact that the adjustment item created for these transactions from the portfolio fair value hedge is disclosed separately. It corresponds to the effective portion of the hedging relationship recognised through profit or loss and is therefore not included in the carrying amount.

The effective portions of the hedging relationship recognised through profit or loss are disclosed under the Value adjustments from the portfolio fair value hedge item, of which € – 297 million is accounted for by financial investments classified as available for sale (AfS) and € 106 million by loans and advances to banks and customers classified as LaR.

FAIR VALUES OF FINANCIAL INSTRUMENTS
(€ m)

	2012			2011		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Liabilities						
Held for Trading (HfT)						
Trading liabilities	11,450	11,450	–	12,900	12,900	–
Designated at Fair Value (DFV)						
Liabilities to banks	215	215	–	314	314	–
Liabilities to customers	2,987	2,987	–	3,579	3,579	–
Securitised liabilities	5,203	5,203	–	4,906	4,906	–
Subordinated capital	133	133	–	1,752	1,752	–
Other liabilities (LIA)						
Liabilities to banks	29,719	30,109	390	24,371	24,551	180
Liabilities to customers	38,321	39,968	1,647	36,660	37,810	1,150
Securitised liabilities	26,256	26,382	126	34,475	34,212	–263
Liabilities relating to disposal groups	63	63	–	–	–	–
Other liabilities	1,335	1,335	–	1,904	1,904	–
Subordinated capital	5,258	4,268	–990	6,556	4,460	–2,096
No IAS 39 category						
Negative fair values of hedging derivatives	943	943	–	680	680	–
Value adjustments from the portfolio fair value hedge	1,545	–	–1,545	1,354	–	–1,354
Total liabilities	**123,428**	**123,056**	**–372**	**129,451**	**127,068**	**–2,383**

The fair value of financial instruments for which there is an active market is measured by the stock exchange or market price at the reporting date. If there is no active market for financial instruments, the fair value is calculated by applying recognised valuation models. For receivables and liabilities measured at amortised cost, fair value is determined by discounting cash flows taking into account rating-related spreads as well as the loss ratios (LGD) for loans. In the case of receivables with a default rating, the measurement of fair value is made on the basis of expected future cash flows. For current receivables and liabilities (e. g. current accounts) the carrying amount is shown as fair value.

The carrying amounts of loans and advances to banks and loans and advances to customers classified as LaR are shown less the reported loan loss provisions, since fair value also reflects possible impairments.

II. FAIR VALUE HIERARCHY

Assets and liabilities show the following breakdown by level in the fair value hierarchy under IFRS 7. For assets and liabilities recognised and measured at fair value, the carrying amounts are broken down by class of financial instrument in the three levels in the hierarchy.

HIERARCHY LEVELS, ASSETS
(€ m)

2012	Assets recognised at fair value			
	Level 1	Level 2	Level 3	**Total**
Cash reserve				
AfS	–	382	–	382
Loans and advances to banks				
AfS	–	–	41	41
DFV	–	44	78	122
Loans and advances to customers				
DFV	–	114	1,155	1,269
Positive fair value of hedging derivatives	–	2,170	–	2,170
Trading assets (HfT)	239	10,137	1,441	11,817
Financial investments				
AfS	8,299	885	499	9,683
DFV	929	417	943	2,289
Non-current assets held for sale and disposal groups				
AfS	–	–	29	29
Total	**9,467**	**14,149**	**4,186**	**27,802**

HIERARCHY LEVELS, ASSETS
(€ m)

2011	Assets recognised at fair value			
	Level 1	Level 2	Level 3	**Total**
Cash reserve				
AfS	–	351	–	351
Loans and advances to banks				
AfS	–	–	37	37
DFV	–	–	123	123
Loans and advances to customers				
DFV	–	112	1,094	1,206
Positive fair value of hedging derivatives	–	2,165	–	2,165
Trading assets (HfT)	440	10,257	1,284	11,981
Financial investments				
AfS	5,768	1,171	643	7,582
DFV	624	745	784	2,153
Non-current assets held for sale and disposal groups				
AfS	–	–	80	80
Total	**6,832**	**14,801**	**4,045**	**25,678**

Financial investments AfS also include equity holdings and shares in subsidiaries in the amount of € 195 million (previous year: € 265 million) which are not measured at fair value but rather account for at cost under IAS 39. In addition, financial investments include equities and other non-fixed interest securities in the amount of € 154 million (previous year: € 319 million) which are likewise accounted for at cost. Such financial instruments recognised and measured at cost are shown under the assets recognised and measured at fair value and allocated entirely to valuation level 3.

HIERARCHY LEVELS, LIABILITIES
(€ m)

2012				Liabilities recognised at fair value
	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	95	120	215
Liabilities to customers				
DFV	–	588	2,399	2,987
Securitised liabilities				
DFV	–	2,634	2,569	5,203
Negative fair values of hedging derivatives	–	943	–	943
Trading liabilities (HfT)	–	10,306	1,144	11,450
Subordinated capital				
DFV	–	115	18	133
Total	**–**	**14,681**	**6,250**	**20,931**

HIERARCHY LEVELS, LIABILITIES
(€ m)

2011				Liabilities recognised at fair value
	Level 1	Level 2	Level 3	**Total**
Liabilities to banks				
DFV	–	211	103	314
Liabilities to customers				
DFV	–	614	2,965	3,579
Securitised liabilities				
DFV	–	2,163	2,743	4,906
Negative fair values of hedging derivatives	–	680	–	680
Trading liabilities (HfT)	–	11,749	1,151	12,900
Subordinated capital				
DFV	–	1,734	18	1,752
Total	**–**	**17,151**	**6,980**	**24,131**

Of the financial instruments allocated to level 3, € 3,063 million of assets (previous year: € 2,718 million) and € 5,697 million of liabilities (previous year: € 6,383 million) are in economic hedging relationships, so that uncertainties and risk positions due to unobservable parameters offset each other at the level of hedging relationships involved.

During the period under review financial instruments measured at fair value were transferred from one hierarchy level to another. These transfers are shown below with the carrying amounts at the time of transfer for each class of financial instruments.

TRANSFER, ASSETS
(€ m)

2012	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to banks						
DFV	–	–	44	–	–	–44
Loans and advances to customers						
DFV	–	–	–	–10	10	–
Trading assets (HfT)	147	–	21	–147	–	–21
Financial investments						
AfS	445	–1	5	–445	–	–4
DFV	203	–	108	–252	66	–125
Total	**795**	**–1**	**178**	**–854**	**76**	**–194**

TRANSFER, ASSETS
(€ m)

2011	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Loans and advances to customers						
DFV	–	–	87	–	–	–87
Trading assets (HfT)	203	–49	39	–432	278	–39
Financial investments						
AfS	881	–179	179	–881	–	–
DFV	–	–61	80	–20	20	–19
Total	**1,084**	**–289**	**385**	**–1,333**	**298**	**–145**

TRANSFER, LIABILITIES
(€ m)

2012	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Liabilities to banks						
DFV	–	–	–	–19	19	–
Liabilities to customers						
DFV	–	–	63	–5	5	–63
Securitised liabilities						
DFV	1	–	98	–15	14	–98
Trading liabilities (HfT)	–	–	12	–	–	–12
Total	**1**	**–**	**173**	**–39**	**38**	**–173**

TRANSFER, LIABILITIES
(€ m)

2011	Transfer to level 1	Transfer from level 1	Transfer to level 2	Transfer from level 2	Transfer to level 3	Transfer from level 3
Liabilities to customers						
DFV	–	–	65	–31	31	–65
Securitised liabilities						
DFV	–	–1	1	–	–	–
Trading liabilities (HfT)	–	–	40	–223	223	–40
Total	**–**	**–1**	**106**	**–254**	**254**	**–105**

In addition to changes to the hierarchy levels of individual transactions, there were significant changes to the hierarchy levels of interest-bearing securities in the holding categories AfS, DFV and HfT in the period under review. It was possible to assign these to valuation level 1 instead of their previous level 2 thanks to improvements in the market. Furthermore, due to model evaluations, there were changes in hierarchy levels of financial instruments in the holding category DFV from level 2 into level 3 and vice versa.

The following shows the reconciliation for all assets and liabilities recognised and measured at fair value and allocated to level 3 in the fair value hierarchy. The data is presented by class of financial instrument from the start to the end of the period. The table takes into account all movements of assets and liabilities which were or are allocated to hierarchy level 3 during the reporting period.

Income relating to liability items is shown with a negative sign and expenses without a sign in the reconciliations.

RECONCILIATION, ASSETS
(€ m)

2012	Loans and advances to banks		Loans and advances to customers	Trading assets	Financial investments		Non-current assets held for sale and disposal groups	
	AfS	DFV	DFV	HfT	AfS	DFV	AfS	**Total**
1 January 2012	**37**	**123**	**1,094**	**1,284**	**643**	**784**	**80**	**4,045**
Changes in holdings recognised in profit or loss								
Realised net income (income statement)	–	29	66	180	–16	52	128	439
Net income not recognised in profit or loss	7	–	–	–	–15	–	–	–8
Quantitative change								
Purchases	–	–	1	56	10	304	–	371
Sales	–	–25	–4	–38	–78	–134	–208	–487
Settlements	–2	–	–	1	–7	–	–	–8
Transfer from level 3	–	–44	–	–21	–4	–125	–	–194
Transfer to level 3	–	–	10	–	–	66	–	76
Reclassification	–1	–	–11	–	–31	–	30	–13
Exchange rate changes	–	–5	–1	–21	–8	–4	–	–39
Changes in the scope of consolidation	–	–	–	–	5	–	–1	4
31 December 2012	**41**	**78**	**1,155**	**1,441**	**499**	**943**	**29**	**4,186**
Net income from assets held as at 31 December 2012	5	8	65	387	1	60	–	526

RECONCILIATION, ASSETS
(€ m)

2011	Loans and advances to banks		Loans and advances to customers	Trading assets	Financial investments		Non-current assets held for sale and disposal groups		
	AfS	DFV	DFV	HfT	AfS	DFV	AfS	DFV	**Total**
1 January 2011	**42**	**167**	**1,117**	**932**	**1,494**	**810**	**48**	**193**	**4,803**
Changes in the scope of consolidation	–	–	–	–	–53	–12	–1	–	–66
1 January 2011 following adjustment	**42**	**167**	**1,117**	**932**	**1,441**	**798**	**47**	**193**	**4,737**
Changes in holdings recognised in profit or loss									
Realised net income (income statement)	–	1	30	122	22	106	67	–	348
Net income not recognised in profit or loss	–1	–	–	–	–8	–	–	–	–9
Quantitative change									
Purchases	–	49	–	38	86	6	54	–	233
Sales	–	–98	–	–78	–506	–97	–464	–193	–1,436
Settlements	–4	–	–	10	–23	–1	–	–	–18
Transfer from level 3	–	–	–87	–39	–	–19	–	–	–145
Transfer to level 3	–	–	–	278	–	20	–	–	298
Reclassification	–	–	34	–	–376	–34	376	–	–
Exchange rate changes	–	4	–	21	7	5	–	–	37
31 December 2011	**37**	**123**	**1,094**	**1,284**	**643**	**784**	**80**	**–**	**4,045**
Net income from assets held as at 31 December 2011	–1	1	31	204	–2	–46	–	–	187

RECONCILIATION, LIABILITIES
(€ m)

2012	Liabilities to banks	Liabilities to customers	Securitised liabilities	Trading liabilities	Sub-ordinated capital	
	DFV	DFV	DFV	HfT	DFV	**Total**
1 January 2012	**103**	**2,965**	**2,743**	**1,151**	**18**	**6,980**
Changes in holdings recognised in profit or loss						
Realised net income (income statement)	5	223	247	–7	–	468
Quantitative change						
Purchases	–	86	4	53	–	143
Sales	–	–719	–44	–28	–	–791
Issues, new business	–	–	105	–	–	105
Settlements	–7	–97	–313	–9	–	–426
Transfer from level 3	–	–63	–98	–12	–	–173
Transfer to level 3	19	5	14	–	–	38
Exchange rate changes	–	–1	–89	–4	–	–94
31 December 2012	**120**	**2,399**	**2,569**	**1,144**	**18**	**6,250**
Net income from liabilities held as at 31 December 2012	4	184	202	141	–	531

RECONCILIATION, LIABILITIES
(€ m)

2011	Liabilities to banks	Liabilities to customers	Securitised liabilities	Trading liabilities	Sub-ordinated capital	
	DFV	DFV	DFV	HfT	DFV	**Total**
1 January 2011	**101**	**2,940**	**3,056**	**761**	**18**	**6,876**
Changes in the scope of consolidation	–	–	–5	–	–	–5
1 January 2011 following adjustment	**101**	**2,940**	**3,051**	**761**	**18**	**6,871**
Changes in holdings recognised in profit or loss						
Realised net income (income statement)	–	190	–73	204	–	321
Quantitative change						
Purchases	2	87	3	21	–	113
Sales	–	–203	–13	–34	–	–250
Issues, new business	–	–	123	–	–	123
Settlements	–	–50	–373	8	–	–415
Transfer from level 3	–	–65	–	–40	–	–105
Transfer to level 3	–	31	–	223	–	254
Reclassification	–	34	–34	–	–	–
Exchange rate changes	–	1	59	8	–	68
31 December 2011	**103**	**2,965**	**2,743**	**1,151**	**18**	**6,980**
Net income from liabilities held as at 31 December 2011	–	179	–62	226	–	343

Transfers both to level 3 and from level 3 for financial investments DFV were made due to model validations.

Some of the transfers from level 3 are due to the availability of input data observable in the markets for purposes of determining the fair value of individual securities.

In the year under review equity instruments categorised as AfS not measured at fair value achieved realised net income of € 12 million (previous year: € 137 million) and an unrealised income of € 19 million (previous year: unrealised income of € 52 million). These amounts are recognised under Net income from financial investments.

The following tables show the items containing realised and unrealised gains and losses in the income statement and equity (statement of comprehensive income).

NET INCOME ITEMS FROM RECONCILIATION, ASSETS
(€ m)

2012	Loans and advances to banks		Loans and advances to customers	Trading assets	Financial investments		Non-current assets held for sale and disposal groups	
	AfS	DFV	DFV	HfT	AfS	DFV	AfS	**Total**
Realised/Unrealised net income (income statement)								
Net interest income	–	–	–	36	–	–	–	36
Net trading income	–	29	66	144	–	52	–	291
Net income from financial investments	–	–	–	–	–16	–	128	112
Net income, income statement total	**–**	**29**	**66**	**180**	**–16**	**52**	**128**	**439**
Other comprehensive income for the period	**7**	**–**	**–**	**–**	**–15**	**–**	**–**	**–8**
Net income from assets held as at 31 December 2012								
Net interest income	–	–	–	46	–	–	–	46
Net trading income	–	8	65	341	–	60	–	474
Net income from financial investments	–	–	–	–	–1	–	–	–1
Net income from assets held as at 31 December 2012	**–**	**8**	**65**	**387**	**–1**	**60**	**–**	**519**
Other net income for the period from assets held as at 31 December 2012	**5**	**–**	**–**	**–**	**2**	**–**	**–**	**7**

NET INCOME ITEMS FROM RECONCILIATION, ASSETS
(€ m)

2011	Loans and advances to banks		Loans and advances to customers	Trading assets	Financial investments		Non-current assets held for sale and disposal groups	
	AfS	DFV	DFV	HfT	AfS	DFV	AfS	**Total**
Realised/Unrealised net income (income statement)								
Net interest income	–	–	–	–23	–	–	–	–23
Net trading income	–	1	30	145	–	106	–	282
Net income from financial investments	–	–	–	–	22	–	67	89
Net income, income statement total	**–**	**1**	**30**	**122**	**22**	**106**	**67**	**348**
Other comprehensive income for the period	**–1**	**–**	**–**	**–**	**–8**	**–**	**–**	**–9**
Net income from assets held as at 31 December 2011								
Net interest income	–	–	–	24	–	2	–	26
Net trading income	–	1	31	180	–	–48	–	164
Net income from financial investments	–	–	–	–	4	–	–	4
Net income from assets held as at 31 December 2011	**–**	**1**	**31**	**204**	**4**	**–46**	**–**	**194**
Other net income for the period from assets held as at 31 December 2011	**–1**	**–**	**–**	**–**	**–6**	**–**	**–**	**–7**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES
(€ m)

2012	Liabilities to banks	Liabilities to customers	Securitised liabilities	Trading liabilities	Subordinated capital	
	DFV	DFV	DFV	HfT	DFV	**Total**
Realised/Unrealised net income (income statement)						
Net interest income	–	–24	–2	–65	–	–91
Net trading income	5	247	249	58	–	559
Net income, income statement total	**5**	**223**	**247**	**–7**	**–**	**468**
Net income in profit or loss from liabilities held as at 31 December 2012						
Net interest income	–	1	–	–44	–	–43
Net trading income	4	183	202	185	–	574
Net income (income statement) from liabilities held as at 31 December 2012	**4**	**184**	**202**	**141**	**–**	**531**

NET INCOME ITEMS FROM RECONCILIATION, LIABILITIES
(€ m)

2011	Liabilities to banks	Liabilities to customers	Securitised liabilities	Trading liabilities	Subordinated capital	
	DFV	DFV	DFV	HfT	DFV	**Total**
Realised/Unrealised net income (income statement)						
Net interest income	–	1	2	–22	–	–19
Net trading income	–	189	–75	226	–	340
Net income, income statement total	**–**	**190**	**–73**	**204**	**–**	**321**
Net income in profit or loss from liabilities held as at 31 December 2011						
Net interest income	–	6	2	–24	–	–16
Net trading income	–	173	–64	250	–	359
Net income (income statement) from liabilities held as at 31 December 2011	**–**	**179**	**–62**	**226**	**–**	**343**

III. EFFECTS OF NON-OBSERVABLE PARAMETERS

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. An alternative choice of parameters depending on the limits of a possible range would have had the effects on the fair value of the financial instruments in question set out in the following table.

If existing risk positions offset each other due to a non-observable parameter (e.g. in the case of a hedge covering multiple classes), only the net effect is shown. In contrast to the information in the fair value hierarchy financial investments recognised and measured at cost are not taken into account in this list.

FAIR VALUE CHANGES LEVEL 3
(€ m)

	2012		2011		
	advantageous	disadvantageous	advantageous	disadvantageous	Significant non-observable input data for purposes of deriving fair value
Financial investments					
Credit Investments: Hedge funds, other funds	–	–	–	–	Multiple measurement methods (Mark-To-Model, Mark-To-Matrix) for determining the fair value, probabilities of default, correlations between probability of default, loss amounts, repayment instalments
Synthetic CDO, CDO of ABS, CDO of CDO	2	–	4	1	
Other ABS	5	1	2	1	
Trading assets / Trading liabilities					
Derivatives: Interest rate derivatives	34	10	41	12	Statistical parameters in interest structure models, certain swaption volatilities (out-of-the-money), multiple valuation models for determining fair value
FX derivatives	–	–	–	–	
Liabilities to banks / Liabilities to customers / Securitised liabilities					
Structured liabilities: Interest structured bonds and promissory notes	4	1	2	–	Statistical parameters in interest structure models (mean reversion), certain swaption volatilities
Total	**45**	**12**	**49**	**14**	
thereof measured in profit or loss	44	12	49	14	
thereof not measured in profit or loss	1	–	–	–	

Fair values for financial instruments in valuation level 3 are subject to certain uncertainties, as there are no observable market prices on the measurement date in an active market for the instrument to be measured and the measurement method uses non-observable input data as well as observable market data. The range of fair values given is primarily due to three reasons.

First, the estimate for the fair value of certain financial instruments which are not traded on an active market may involve prices from various sources (transaction prices, transaction prices for similar financial instruments, index prices, prices obtained from market partners, prices from price service agencies, model prices). In these cases, the range is derived from the differences between the various price sources.

Second, different valuation models are used in the market for certain financial instruments, this means that there is no uniform market standard. For such financial instruments, possible ranges in determining fair value arise out of differences between the various model prices.

Third, non-observable input parameters (e.g. correlations, specific volatilities, etc.) are used in the valuation model for specific financial instruments. In these cases, the range arises out of alternative possible parameter selections in the model.

IV. DAY ONE PROFIT AND LOSS

The day one profit and loss reserve developed as follows:

DAY ONE PROFIT AND LOSS
(€ m)

	2012	2011
Holdings as at 1 January	**23**	**24**
Additions not recognised in profit or loss	20	8
Reversals recognised in profit or loss	6	9
Reserve as at 31 December	**37**	**23**

The day one profit and loss reserve is solely attributable to financial instruments classified as HfT.

54. FINANCIAL TRANSACTIONS WITH SELECTED EUROPEAN STATES

The following tables contain overviews of HSH Nordbank's commitments in European states where an increased economic risk is assumed. They present the risk directly attributable to the listed European countries. The income statement effects are only shown for the original positions, that is the measurement results of the hedging derivatives are not taken into account.

The EU Member States, Belgium and Hungary, have not been classified as high risk countries at HSH Nordbank since the fourth quarter 2012; consequently, information is no longer presented for other countries as at 31 December 2012.

HSH Nordbank's exposure to banks, companies and other business partners in the listed European countries is disclosed in the Risk Report.

ASSETS CLASSIFIED AS LAR
(€ m)

2012	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Carrying amount of financial assets after impairment	Fair value of assets
Portugal	180	167	167	–	167	120
Ireland	–	–	–	–	–	–
Italy	62	60	60	–	60	56
Greece	–	–	–	–	–	–
Spain	178	170	173	–	173	122
Total	**420**	**397**	**400**	**–**	**400**	**298**

ASSETS CLASSIFIED AS LAR
(€ m)

2011	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Carrying amount of financial assets after impairment	Fair value of assets
Portugal	215	200	201	–	201	120
Ireland	–	–	–	–	–	–
Italy	64	64	63	–	63	52
Greece	115	115	115	–87	28	28
Spain	185	177	180	–	180	152
Total	**579**	**556**	**559**	**–87**	**472**	**352**

ASSETS CLASSIFIED AS AFS
(€ m)

2012	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Accumulated changes in value in the revaluation reserve	Fair value of assets
Portugal	–	–	–	–	–	–
Ireland	–	–	–	–	–	–
Italy	41	41	53	–	–17	36
Greece	7	7	7	–5	–	2
Spain	–	–	–	–	–	–
Total	**48**	**48**	**60**	**–5**	**–17**	**38**

ASSETS CLASSIFIED AS AFS
(€ m)

2011	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated impairment losses recognised through P&L	Accumulated changes in value in the revaluation reserve	Fair value of assets
Portugal	–	–	–	–	–	–
Ireland	–	–	–	–	–	–
Italy	41	41	43	–	–	43
Greece	18	20	19	–15	–	3
Spain	–	–	–	–	–	–
Total	**59**	**61**	**62**	**–15**	**–**	**46**

ASSETS CLASSIFIED AS DFV
(€ m)

2012	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated valuation affecting P&L	Fair value of assets
Portugal	100	100	100	–11	89
Ireland	–	–	–	–	–
Italy	410	410	418	88	506
Greece	68	–	–	–	–
Spain	–	–	–	–	–
Total	**578**	**510**	**518**	**77**	**595**

ASSETS CLASSIFIED AS DFV
(€ m)

2011	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated valuation affecting P&L	Fair value of assets
Portugal	100	100	100	–40	60
Ireland	–	–	–	–	–
Italy	430	432	438	9	447
Greece	124	124	124	–104	20
Spain	–	–	–	–	–
Total	**654**	**656**	**662**	**–135**	**527**

ASSETS CLASSIFIED AS HFT
(€ m)

	Fair value of assets	
	2012	2011
Portugal	–	6
Italy	–	4
Total	**–**	**10**

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.

55. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS AND DETAILS OF COLLATERAL

I. CREDIT QUALITY OF FINANCIAL INSTRUMENTS WHICH ARE NEITHER IMPAIRED NOR OVERDUE

The table below gives information on the credit quality of financial instruments which were neither impaired nor overdue as of the reporting date. The table provides a breakdown of the financial instruments by category and rating class of the respective counterparty.

CREDIT QUALITY
(€ m)

	1(AAAA) to 1(AA+)		1(AA) to 1(A–)		2 to 5	
	2012	2011	**2012**	2011	**2012**	2011
Held for trading (HfT)						
Trading assets	1,780	3,169	6,138	4,998	1,639	1,365
Designated at fair value (DFV)						
Loans and advances to banks	47	46	–	–	75	77
Loans and advances to customers	1,195	1,167	–	–	–	12
Financial investments	191	567	1,047	822	772	453
Available for Sale (AfS)						
Cash reserve	382	351	–	–	–	–
Loans and advances to banks	24	20	13	13	2	4
Financial investments	5,546	3,827	2,989	2,620	566	699
Loans and Receivables (LaR)						
Cash reserve	6,363	1,020	–	495	–	–
Loans and advances to banks	4,254	3,231	3,307	3,960	348	367
Loans and advances to customers	5,465	6,486	5,630	7,888	16,548	19,870
Financial investments	5,183	6,856	2,001	2,857	1,213	1,351
Other assets	–	–	–	–	–	–
No IAS 39 category						
Positive fair values of hedging derivatives	603	895	1,385	1,098	108	166
Receivables under finance leases	13	15	14	19	41	47
Value adjustments from the portfolio fair value hedge	112	128	257	158	20	24
Total	**31,158**	**27,778**	**22,781**	**24,928**	**21,332**	**24,435**

		6 to 9		10 to 12		13 to 15		16 to 18
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	1,133	1,183	334	512	372	416	421	338
	–	–	–	–	–	–	–	–
	–	–	45	27	29	–	–	–
	71	3	–	143	1	33	207	132
	–	–	–	–	–	–	–	–
	2	–	–	–	–	–	–	–
	399	49	1	60	10	29	28	19
	–	–	–	–	–	–	–	–
	124	12	3	3	–	1	–	60
	17,191	20,230	5,721	8,930	7,967	6,783	4,541	4,767
	545	362	122	117	290	408	279	97
	140	185	–	–	–	–	–	–
	71	5	3	–	–	1	–	–
	42	48	14	21	20	16	11	11
	13	1	1	–	–	–	–	–
	19,731	**22,078**	**6,244**	**9,813**	**8,689**	**7,687**	**5,487**	**5,424**

II. CARRYING AMOUNTS OF OVERDUE, UNIMPAIRED FINANCIAL ASSETS

The table below shows the financial assets which were overdue but unimpaired as of the reporting date. The assets are broken down by category. Categories not shown have no overdue assets.

CARRYING AMOUNTS OF OVERDUE, UNIMPAIRED FINANCIAL ASSETS
(€ m)

	Overdue < 3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Loans and Receivables (LaR)								
Loans and advances to banks	–	5	–	–	–	10	–	–
Loans and advances to customers	1,210	959	876	252	487	162	473	749
Total	**1,210**	**964**	**876**	**252**	**487**	**172**	**473**	**749**

Payments of € 10 million on transactions with a carrying amount volume of € 93 million were received up to ten days after the reporting date of 31 December 2012. Payments are regarded as being in arrears when they are one day overdue.

The overdue, non-impaired credit portfolio is contrasted with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

III. IMPAIRED FINANCIAL ASSETS

The table below shows all impaired financial assets and the associated collateral received as of the reporting date. The financial assets are broken down by category.

IMPAIRED FINANCIAL ASSETS
(€ m)

	Gross carrying amount of impaired financial assets		Impairment		Carrying amount of financial assets after impairment	
	2012	2011	**2012**	2011	**2012**	2011
Loans and Receivables (LaR)						
Loans and advances to banks	154	227	133	187	21	40
Loans and advances to customers	13,037	12,148	4,867	4,212	8,170	7,936
Financial investments 1)	985	1,244	523	613	462	631
Available for Sale (AfS)						
Financial investments 1)	393	610	249	357	144	253
Total	**14,569**	**14,229**	**5,772**	**5,369**	**8,797**	**8,860**

1) Financial investments classified as LaR and AfS are shown net in the statement of financial position, i.e. at their carrying amounts less impairment.

The impaired credit portfolio is secured with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

IV. CREDIT RISK EXPOSURE

With the exception of Loans and advances to banks and customers, credit risk exposure in accordance with IFRS 7.36 (a) as at the reporting date corresponds to the carrying amount of financial assets as presented in Note 50 as well as off-balance sheet liabilities as presented in Note 47.

In the case of Loans and advances to banks and customers, the credit risk exposure corresponds to the carrying amount after value adjustments as presented in Note 25. The maximum default risk of the loans and advances designated at fair value (DFV) is not reduced by associated credit derivatives.

Collateral as well as other risk-reducing agreements are not reflected in these amounts.

V. COLLATERAL RECEIVED

A) Collateral values of financial assets reducing default risk

The following information quantifies the extent to which the collateral retained and other loan collateralisation reduce the maximum default risk for financial instruments. The amount of risk reduction from the value of each form of collateral is indicated for each class of financial instruments.

The value of collateral received is determined directly on the basis of the objective market value, provided that such a value can be determined. The reliability of collateral value is ensured by the fact that it is recognised as risk-reducing only up to the level of the applicable collateral-specific recovery ratio.

The following table shows the respective carrying amount for each class of financial instrument as well as the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL
(€ m)

		Value of collateral received		
2012	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	11,817	384	33	828
Designated at Fair Value (DFV)				
Loans and advances to banks	122	–	63	–
Loans and advances to customers	1,269	–	–	–
Financial investments	2,289	–	–	–
Available for Sale (AfS)				
Cash reserve	382	–	–	–
Loans and advances to banks	41	–	–	–
Financial investments	9,683	–	–	–
Loans and Receivables (LaR)				
Cash reserve	6,363	–	–	–
Loans and advances to banks	8,190	3	1,105	70
Loans and advances to customers	79,146	29,168	1,833	3,198
Financial investments	10,095	–	–	–
Other assets	140	–	–	3
No IAS 39 category				
Positive fair value of hedging derivatives	2,170	–	–	–
Value adjustments from the portfolio fair value hedge	403	–	–	–
Receivables from finance lease transactions	155	–	–	–
Contingent liabilities	2,917	265	167	118
Irrevocable loan commitments	4,992	484	46	100
Total assets	**140,174**	**30,304**	**3,247**	**4,317**

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL
(€ m)

		Value of collateral received		
2011	Carrying amount	Real estate and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	11,981	603	76	531
Designated at Fair Value (DFV)				
Loans and advances to banks	123	–	106	–
Loans and advances to customers	1,206	–	–	–
Financial investments	2,153	–	47	5
Available for Sale (AfS)				
Cash reserve	351	–	–	–
Loans and advances to banks	37	–	–	–
Financial investments	7,583	–	–	–
Loans and Receivables (LaR)				
Cash reserve	1,515	–	–	–
Loans and advances to banks	7,876	–	1,748	2
Loans and advances to customers	89,224	31,359	1,752	5,951
Financial investments	12,652	–	75	66
Other assets	185	1	–	–
No IAS 39 category				
Positive fair value of hedging derivatives	2,165	–	–	–
Value adjustments from the portfolio fair value hedge	311	–	–	–
Receivables from finance lease transactions	177	–	–	–
Contingent liabilities	2,741	262	261	196
Irrevocable loan commitments	6,767	735	208	606
Total assets	**147,047**	**32,960**	**4,273**	**7,357**

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank. This guarantee facility of originally € 10 billion was reduced by € 3 billion in total to € 7 billion now.

B) Thereof collateral received for which there are no restrictions on disposal or realisation even if there is no default in payment

The HSH Nordbank Group received collateral from counterparties with a total fair value of € 1,280 million (31 December 2011: € 3,031 million). The collateral received is split up as follows: € 857 million (31 December 2011: € 916 million) related to OTC derivatives and structured transactions. The Group received collateral in the amount of € 423 million (31 December 2011: € 2,115 million) within the framework of genuine repo transactions where it acted as the lender.

This includes cash collateral in the amount of € 806 million (31 December 2011: € 394 million). Of the collateral received € 186 million (31 December 2011: € 1,818 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank Group is obliged to return all collateral resold or pledged to the guarantor without exception.

The HSH Nordbank Group carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

C) Other collateral received
In the period under review, no assets (previous year: € 0 million) were recognised from the realisation of collateral that are still disclosed on the face of the balance sheet.

In November 2008, HSH Nordbank AG received a guarantee facility for up to a maximum of € 30 billion from SoFFin. This was reduced to € 17 billion in coordination with SoFFin with effect from the end of the year 2009. The guarantee facility expired as agreed on 31 December 2010. The guarantees for the existing issues remain in force. As at 31 December 2011, issues of € 6 billion were still outstanding, which were fully repaid in the year under review.

For further information on the second loss guarantee please refer to Note 2.

For information on the collateral transferred please refer to Note 59.

56. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

CONTINGENT LIABILITIES
(€ m)

	2012	2011
Contingent liabilities from guarantees and warranty agreements		
Loan guarantees	225	349
Letters of credit	341	365
Other warranties	25	45
Other guarantees	2,326	1,982
Total	**2,917**	**2,741**

IRREVOCABLE LOAN COMMITMENTS
(€ m)

	2012	2011
Irrevocable loan commitments for		
Open account loans to banks	75	125
Open account loans to customers	4,683	6,623
Guarantees	112	–
Letters of credit	20	19
Other	102	–
Total	**4,992**	**6,767**

Information on collateral transferred is presented in Note 59.

For more details please refer to Note 2.

For reasons of practicality no information in accordance with IAS 37.86 and IAS 37.89 is disclosed.

OTHER DISCLOSURES

57. REPORT ON BUSINESS IN DERIVATIVES

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of HSH Nordbank Group is predominantly transacted with banks based in OECD countries.

I. VOLUMES

DERIVATIVE TRANSACTIONS WITH INTEREST RATE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Interest rate swaps	218,788	287,813	8,564	8,319	9,896	9,627
FRAs	2,088	2,842	–	2	–	2
Swaptions						
Long positions	1,175	1,279	113	89	2	1
Short positions	2,011	1,979	5	2	240	218
Caps, floors	10,622	13,292	154	174	111	127
Exchange-traded contracts	384	2,204	–	–	–	–
Other forward interest rate transactions	3,414	6,929	36	41	29	181
Total	**238,482**	**316,338**	**8,872**	**8,627**	**10,278**	**10,156**

DERIVATIVE TRANSACTIONS WITH INTEREST RATE AND FOREIGN EXCHANGE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Cross currency interest rate swaps	30,068	37,701	814	604	349	1,190
Total	**30,068**	**37,701**	**814**	**604**	**349**	**1,190**

DERIVATIVE TRANSACTIONS WITH FOREIGN EXCHANGE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Forward exchange transactions	11,653	16,761	189	161	55	578
Currency options						
Long positions	653	931	43	80	–	–
Short positions	890	1,281	–	–	104	260
Total	**13,196**	**18,973**	**232**	**241**	**159**	**838**

DERIVATIVE TRANSACTIONS WITH EQUITY AND OTHER PRICE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Equity options						
Long positions	173	344	33	30	1	1
Short positions	153	125	–	–	32	28
Forward equity transactions	–	–	–	–	–	–
Exchange-traded contracts	2	11	–	3	–	–
Equity/index-based swaps	–	198	–	2	–	52
Commodity-based transactions	1,154	1,369	36	47	33	51
Total	**1,482**	**2,047**	**69**	**82**	**66**	**132**

CREDIT DERIVATIVES
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Guarantor position	184	255	1	–	1	7
Collateral taker position	609	808	26	27	–	1
Total	**793**	**1,063**	**27**	**27**	**1**	**8**

DERIVATIVE TRANSACTIONS WITH STRUCTURED PRODUCTS
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Structured products	9,036	11,678	1,095	998	597	576
Total	**9,036**	**11,678**	**1,095**	**998**	**597**	**576**

DERIVATIVE TRANSACTIONS IN FAIR VALUE HEDGE ACCOUNTING
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
Fair value hedges						
Interest rate swaps	33,440	30,723	2,170	2,136	943	657
Cross currency interest rate swaps	–	342	–	29	–	23
Total	**33,440**	**31,065**	**2,170**	**2,165**	**943**	**680**

II. COUNTERPARTY CLASSIFICATION

COUNTERPARTY CLASSIFICATION
(€ m)

	Nominal values		Positive market values		Negative market values	
	2012	2011	**2012**	2011	**2012**	2011
OECD banks	255,991	335,200	8,190	7,577	10,561	11,764
Non-OECD banks	341	190	27	17	–	–
Non-banks [1]	63,944	80,808	4,836	5,011	1,309	1,607
Public authorities	6,220	2,668	226	139	523	209
Total	**326,496**	**418,866**	**13,279**	**12,744**	**12,393**	**13,580**

1) Including exchange-traded contracts

III. MATURITIES

MATURITIES
(€ m)

	Positive market values of derivatives		Positive market values of derivatives from fair value hedging		Negative market values of derivatives		Negative market values of derivatives from fair value hedging	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Residual maturity								
Up to 3 months	337	319	–	–	176	761	7	2
3 months to 1 year	453	515	111	113	396	1,004	11	5
1 year to 5 years	4,125	3,347	1,275	1,082	4,519	3,758	362	339
Over 5 years	6,194	6,398	784	970	6,359	7,377	563	334
Total	**11,109**	**10,579**	**2,170**	**2,165**	**11,450**	**12,900**	**943**	**680**

58. LEASE RECEIVABLES AND LIABILITIES

Operating leases where HSH Nordbank acts as a lessee serve the purpose of leasing technical facilities and equipment required to operate IT networks, among other purposes.

In the US market HSH Nordbank acts as lessor under finance leases to finance rail vehicles, aircraft and photovoltaic installations, among other things. Furthermore, HSH Nordbank Group is the lessor for the financing of flight simulators within the framework of sale and lease back transactions.

I. LESSEE UNDER OPERATING LEASES

MINIMUM LEASE PAYMENTS UNDER OPERATING LEASES

(€ m)

	2012	2011
Minimum lease payments due		
Up to 1 year	41	50
1 year to 5 years	87	164
Over 5 years	51	108
Total	**179**	**322**

EXPENSES FOR LEASE PAYMENTS

(€ m)

	2012	2011
Expenses for		
Minimum lease payments	45	47
Contingent lease payments	–	–
Total	**45**	**47**

Expenses on assets used under operating leases are recognised in Administrative expenses (see Note 15).

II. LESSOR UNDER OPERATING LEASES

MINIMUM LEASE PAYMENTS EXPECTED UNDER OPERATING LEASES

(€ m)

	2012	2011
Minimum lease payments to be received		
Up to 1 year	2	15
1 year to 5 years	2	56
Over 5 years	–	25
Total	**4**	**96**

Income from conditional leasing payments was neither recorded in the reporting period nor in the previous year.

III. LESSOR UNDER FINANCE LEASES

FINANCE LEASE TRANSACTIONS

(€ m)

	2012	2011
Outstanding lease payments	133	154
+ Guaranteed residual values	13	13
= Minimum lease payments	146	167
+ Non-guaranteed residual values	19	19
= Gross investment	165	186
– Unearned finance income	10	10
= Net investment	155	176
– Net present value of non-guaranteed residual values	12	12
= Net present value of minimum lease payments	**143**	**164**

The gross investments amount and the net present value of the minimum lease payments break down by maturity as follows:

BREAKDOWN OF RESIDUAL MATURITIES
(€ m)

	Gross investments in the lease		Net present value of the minimum lease payments	
	2012	2011	**2012**	2011
Minimum lease payments to be received				
Up to 1 year	10	9	18	18
1 year to 5 years	40	41	63	73
Over 5 years	80	92	62	73
Total	**130**	**142**	**143**	**164**

Income from conditional lease payments was neither recorded during the reporting period nor in the previous year.

59. DISCLOSURES ON COLLATERAL TRANSFERRED AND FINANCIAL ASSETS TRANSFERRED WITH RETENTION OF RIGHTS AND / OR OBLIGATIONS

I. COLLATERAL TRANSFERRED

As at 31 December 2012 HSH Nordbank had assets transferred as collateral which do not meet the requirements of derecognition under IAS 39. The assets transferred as collateral continue to be recognised by the HSH Nordbank Group, as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with the HSH Nordbank Group.

The following table mainly shows the collateral used to collateralise OTC derivative transactions and funds raised at central banks and other credit institutions. Notes on repurchase agreements are separately disclosed below. A small amount of collateral has been transferred in the course of securities lending business.

CARRYING AMOUNTS OF TRANSFERRED COLLATERAL
(€ m)

	2012	2011
Loans and advances	8,342	6,675
Loans and advances to banks	3,610	4,943
Loans and advances to customers	4,732	1,732
Trading assets / Financial investments	5,092	2,271
Total	**13,434**	**8,946**

The following table shows the carrying amounts of the liabilities related to the collateral transferred:

CARRYING AMOUNTS OF LIABILITIES
(€ m)

	2012	2011
Liabilities to banks	7,803	3,399
Trading liabilities	4,503	5,855
Contingent liabilities	35	0
Total	**12,341**	**9,254**

The carrying amounts of liabilities to development banks are recognised in the amount of the corresponding loans transferred as collateral.

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Promissory notes and other receivables from lending are not pledged to the European Central Bank, but are assigned without this being disclosed. It is not possible to resell or pledge in the interim.

In addition, HSH Nordbank concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under Liabilities to banks or Liabilities to customers. At the end of the reporting period, the carrying amount of the securities transferred as collateral in the framework of repo transactions was € 5,349 million (previous year: € 3,276 million). The fair value amounted to € 5,169 million (previous year: € 3,087 million). The corresponding liabilities are recognised in the amount of € 4,780 million (previous year: € 2,769 million) with the fair value corresponding to the carrying amount. A net position of € 231 million arose from the fair values of the assets transferred and the associated liabilities (previous year: € 318 million). Collateral transferred under repo transactions can be resold or repledged.

Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral the counterparty may require HSH Nordbank to provide additional securities to increase collateral. Where HSH Nordbank has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i. e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ('the same sort') must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to tri-party repo transactions between HSH Nordbank and its counterparties accordingly. The transactions are executed via a tri-party agent.

II. FINANCIAL ASSETS TRANSFERRED WITH RETENTION OF RIGHTS AND / OR OBLIGATIONS

HSH Nordbank has transferred assets to third parties outside the Group that meet the conditions for full derecognition. The rights and obligations retained under these transfers were of an overall immaterial nature. The risks become transparent by recognition of provisions and/or recording of contingent liabilities.

60. TRUST TRANSACTIONS

The table below shows the volume of trust transactions not recognised in the statement of financial position:

TRUST TRANSACTIONS
(€ m)

	2012	2011
Loans and advances to banks	1	1
Loans and advances to customers	323	362
Other loans and advances	2	–
Trust assets	**326**	**363**
Liabilities to banks	1	1
Liabilities to customers	323	362
Other liabilities	2	–
Trust liabilities	**326**	**363**

61. RELATED PARTIES

HSH Nordbank does business with related parties and companies. These include the HSH Finanzfonds AöR as parent company, the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50 %. Furthermore, business relations exist with subsidiaries which are controlled but not consolidated for reasons of materiality, associates, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, sight and term deposits, derivatives and securities transactions.

I. THE PARENT COMPANY AND COMPANIES WITH JOINT MANAGEMENT OR SIGNIFICANT INFLUENCE ON THE COMPANY

For transactions with HSH Finanzfonds AöR as well as with the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50 % the Bank makes use of IAS 24.25. According to IAS 24.25 HSH Nordbank is exempt from the disclosure requirement regarding public authorities, unless transactions are involved that have a significant impact on the consolidated financial statements.

The guarantee amount with regard to the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR is identified as a significant transaction within the meaning of IAS 24. Please refer to Note 2 and 18 for more details.

II. SUBSIDIARIES

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS
(€ m)

	2012	2011
Loans and advances to customers	92	120
Loan loss provisions	–4	–15
Financial investments	14	65
Other assets	1	2
Total	**103**	**172**

SUBSIDIARIES – LIABILITIES
(€ m)

	2012	2011
Liabilities to customers	29	60
Provisions	–	11
Other liabilities	–	1
Total	**29**	**72**

SUBSIDIARIES – INCOME STATEMENT
(€ m)

	2012	2011
Net interest income	6	7
Net commission income	2	–
Loan loss provisions	–	8
Net trading income	–	12
Net income from financial investments	–	3
Other operating income	–1	–
Total	**7**	**30**

Furthermore, there are contingent liabilities to subsidiaries of € 3 million (previous year: € 6 million) and € 0 million (previous year: € 8 million) of irrevocable loan commitments.

There are € 0 million of other financial liabilities to subsidiaries (previous year: € 0 million).

III. ASSOCIATES

The following table shows the transactions with associates:

ASSOCIATES – ASSETS
(€ m)

	2012	2011
Loans and advances to customers	492	717
Loan loss provisions	–51	–42
Trading assets	7	9
Financial investments	223	245
Other assets	2	1
Total	**673**	**930**

ASSOCIATES – LIABILITIES
(€ m)

	2012	2011
Liabilities to customers	43	39
Other liabilities	–	1
Total	**43**	**40**

ASSOCIATES – INCOME STATEMENT
(€ m)

	2012	2011
Net interest income	21	31
Loan loss provisions	–12	–5
Net commission income	–	–1
Net trading income	–	3
Net income from financial investments	10	–24
Administrative expenses	–11	–11
Other operating income	1	1
Total	**9**	**–6**

There were no contingent liabilities to associates in the year under review (previous year: € 9 million). Irrevocable loan commitments amounted to € 39 million (previous year: € 52 million).

Other financial liabilities to associates amount to € 90 million (previous year: € 182 million).

IV. JOINT VENTURES

The following table shows the transactions with joint ventures:

JOINT VENTURES – ASSETS
(€ m)

	2012	2011
Loans and advances to customers	3	132
Loan loss provisions	–3	–3
Trading assets	–	13
Total	**–**	**142**

JOINT VENTURES – INCOME STATEMENT
(€ m)

	2012	2011
Net interest income	–	7
Loan loss provisions	–	–1
Net trading income	–	–2
Total	**–**	**4**

The decrease related to joint ventures results from the sale of a company.

V. OTHER RELATED PARTIES AND COMPANIES

The following table contains information about individuals in key positions at HSH Nordbank AG and their close relatives as well as companies controlled by these individuals:

RELATED PARTIES AND COMPANIES – LIABILITIES
(€ m)

	2012	2011
Liabilities to customers	1	1
Total	**1**	**1**

VI. REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD

The following table shows benefits and changes in the various kinds of remuneration for members of the management in key positions:

REMUNERATION OF MANAGEMENT
(€ k)

	Management Board		Supervisory Board		Total	
	2012	2011	**2012**	2011	**2012**	2011
Short-term benefits	1,972	3,193	1,377	1,477	3,349	4,670
Termination benefits	655	750	–	–	655	750
Other long-term benefits	–	1,513	80	–	80	1,513
Post-employment benefits	392	462	950	233	1,342	695
Total remuneration	**3,019**	**5,918**	**2,407**	**1,710**	**5,426**	**7,628**

The remuneration system applicable to members of the Management Board of HSH Nordbank 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.

Added to this are pension benefits in the amount of 20 % of the fixed income portion as well as reasonable benefits in kind. 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 € 2,364 thousand in the 2012 financial year (previous year: € 4,786 thousand). This includes payments made during the reporting year to a pension scheme in the amount of € 392 thousand (previous year: € 383 thousand). 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 absence of any variable performance-related remuneration.

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

Total remuneration for former members of the Management Board and their surviving dependants amounted to € 6,738 thousand (previous year: € 8,575 thousand). Pension obligations relating to former members of the Management Board and their surviving dependents totalled € 50,318 thousand as at 31 December 2012 (previous year: € 39,821 thousand). The increase is primarily attributable to the lower discount rate used compared to the previous year.

The members of the Supervisory Board have received remuneration of € 2,407 thousand in total. This includes remuneration for their service as members of the Supervisory Board in an amount determined by the Annual General Meeting. The expected total for the 2012 financial year of € 560 thousand has been recognised in provisions. € 540 thousand of the amount provided for in the 2011 financial year (€ 550 thousand) were paid to the members of the Supervisory Board in the reporting period. This includes € 83 thousand of value added tax. Furthermore, the employee representatives on the Supervisory Board received short-term benefits of € 817 thousand (previous year: € 927 thousand) and long-term benefits of € 80 thousand (previous year: € 0 thousand). Furthermore, € 950 thousand were added to pension provisions for employee representatives on the Supervisory Board (previous year: € 233 thousand).

VII. ADVANCES, LOANS AND OTHER LIABILITIES

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 € 264 thousand (previous year: € 280 thousand). 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 members 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 € 5 thousand in 2012 (previous year: € 1 thousand).

62. 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 € 34 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 59 million).

The maximum funding obligation that would result from membership of the 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 called immediately.

Further obligations in the amount of € 78 million (previous year: € 174 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 leases for IT services.

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).

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

Annual obligations of approximately € 4 million (previous year: € 0 million) result from an agency agreement.

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

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

63. 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 later 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.

64. LIST OF SHAREHOLDINGS

The following information is based on German commercial law.

CONSOLIDATED SUBSIDIARIES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
1	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland	99.60	99.60	USD	49,023,452.00	2,711,686.00
2	Amentum Lux S.à.r.l, Luxembourg, Luxembourg	100.00	100.00	EUR	–79,305.28	50,838.93
3	Anthracite Balanced Company Ltd., George Town, Cayman Islands	100.00	100.00	EUR	–22,233,167.43	–303,979.68
4	AVUS Fondsbesitz und Management GmbH, Berlin [1] [3]	100.00	100.00	EUR	28,452.72	595,317.39
5	AVUS Grundstücksverwaltungs-GmbH, Berlin [1] [3]	100.00	100.00	EUR	25,000.00	28,923.81
6	Bu Wi Beteiligungsholding GmbH, Hamburg	100.00	100.00	EUR	16,405.08	13,705.77
7	Capcellence Private Equity Beteiligungen GmbH & Co. KG, Hamburg [1]	100.00	100.00	EUR	57,433,651.70	–16,836,077.35
8	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	19,104,248.61	1,195,414.67
9	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	17,830,822.54	1,018,215.13
10	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	224,628.61	–10,465,819.90
11	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	98.51	EUR	44,550.20	–9,765.28
12	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	99.75	EUR	14,401.41	–10,922.90
13	Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	99.99	EUR	16,851,858.40	–5,714,416.20
14	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	99.72	EUR	29,555.81	–726,529.46
15	CHIOS GmbH, Hamburg	100.00	100.00	EUR	9,699.62	–11,406.74
16	DEERS Green Power Development Company, S.L., Zaragoza, Spain [1]	99.00	99.00	EUR	–27,756,127.00	–5,992,173.00
17	DMS Beteiligungs GmbH, Radolfzell [1]	100.00	100.00	EUR	3,346,822.07	256,230.26
18	DMS Dynamic Micro Systems Semiconductor Equipment GmbH, Radolfzell [1]	100.00	100.00	EUR	1,135,632.70	1,683,868.72
19	EALING INVESTMENTS LIMITED, London, Great Britain	100.00	100.00	EUR	–35,266,409.00	–11,411,412.00
20	Einkaufs-Center Plovdiv G.m.b.H. & Co. KG, Hamburg [1]	75.00	75.00	EUR	16,061,723.29	–22,892,741.98
21	Enders Holdings LLC, Dover, USA	100.00	100.00	USD	9,071,785.00	–599,290.00
22	Endor 9. Beteiligungs GmbH & Co. KG, Hamburg [1]	100.00	100.00	EUR	11,931,267.61	–13,079,115.28
23	Feronia GmbH, Hamburg	100.00	100.00	EUR	2,829,370.52	986,203.97
24	GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg	100.00	100.00	EUR	1,607,092.43	927,766.48
25	GODAN GmbH, Hamburg	100.00	100.00	EUR	–895,666.26	–13,783.75
26	Grundstücksgesellschaft Barstrasse GbR (GEHAG-Fonds 18), Berlin [1]	72.45	72.45	EUR	–7,704,642.82	437,783.26
27	Grundstücksgesellschaft Rudow-Süd/Strasse 633 GbR (GEHAG-Fonds 20), Berlin [1]	66.99	66.99	EUR	–7,932,998.76	184,835.31
28	HGA Capital Grundbesitz und Anlage GmbH, Hamburg [1] [3]	100.00	100.00	EUR	2,575,856.27	2,746,622.11
29	HGA Fondsbeteiligung GmbH, Hamburg [1]	100.00	100.00	EUR	37,376,471.41	4,318,504.34
30	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

CONSOLIDATED SUBSIDIARIES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
31	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	2,996,875.10	–31,189.82
32	HSH Care+Clean GmbH, Hamburg 1) 4)	51.00	51.00	EUR	25,000.00	153,257.26
33	HSH Corporate Finance GmbH, Hamburg 2)	100.00	100.00	EUR	8,337,269.85	2,058,801.25
34	HSH Debt Advisory ApS, Copenhagen, Denmark	100.00	100.00	DKK	2,292,009.00	2,212,009.00
35	HSH Facility Management GmbH, Hamburg 2)	100.00	100.00	EUR	205,600.00	–5,345,947.72
36	HSH Gastro+Event GmbH, Hamburg 1) 4)	100.00	100.00	EUR	25,000.00	–646,934.21
37	HSH Kunden- und Kontenservice GmbH, Hamburg 2)	100.00	100.00	EUR	25,000.00	–472,191.76
38	HSH Move+More GmbH, Kiel 1) 4)	51.00	51.00	EUR	25,000.00	92,261.21
39	HSH N Finance (Guernsey) Limited, St. Peter Port, Guernsey	100.00	100.00	EUR	465,010.00	31,034.00
40	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	4,173,494.00	–367,664.00
41	HSH N Funding I, George Town, Cayman Islands	66.32	100.00	EUR	1,503,613,851.00	18,930,851.00
42	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	1,154,270,764.00	36,311,821.00
43	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	153,638,346.30	13,173,592.17
44	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	8,898,431.00	–102,674.00
45	HSH Private Equity GmbH, Hamburg	100.00	100.00	EUR	550,000.00	–32,586,228.75
46	HSH Real Estate GmbH (former: HSH Real Estate AG), Hamburg 2)	100.00	100.00	EUR	149,993,774.78	5,097,540.30
47	HSH Real Estate US Invest, LLC, Wilmington, USA 1)	100.00	100.00	USD	4,753,459.58	5,108,793.47
48	HSH Restructuring Advisory ApS, Copenhagen, Denmark	100.00	100.00	DKK	807,376.00	727,376.00
49	HSH Security GmbH, Kiel 2)	100.00	100.00	EUR	50,000.00	413,173.40
50	International Fund Services & Asset Management S.A., Munsbach, Luxembourg 1)	51.51	51.51	EUR	9,143,489.08	2,830,000.00
51	Jantar GmbH, Hamburg	100.00	100.00	EUR	474,892.84	–656,574.72
52	KAPLON GmbH & Co. KG, Hamburg 1)	100.00	100.00	EUR	5,197,480.05	69,145.00
53	Kipper Corporation, Wilmington, USA	100.00	100.00	USD	–12,464,618.00	–506,327.00
54	Kontora Family Office GmbH, Hamburg	75.02	75.02	EUR	824,884.30	158,396.30
55	Löddeköpinge Handel AB, Stockholm, Sweden	100.00	100.00	SEK	–20,881,680.00	–17,328,013.00
56	Neptune Finance Partner II S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	13,311.83	–99.42
57	Neptune Finance Partner S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	375.07	0.00
58	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
59	RESPARCS Funding II Limited Partnership, St. Helier, Jersey 1)	0.01	100.00	EUR	–1,368,857.00	–199,394.00
60	RESPARCS Funding Limited Partnership I, Hong Kong, Hong Kong 1)	0.01	100.00	USD	–2,080,358.00	–900,083.00
61	SBF II, LLC, Wilmington, USA 1)	100.00	100.00	USD	–11,737,554.00	156,573.66
62	Solar Holdings S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	–7,926,322.96	5,152,790.96
63	Sotis S.à.r.l., Luxembourg, Luxembourg 1)	100.00	100.00	EUR	39,636.20	9,387.56
64	Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG, Hamburg	100.00	100.00	EUR	376,384,961.91	35,320,899.05
65	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
66	Teukros GmbH, Hamburg	100.00	100.00	EUR	–1,772,573.89	4,794.88
67	Turis 1. Beteiligungs GmbH & Co. KG, Hamburg 1)	100.00	100.00	EUR	11,224,750.88	–6,331,084.78
68	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	1,351,730.99	–1,483,795.12
69	2200 Victory LLC, Dover (Kent County), USA	100.00	100.00	USD	31,063,641.00	–2,733,514.00

SUBSIDIARIES CONSOLIDATED SOLELY FOR THE PURPOSE OF SIC 12

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
70	Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs KG, Wiesbaden	0.00	0.00	EUR	−527,649.79	−38,987.11
71	AGV Irish Equipment Leasing No. 4 Limited, Dublin, Ireland	15.09	15.09	USD	12,693,074.00	−14,033,438.00
72	CPM Luxembourg S.A., Luxembourg, Luxembourg [1]	3.22	3.22	EUR	8,179,388.64	−484,727.36
73	CPM Securitisation Fonds S.A., Luxembourg, Luxembourg [1]	3.22	3.22	EUR	7,864,945.00	−1,043,242.00
74	Senior Assured Investment S.A., Luxembourg, Luxembourg	0.00	0.00	EUR	31,000.00	0.00
75	Senior Preferred Investments S.A., Luxembourg, Luxembourg	0.00	0.00	EUR	31,000.00	0.00

ASSOCIATES AND JOINT VENTURES CONSOLIDATED UNDER THE EQUITY METHOD

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
76	Amentum Aircraft Leasing No. Five Limited, Dublin, Ireland [1]	49.00	49.00	USD	−9,195,878.00	327,290.00
77	Amentum Aircraft Leasing No. Six Limited, Dublin, Ireland [1]	49.00	49.00	USD	−9,359,114.00	360,556.00
78	Amentum Aircraft Leasing No. Three Limited, Dublin, Ireland [1]	49.00	49.00	USD	−13,171,080.00	−3,047,629.00
79	Belgravia Shipping Ltd., London, Great Britain [1]	33.33	33.33	USD	30,301,000.00	−25,874,000.00
80	GARDEUR Beteiligungs GmbH (former: gardeur Beteiligungs GmbH), Mönchengladbach [1]	100.00	40.00	EUR	−1,111,151.43	1,001,261.81
81	PRIME 2006-1 Funding Limited Partnership, St. Helier, Jersey	47.50	0.00	EUR	−728,254.00	−2,498,699.00
82	Railpool Holding GmbH & Co. KG, Munich	50.00	50.00	EUR	41,151,742.33	100,554.62
83	SITUS NORDIC SERVICES ApS, Copenhagen, Denmark	40.00	40.00	DKK	3,025,322.00	−1,474,678.00

NON-CONSOLIDATED SUBSIDIARIES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
84	Arbutus GmbH, Hamburg	100.00	100.00	EUR	31,587.67	891.57
85	Arilius Management GmbH, Hamburg [1]	94.00	94.00	EUR	−168,870.30	−121,008.52
86	Asian Capital Investment Opportunities Limited, Hong Kong, Hong Kong [1]	51.00	51.00	USD	115.00	−13.00
87	Aviation Leasing OpCo France III, Paris, France [1]	100.00	100.00	EUR	−128,221.00	−136,423.00
88	Aviation Leasing OpCo France IV, Paris, France [1]	100.00	100.00	EUR	−121,598.00	−96,009.00
89	AVUS Achte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	6,478.64	−24,323.48
90	AVUS Dritte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,533,909.55	47,121.44
91	AVUS Erste Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,609,264.58	130,432.84
92	AVUS Fünfte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	2,077,892.52	142,397.05
93	AVUS Siebte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	11,097.96	−24,409.04
94	AVUS Vierte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,588,860.11	53,262.20
95	Bach Holdings LLC, Wilmington, USA	100.00	100.00	USD	882,656.00	0.00
96	BALIBU Beteiligungsgesellschaft mbH, Willich [1]	100.00	100.00	EUR	[7]	[7]
97	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	2,586,884.90	109,468.34
98	CAPCELLENCE Dritte Fondsbeteiligung GmbH, Hamburg [1]	100.00	100.00	EUR	11,795.93	−9,210.04
99	CAPCELLENCE Erste Fondsbeteiligung GmbH, Hamburg [1]	100.00	100.00	EUR	11,749.44	−9,279.20

NON-CONSOLIDATED SUBSIDIARIES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
100	CAPCELLENCE Vintage Year 12 Beteiligungen GmbH (former: NEUE RABEN fünfhundertneunundzwanzigste Verwaltungsgesellschaft mbH), Hamburg [1]	100.00	100.00	EUR	[6]	[6]
101	CAPCELLENCE Zweite Fondsbeteiligung GmbH, Hamburg [1]	100.00	100.00	EUR	11,819.08	–9,209.56
102	DMS DYNAMIC MICRO SYSTEMS USA CORP., Wilmington, USA [1]	100.00	100.00	USD	[6]	[6]
103	DYNAMENE GmbH, Hamburg [1]	100.00	100.00	EUR	41,232.92	–5,137.65
104	Dynamic Microsystems LLC., Phoenix, USA [1]	99.98	99.98	USD	64,417.00	53,684.00
105	Dynamic Micro Systems (Shanghai) Trading Co., Ltd., Shanghai, China [1]	100.00	100.00	CNY	292,136.18	0.00
106	DYNAMIC MICRO SYSTEMS (SINGAPORE) PTE. LTD., Singapore, Singapore [1]	100.00	100.00	SGD	[6]	[6]
107	European Capital Investment Opportunities Limited, St. Helier, Jersey [1]	51.00	51.00	EUR	82.00	2.00
108	Fastlane 1. Real Estate GmbH, Hamburg [1]	100.00	100.00	EUR	1,939,958.36	–205,804.89
109	Fastlane 2. Real Estate GmbH, Hamburg [1]	100.00	100.00	EUR	1,005,134.52	–301,709.99
110	Fonds III – Imbuschweg GbR, Berlin [1]	70.14	70.14	EUR	–6,609,294.50	274,724.60
111	Galileo Containers Limited, Majuro, Marshall Islands [1]	100.00	100.00	USD	[8]	[8]
112	Grundstücksentwicklungsgesellschaft Gartenstadt Wismar mbH & Co. KG, Hamburg	100.00	100.00	EUR	698,122.58	38,830.83
113	Grundstücksgesellschaft Goerzallee GbR (GEHAG-Fonds 15), Berlin [1]	72.57	72.57	EUR	–2,867,703.81	133,001.71
114	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg	100.00	100.00	EUR	–1,947,521.90	78,315.51
115	Grundstücksgesellschaft Rudow-Süd/Strasse 634 GbR (GEHAG-Fonds 17), Berlin [1]	79.21	79.21	EUR	–2,154,208.18	263,061.24
116	Hamburgische Betriebsverwaltungs-Gesellschaft am Gerhart-Hauptmann-Platz m.b.H., Hamburg	100.00	100.00	EUR	314,343.67	14,824.42
117	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
118	HGA Asset Management GmbH, Hamburg [1]	100.00	100.00	EUR	23,442.45	–2,062.55
119	HGA CareConcept 1 Verwaltungs-GmbH, Hamburg [1]	100.00	100.00	EUR	16,998.05	430.77
120	HGA Hanseatische Fondsportfolio GmbH, Hamburg [1]	100.00	100.00	EUR	25,222.40	214.37
121	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
122	HGA Real Estate Management Kft, Budapest, Hungary [1]	100.00	100.00	HUF	139,877,000.00	–6,227,000.00
123	HGA USA V GmbH & Co. KG i.L., Hamburg [1]	97.11	96.78	EUR	89,069.01	–33,742.39
124	HGA USA VI GmbH & Co. KG, Hamburg [1]	99.99	99.73	EUR	96,996.65	–201,022.62
125	HGA USA VII GmbH & Co. KG, Hamburg [1]	99.99	99.72	EUR	–253,771.06	–405,220.39
126	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	89,846.00	–38,826.00
127	HSH Invest GmbH, Kiel [2]	100.00	100.00	EUR	1,393,108.56	293,108.56
128	HSH N Structured Situations Limited, St. Helier, Jersey	100.00	100.00	USD	351,241.00	10,805.00
129	HSH RE 8. Beteiligungs GmbH, Hamburg [1]	100.00	100.00	EUR	23,550.35	–1,630.08
130	HSH Real Estate Treuhand GmbH, Hamburg [1]	100.00	100.00	EUR	241,117.50	32,669.35
131	Marc Marco Polo Ventures GmbH & Co. KG, Krefeld [1]	90.91	90.91	EUR	232,538.85	[8]
132	Neptune Ship Finance (Luxembourg) S.à.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	3,186.13	–74.91
133	Niederelbe Beteiligungs GmbH, Hamburg	100.00	100.00	EUR	734,642.38	–5,969.32
134	NORDIC BLUE CONTAINER V LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	[8]	[8]
135	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	13,737.50	–3,691.12

NON-CONSOLIDATED SUBSIDIARIES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
136	Real Estate Venture Capital Fonds 1 GmbH, Hamburg [1]	85.10	85.10	EUR	180,573.37	–9,965.54
137	RELAT Beteiligungs GmbH & Co. Vermietungs-KG, Pullach i. Isartal	94.00	55.29	EUR	–665,717.56	173,488.49
138	TALAOS GmbH, Hamburg [1]	100.00	100.00	EUR	1,217,718.76	–57,232.12
139	TCP Trimontium Center Plovdiv EOOD, Sofia, Bulgaria [1]	100.00	100.00	BGN	2,027,000.00	–26,000.00
140	TERRANUM Gewerbebau Verwaltungs-GmbH, Hamburg [1]	100.00	100.00	EUR	116,606.54	–6,779.83
141	Turis 3. Beteiligungs GmbH & Co. KG, Hamburg [1]	100.00	100.00	EUR	6,549.20	–8,315.06
142	Verwaltung AVUS Immobilien-Treuhand GmbH, Berlin [1] [3]	100.00	100.00	EUR	15,170.38	–9,829.62
143	Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel [2]	100.00	100.00	EUR	25,120.01	–479.99
144	Verwaltungsgesellschaft Gartenstadt Wismar mbH, Hamburg	100.00	100.00	EUR	39,071.04	2,511.75

NON-CONSOLIDATED SUBSIDIARIES SOLELY FOR THE PURPOSE OF SIC 12

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
145	AVUS Immobilien-Treuhand GmbH & Co. KG, Berlin [1]	0.00	50.00	EUR	428,624.19	–14,856.81
146	Lyceum Capital Fund 2000 (Number Five) GmbH & Co. KG, Stuttgart [1]	80.00	0.00	EUR	–12,506.00	–2,843,720.00
147	Next Generation Aircraft Finance 2 S.à.r.l., Munsbach, Luxembourg [1]	49.00	49.00	EUR	–846,314.97	32,237.06
148	Next Generation Aircraft Finance 3 S.à.r.l., Munsbach, Luxembourg [1]	49.00	49.00	EUR	–400,890.71	106,853.39
149	PLUTON Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	94.00	50.00	EUR	–6,642,788.12	126,815.23
150	SLK GmbH für Immobilien-Leasing & Co. KG Objekt Berlin Pohlstrasse, Pöcking	94.00	40.00	EUR	–2,078,413.38	810,631.55
151	TEAL FUNDING NO 1 LTD, Dublin, Ireland	0.00	0.00	GBP	–1,495,440.00	188,573.00

NON-CONSOLIDATED JOINT VENTURES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
152	IHG Korund GmbH i.L., Hamburg [1]	50.00	50.00	EUR	186,675.46	–22,407.51
153	PL Projekt-Anlagen Leasing Beteiligungsgesellschaft mbH & Co. Objekt Hemmingen KG, Hamburg	50.00	50.00	EUR	9,375.62	5,240.15
154	Regional Jet Leasing 3 C.V., KJ's-Gravenhage, Netherlands	53.33	53.60	USD	–601,114.00	27,399.00

NON-CONSOLIDATED ASSOCIATES

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
155	Aeolis Wind Power Corporation, Sidney BC, Canada [1)]	31.64	31.64	CAD	14,770,444.00	2,762,677.00
156	AGV Irish Equipment Leasing No. 7 Limited, Dublin, Ireland [1)]	49.00	49.00	USD	−4,157,722.00	−125,453.00
157	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland [1)]	49.00	49.00	USD	−758,346.00	−510,212.00
158	Amentum Aircraft Leasing No. Eleven Limited, Dublin, Ireland [1)]	49.00	49.00	USD	1,315,398.00	1,024,906.00
159	Amentum Aircraft Leasing No. Ten Limited, Dublin, Ireland [1)]	49.00	49.00	USD	−1,234,123.00	−1,111,037.00
160	Amentum Aircraft Leasing No. Two Limited, Dublin, Ireland [1)]	49.00	49.00	USD	116,997.00	−227,625.00
161	Araguari Real Estate Holding LLC, Wilmington, USA	31.25	31.25	USD	114,581,429.49	0.00
162	BC Wind Power Corporation, Sidney BC, Canada [1)]	20.92	20.92	CAD	−106,491.00	−107,619.00
163	BIG BAU – INVESTITIONSGESELLSCHAFT mbH, Kronshagen [1)]	40.50	40.50	EUR	11,055,356.25	−2,699,824.80
164	BIG-ANTEILSVERWALTUNGS GmbH, Kronshagen [1)]	45.00	45.00	EUR	4,188,280.19	56,996.65
165	CAPCELLENCE Mittelstandspartner GmbH, Hamburg	25.00	25.00	EUR	−2,763,678.07	−717,999.73
166	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
167	FHH Fonds Nr. 30 MS „Carelia“ GmbH, Hamburg [1)]	33.33	33.33	EUR	37,018.74	[8)]
168	Fonds IV – Horstwalder Strasse GbR, Berlin [1)]	11.01	11.01	EUR	[8)]	222,133.21
169	GeRo Real Estate Aktiengesellschaft für Projektentwicklung und Consulting, Bellheim [1)]	35.00	35.00	EUR	1,092,914.35	[8)]
170	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	1,091,147.75	174,840.85
171	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden [1)]	50.00	50.00	EUR	−1,165,698.82	38,839.70
172	Golding Mezzanine SICAV III, Luxembourg, Luxembourg	0.02	0.02	EUR	254,354,470.81	24,971,001.32
173	Golding Mezzanine SICAV IV Teilfonds 1, Luxembourg, Luxembourg	0.01	0.01	EUR	75,338,662.92	8,532,560.26
174	Golding Mezzanine SICAV IV Teilfonds 2, Luxembourg, Luxembourg	0.01	0.01	EUR	11,066,916.13	1,077,308.53
175	Golding Mezzanine SICAV V, Luxembourg, Luxembourg	0.02	0.02	EUR	23,371,679.27	1,518,500.25
176	Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG, Bremen	31.84	31.84	EUR	−1,093,126.41	−2,935,574.81
177	HGA Europa-Fonds Beteiligungs GmbH, Hamburg [1)]	49.00	49.00	EUR	509,970.21	23,077.46
178	NBV Beteiligungs-GmbH, Hamburg	28.57	20.00	EUR	19,492,570.81	3,784,427.77
179	Next Generation Aircraft Finance S.à.r.l., Munsbach, Luxembourg [1)]	48.80	48.80	EUR	−2,205.00	233,362.00
180	NOBIS Asset Management S.A., Luxembourg, Luxembourg [1)]	40.00	40.00	EUR	6,206,714.68	1,175,040.63
181	Northern Diabolo (Holdings) S.à.r.l., Luxembourg, Luxembourg [1)]	25.00	25.00	EUR	14,725.76	−22,742.86
182	PL Projekt-Anlagen Leasing Beteiligungsgesellschaft mbH, Hamburg	50.00	50.00	EUR	54,359.57	295.04
183	Railpool GmbH, Munich	50.00	50.00	EUR	1,472,972.40	323,203.22
184	RE-FundMaster, Frankfurt	49.83	49.83	EUR	0.00	−281,583.83
185	SP 89 Beeke, Hanover	50.00	50.00	EUR	0.00	250,685.37
186	UST XXI NEW JERSEY, LTD., Orlando, USA [1)]	24.01	24.01	USD	78,532,754.00	−539,272.00
187	Wilhelm Bartels Bavaria-Grundstücksgesellschaft mbH & Co. KG, Hamburg [1)]	28.00	28.00	EUR	281.90	−9,144.11
188	Wohn- und Gewerbefonds „Joseph Haydn Residenz“ Dresden-Striesen GbR, Munich [1)]	20.37	20.37	EUR	0.00	10,397.82
189	4Wheels Management GmbH, Dusseldorf [1)]	68.25	40.00	EUR	14,142,641.41	−484,158.04

OTHER COMPANIES WITH A SHARE OF 20% OR MORE

Serial No.	Name/Place	Share	Voting rights	Currency code	Equity capital in respective currency	Income/loss in respective currency
190	Alliance HC I Limited Partnership, Chicago, USA [1]	99.90	0.00	USD	34,062,372.00	–1,280,924.00
191	Alliance HC I Mezz Limited Partnership, Chicago, USA [1]	85.09	0.00	USD	18,218,397.00	–2,859,263.00
192	Alliance HC II Limited Partnership, Chicago, USA [1]	95.00	0.00	USD	15,171,240.00	–3,819,898.00
193	Alliance HC III Mezz Limited Partnership, Chicago, USA [1]	92.40	0.00	USD	11,528,768.00	–4,318,109.00
194	BALIBU Indoor-Freizeitanlagen Beteiligungs-Holding GmbH & Co. KG, Willich [1]	39.00	0.00	EUR	[7]	[7]
195	BALIBU Management GmbH, Willich [1]	33.00	0.00	EUR	[7]	[7]
196	BPE Institutional Partners GmbH, Hamburg [1]	30.56	0.00	EUR	13,843,981.61	[8]
197	BRINKHOF Holding Deutschland GmbH, Erfurt [1]	100.00	0.00	EUR	[7]	[7]
198	Current, LP, Dallas, USA [1]	31.59	4.90	USD	[7]	[7]

[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 GmbH.
[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
Denmark	DKK	7.461
Great Britain	GBP	0.8161
Canada	CAD	1.3137
Sweden	SEK	8.582
Singapore	SGD	1.6111
Hungary	HUF	292.3
USA	USD	1.3194

65. DISCLOSURES IN ACCORDANCE WITH GERMAN COMMERCIAL LAW

I. BASIC PRINCIPLES

Under the terms of Section 315a (1) HGB, HSH Nordbank is required to observe the standards of the German Commercial Code in preparing and presenting the annual financial statements, as well as the IFRS standards. You may request the unabridged IFRS consolidated financial statements by following this link: www.hsh-nordbank.com. The complete list of shareholdings is set out in Note 64.

II. NUMBER OF EMPLOYEES

The number of employees as at the reporting date is calculated as a quarter of the total of the number of persons employed at the end of the respective quarter end across all fully consolidated companies:

NUMBER OF EMPLOYEES

			2012	2011
	Male	Female	**Total**	Total
Full-time employees	1,935	938	2,873	3,336
Part-time employees	116	668	784	876
Subtotal (excluding trainees)	**2,051**	**1,606**	**3,657**	**4,212**
Apprentices/Trainees	38	17	55	52
Total	**2,089**	**1,623**	**3,712**	**4,264**

III. CORPORATE GOVERNANCE CODE

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have given a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) that the recommendations of the German Corporate Governance Code Commission together with the restrictions have been complied with and will be complied with until the subsequent declaration is made. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2012 Annual Report.

IV. AUDITOR'S FEES

AUDITOR'S FEES
(€ m)

	2012	2011
Audits KPMG AG	9	7
Of which for previous years	1	–
Other certification and valuation services provided by KPMG AG	3	3
Total	**12**	**10**

V. SEATS ON SUPERVISORY BODIES

On the reporting date, the following seats were held by members of the Management Board on supervisory bodies of major corporations or financial institutions:

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

66. NAMES OF BOARD MEMBERS AND DIRECTORSHIPS HELD

I. THE SUPERVISORY BOARD OF THE HSH NORDBANK GROUP

Hilmar Kopper, Rothenbach
(until 28 February 2013)
Former spokesperson of the Management Board of Deutsche Bank AG
Chairman

Dr Thomas Mirow, Hamburg
(from 28 February 2013)
Former President of the European Bank for Reconstruction and Development, London
Chairman

Olaf Behm, Tangstedt
Employee of HSH Nordbank AG
Deputy Chairman

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)
Head of the 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 of the Management Board of Deutsche Postbank AG

Sabine Kittner-Schürmann, Kiel
(from 30 November 2012)
Employee of HSH Nordbank AG

Dr Rainer Klemmt-Nissen, Hamburg
Managing Director of HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH

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 of J.C. Flowers & Co. UK Ltd

Edda Redeker, Kiel
ver.di Northern district

Bernd Wrede, Hamburg
Former Chairman of the Management Board of Hapag Lloyd AG

II. 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

III. 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)

IV. MEMBERS OF THE GENERAL COMMITTEE

Hilmar Kopper
(until 28 February 2013)
Chairman

Dr Thomas Mirow
(from 28 February 2013)
Chairman

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

V. MEMBERS OF THE MEDIATION COMMITTEE

Hilmar Kopper
(until 28 February 2013)
Chairman

Dr Thomas Mirow
(from 28 February 2013)
Chairman

Olaf Behm

Dr Rainer Klemmt-Nissen

Manfred Lener

VI. THE MANAGEMENT BOARD OF THE HSH NORDBANK GROUP

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.

DATE OF RELEASE FOR PUBLICATION

The Management Board of HSH Nordbank has drawn up the consolidated financial statements on 21 March 2013 and released these for forwarding to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and approving of these.

Hamburg/Kiel, 21 March 2013

von Oesterreich Ermisch Temp

Wartenweiler Wittenburg

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the HSH Nordbank AG, Hamburg and Kiel, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, together with the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Without qualifying this opinion, we wish to point to the following comments in the Group management report in the section "Outlook" as well as to note 1 to the consolidated financial statements, which state that the continued existence of HSH Nordbank AG Group 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's business model be preserved even in the event of potential new conditions being imposed.

Hamburg, 21 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen
Wirtschaftsprüfer

König
Wirtschaftsprüfer

RESPONSIBILITY STATEMENT BY THE MANAGEMENT BOARD

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

Hamburg/Kiel, 21 March 2013

von Oesterreich	Ermisch	Temp
Wartenweiler	Wittenburg	

FURTHER INFORMATION

REPORT OF THE SUPERVISORY BOARD

In 2012 HSH Nordbank resolutely pursued its realignment to become a bank for entrepreneurs. The wind-down of equity holdings, the withdrawal from individual areas of business and the reduction in its portfolios according to the requirements set out in the EU state aid decision have made progress. The unexpected further deterioration in the shipping crisis and the persistent upheaval on the financial markets as a result of the euro sovereign debt crisis have, however, confronted the Bank with fresh challenges. This has made it more difficult to wind down the legacy encumbrances and led to a perceptible increase in loan loss provisions. The Supervisory Board has therefore held intensive discussions with the Management Board about the action required and options available in order to stabilise the necessary capital ratios on a sustained basis.

Nevertheless, against this backdrop the Bank has forged ahead with the establishment of its new business model. The Supervisory Board advised the Management Board in this process and monitored its management activities. We have repeatedly sought information on the current business situation and corporate forecasts as well as the strategic orientation, particularly also about the risk strategy. The Management Board informed us in a regular, prompt and comprehensive manner. Between meetings, the Chairman of the Supervisory Board was in constant contact with the Management Board and sought information on business performance, important topics and upcoming decisions on an ongoing basis. The Supervisory Board was involved in decisions of material importance for the Bank and – where necessary – granted its approval following extensive consultation and examination.

MEETINGS OF THE SUPERVISORY BOARD

Nine meetings of the Supervisory Board took place during the financial year. Deliberations were held during three extraordinary meetings. All members participated in at least half of the meetings.

All six ordinary meetings dealt with the Bank's current business situation and with the impact of the said deterioration in underlying conditions on corporate forecasting, which was reported on by the Management Board and which was discussed in detail with it. In this context, the updated forecast for loan loss provisioning and its impact on the federal state guarantee and the Bank's capital ratios was taken into account to a particular extent. The quarterly results were discussed with the Management Board in the presence of the auditor of the financial statements. Furthermore, the Management Board kept the Supervisory Board regularly informed about the status of implementation of the "Initiative: Future!" programme of measures and made available to it the quarterly report of the EU trustee on the implementation of the commitments and requirements in accordance with the EU state aid decision. During the three extraordinary meetings the agenda mostly comprised Management Board matters.

The extraordinary meeting of shareholders on 18 January 2012 was convened as a result of the required resolutions for a general meeting in January 2012 during which the implementation of the capital measures in line with the EU requirements had to be decided. Secondly, the Supervisory Board dealt with the indictment by the Hamburg public prosecutor's office of former Management Board members and discussed the potential need for action with its legal advisors.

At the meeting on 8 February 2012 the Supervisory Board adopted the reports to be drafted in connection with the 2011 annual financial statements, such as the Report by the Supervisory Board, the Corporate Governance Report and the Declaration of Conformity. The Supervisory Board also dealt with the business area strategies in the real estate and corporate client areas submitted by the Management Board. At the Supervisory Board's request the Management Board furthermore issued a report on the status of data quality management. The reappointment of Mr. von Oesterreich and the departure of Dr van Gemmeren were further items on the agenda requiring resolutions during this meeting. The Supervisory Board moreover decided to adjust the Management Board remuneration system in implementation of the requirements set out in the EU state aid decision dated September 2011.

The main focus of the meeting of the Supervisory Board held on 22 March 2012 was the endorsement of the 2011 annual financial statements and consolidated financial statements following its own deliberations and previous discussion with the auditor, discussion of the Report on Relations with Affiliated Companies and the other resolutions usually to be adopted in this connection about the recommendations to shareholders at the Annual General Meeting. Moreover, the Supervisory Board dealt with the potential need for action in connection with the indictment by the Hamburg public prosecutor's office of former Management Board members. As usual, at the year-end meeting resolutions on meeting the objectives for 2011 and the objectives for the Management Board members for 2012 were adopted. The Supervisory Board moreover discussed with the Management Board the annual report on equity holdings and agreed to the merger of HSH N Composits, a wholly-owned subsidiary of the Bank, with the parent company. Control and profit transfer agreements were signed with two further subsidiaries. For all matters involving equity holdings the Supervisory Board – where necessary – submitted its recommendation to shareholders at the Annual General Meeting for approval. A major point of deliberation at this meeting was the business strategy for 2012 and the forecast for 2012 – 2014. Finally, the Management Board presented to the Supervisory Board the annual overview of its outside activities and of the donations made by the Bank in 2011. Ms. Angela Krüger-Steinhoff was appointed as additional member of the Advisory Committee.

The extraordinary meeting on 2 May 2012 was only held to appoint a new member of the Management Board. The Supervisory Board appointed Mr. Wartenweiler to the Management Board effective 1 June 2012 and approved his employment contract.

At its meeting on 31 May 2012 the Supervisory Board dealt with the regular reports, in particular, the report on the Shipping segment, and discussed them with the Management Board. The Supervisory Board agreed to the merger of another subsidiary, HSH Rechnungswesen GmbH, with the Bank to adjust the portfolio of equity holdings and issued a recommendation to that effect to shareholders at the Annual General Meeting. Ms. Jutta Humbert was elected as new member of the Advisory Committee.

The main focus of the Supervisory Board meeting on 30 August 2012 was the discussion of the Bank's half-year financial report. The amendment to the German Corporate Governance Code, published in June 2012, made it necessary to update the Declaration of Conformity and to pass a resolution on a new target for the composition of the Supervisory Board. Finally, the Supervisory Board acknowledged a change of the Equity Holdings Authority Guideline adopted by the Management Board.

At a special meeting on 12 October 2012 the Supervisory Board appointed Mr. Matthias Wittenburg to the Management Board effective 1 January 2013 and approved his employment contract.

On 24 October 2012 the Supervisory Board concerned itself mainly with personnel changes on the Management Board. They related to the resignation of Dr Lerbinger, the appointment of Mr. von Oesterreich as Chairman of the Management Board and of Stefan Ermisch to the Management Board effective 1 December 2012. Moreover, after obtaining legal advice and following in-depth discussion the Supervisory Board decided not to avail itself of any options to dispute the EU state aid decision. The Supervisory Board finally decided to put forward Mr. Stefan Jütte for special election to the Supervisory Board, a step that had become necessary due to the departure of Dr Erdland. In line with the requirements of the Remuneration Directive for Institutions, the Remuneration Report to be published on the Bank's homepage and the Report of the Remuneration Committee on the appropriateness of the compensation systems in the Bank were acknowledged.

The main focus of the meeting on 5 December 2012 was once again on Management Board matters. The Supervisory Board decided on a further adjustment of the Management Board remuneration system in implementation of the requirements of the EU state aid decision of September 2011. Furthermore, the Supervisory Board discussed the reappointment of Mr. Temp for another term of office. Due to the change in the Supervisory Board, a special election in its committees had also become necessary. Finally, the Supervisory Board appointed another member of the Advisory Board, Mr. Erck Rickmers, who was also at the same time appointed as the new Chairman of the Advisory Board effective 1 January 2013.

Where individual members of the Supervisory Board were affected by decisions made by the Supervisory Board or its committees, either personally or on account of their function, or whether other potential conflicts of interest emerged, they did not participate in the deliberations and decisions in the corporate body concerned. For instance, Dr Klemmt-Nissen did not participate in the deliberations and decisions of the Risk Committee in connection with finance deals in which HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH was directly or indirectly involved. Moreover, during a decision on financing in connection with HCI Capital Mr. Kopper abstained because of his personal acquaintance with one of the borrowers in question.

SUPERVISORY BOARD COMMITTEES

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

The *General Committee* met eight times last year. In line with the Rules of Procedure for the Supervisory Board, the General Committee prepared the resolutions of the Supervisory Board and also dealt with Management Board matters, particularly the contracts for members of the Management Board.

At its six meetings the *Risk Committee* dealt primarily with the Bank's risk situation and risk management. The discussion was based, in particular, on the annually presented risk strategy, the integrated market and credit risk strategy, the IT strategy and the strategy for managing operational risks. Using the Risk Report presented quarterly, the Risk Committee discussed the risk situation with the Management Board in depth, particularly also against the backdrop of the persistent shipping crisis and the resultant increase in loan loss provisions. Moreover, it regularly received overviews of the status of borrower units with large loan exposures for the assessment of cluster risks. In addition, it received a report on recent events and developments and their potential impact on the risk situation at all meetings. The same applies to enquiries or audits by the bank regulator with regard to the minimum requirements for risk management, on which the Management Board provided regular information. Furthermore, the Risk Committee dealt with the required adjustments to the internal guidelines for the lending business. Finally, at its meetings the committee was informed about all exposures subject to mandatory reporting and gave its approval to business transactions requiring approval by law.

The *Audit Committee* met four times in 2012. Representatives of the auditor took part in all meetings. During its first meeting, the members of the Audit Committee discussed with the auditor the Bank's annual financial statements and Group financial statements and audit reports for the year 2011. In this context the Audit Committee also discussed the Report on Relations with Affiliated Companies. The Audit Committee sought the Declaration of Independence from the auditor pursuant to Section 7.2.1 of the German Corporate Governance Code and prepared KPMG's appointment for 2012. At the further meetings of the Audit Committee, the auditors presented their findings of the review of the interim reports and discussed them with the committee prior to their publication. Furthermore, the Audit Committee received regular reports on commissioning the auditor with non-audit services. The Audit Committee convinced itself of the efficiency of the Internal Control System, of Compliance and Internal Audit and discussed the relevant reports with the Management Board and the Heads of the Business Units in question. Furthermore, the committee received the results of the securities account audit and the audit of securities service business pursuant to the Securities Trading Act (WpHG) for information purposes. The Management Board additionally reported on the status of enquiries and audit instructions from the bank regulator.

The *Arbitration Committee* to be formed in accordance with the provisions of the German Co-Determination Act convened once in 2012. Following a further meeting on 8 January 2013 the Supervisory Board at its meeting on the same date decided to reappoint Mr. Temp for a further term of office effective 1 May 2013.

No meetings of the *Nominating Committee* were required during the 2012 financial year because direct consultation with the Bank's shareholders had taken place prior to the resolution on nominations of shareholder representatives to the general meeting to fill vacancies.

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

AUDIT AND ADOPTION OF THE FINANCIAL STATEMENTS AND GROUP FINANCIAL STATEMENTS FOR 2012

The auditors of the financial statements and Group financial statements elected by shareholders at the Annual General Meeting, KPMG AG Wirtschaftsprüfungsgesellschaft, have audited the annual and Group financial statements of HSH Nordbank AG and management reports of the parent company and of the Group and granted both an unqualified auditor's certificate.

The Audit Committee discussed documentation used for the financial statements and audit reports on 9 April 2013. The auditors reported on the main findings of their audit and discussed questions with the Audit Committee in detail. The Chairman of the Audit Committee gave a report on the audit before the Supervisory Board at its meeting on

10 April 2013. The auditors also took part in the meeting of the Supervisory Board and reported on their main findings. Following its own examination of the reports of the auditor and in-depth discussion and on the recommendation of the Audit Committee, the Supervisory Board agreed with the findings of the audits and established that following the final result of its own inspections there were no objections to be raised. The Supervisory Board adopted the 2012 annual financial statements drawn up by the Management Board and approved the 2012 Group financial statements. Furthermore, it adopted the report of the Supervisory Board for the 2012 financial year.

Furthermore, the Management Board has presented its own report on relations with associated companies (dependence report) in fiscal 2012 to the Supervisory Board and the statutory auditor on time. The statutory auditor has reviewed the dependence report and issued the following auditor's certificate:

"After due examination and assessment we confirm that

1. the factual statements of the report are correct, and

2. the company's legal transactions with respect to the services listed in the report were not disproportionate."

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

CHANGES IN PERSONNEL

Mr. Jens-Peter Gotthardt resigned from the Supervisory Board effective midnight on 28 February 2012. Ms. Stefanie Arp, the substitute candidate elected by the employees to replace Mr. Gotthardt, took up her post effective 1 March 2012. Ms. Astrid Balduin left the Bank and thus the Supervisory Board effective 1 November 2012. The local courts responsible for the Bank appointed Ms. Sabine Kittner-Schürmann as her successor on the Supervisory Board effective 30 November 2012. On 3 December 2012 the general meeting of shareholders elected Mr. Stefan Jütte as successor to Dr Alexander Erdland, who resigned from the Supervisory Board following the expiry of the general meeting.

Effective 28 February 2013 Messrs. Hilmar Kopper and Detlev Bremkamp resigned from the Supervisory Board. The general meeting of shareholders elected Dr Thomas Mirow and Thomas Losse-Müller as their successors. At its meeting on 28 February 2013 the Supervisory Board elected Dr Thomas Mirow as the new Chairman of the Supervisory Board.

The following changes on the Management Board were made: On 10 February 2012 Dr Martin van Gemmeren resigned from the Bank's Management Board. Effective 1 June 2012 the Supervisory Board appointed Mr. Edwin Wartenweiler to the Management Board. Following the departure of Dr Paul Friedrich Lerbinger at the end of 31 October 2012 from the Bank's Management Board, Mr. Constantin von Oesterreich took over as Chairman of the Management Board. Two other members were newly appointed to the Management Board: Mr. Stefan Ermisch effective 1 December 2012 and Mr. Matthias Wittenburg effective 1 January 2013.

The Supervisory Board would like to thank the Management Board and all employees for their work in connection with the Bank's realignment.

Hamburg/Kiel, 10 April 2013

The Supervisory Board

Dr Thomas Mirow
Chairman of the Supervisory Board HSH Nordbank AG

CORPORATE GOVERNANCE

All statements in this Corporate Governance Report reflect the situation that prevailed on 6 February 2013.

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

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

In accordance with Section 161 of the German Public Companies Act, the Management Board and the Supervisory Board of listed companies are required to publish an annual declaration in which they indicate the extent to which their management and monitoring system complies with or deviates from the recommendations of the German Corporate Governance Code. Our objective is to conform to the Code as fully as possible even as a non-listed company. In February 2013, the Management Board and the Supervisory Board of HSH Nordbank therefore voluntarily issued a declaration of conformity in which the deviations from the Code recommendations were disclosed.

DECLARATION OF CONFORMITY

The Management Board and Supervisory Board of HSH Nordbank declare that, since publishing its last declaration of conformity in August 2012, HSH Nordbank has conformed to the recommendations of the German Corporate Governance Code in the version dated 15 May 2012 in every respect save for the following exceptions. As of the date on which the next declaration of conformity is published, HSH Nordbank will be complying with all the recommendations of the Code in the version dated 15 May 2012 with the exception of the following points.

Section 4.2.3 provides that remuneration of the Management Board shall comprise fixed and variable components.
According to the provisions of the EU state aid decision and the Bank's obligation under the guarantee made available by the states of Hamburg and Schleswig-Holstein, the current Management Board remuneration system does not provide for any variable compensation for members of the Management Board.

Section 4.2.3 (6) states that the Chairman of the Supervisory Board shall inform the shareholders at the Annual General Meeting of the basic elements of the remuneration system once and then of any amendments.
At HSH Nordbank the shareholders are informed via their representatives on the Supervisory Board.

Section 5.3.3 requires the Supervisory Board to form a Nominating Committee that is composed exclusively of shareholder representatives and proposes suitable candidates to the Supervisory Board for its voting proposals to shareholders at the Annual General Meeting.
At HSH Nordbank the voting proposals to the Annual General Meeting of the shareholder representatives on the Supervisory Board are agreed in advance with the representatives of the shareholders.

Section 5.4.6 (2) requires that if variable compensation is offered to Supervisory Board members it be geared to sustainable corporate governance.
The current compensation rules for the Supervisory Board of HSH Nordbank provide for performance-related remuneration for Board members that has a fixed ceiling and is paid only if the Bank pays a dividend for the financial year in question. An amendment to these rules is neither required nor planned for as long as the dividend ban imposed by the EU Commission as part of its state aid decision applies.

Section 5.4.6 (3) provides that the remuneration paid to members of the Supervisory Board be reported separately for each individual and broken down by component in either the Notes or the Management Report.
The remuneration paid to the Supervisory Board is not disclosed on an individualised basis at HSH Nordbank. The shareholders receive sufficient information on the remuneration paid to the members of the Supervisory Board by virtue of the fact that this remuneration is determined by the shareholders themselves at the Annual General Meeting. HSH Nordbank considers this form of disclosure of the remuneration paid to the Supervisory Board to be sufficient for assessing its appropriateness.

Section 7.1.2 Sentence 4 requires that the Group financial statements be published within 90 days and the interim reports within 45 days of the end of the period to which they refer.
HSH Nordbank made its Group financial statements for fiscal 2011 publicly available within the prescribed period, but not its interim reports for the same year. The Bank will probably not publish either its 2012 Group financial statements or the year's interim reports within the recommended period.

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

Hamburg/Kiel, 6 February 2013

For the Management Board:	For the Supervisory Board:
Constantin von Oesterreich	Hilmar Kopper

All declarations of conformity previously published by HSH Nordbank can be viewed in the "Investor Relations" section of HSH Nordbank's website.

SUPERVISORY BOARD

Composition

HSH Nordbank's Supervisory Board consists of 20 members, of whom – in accordance with the provisions of the German Co-Determination Act – half are shareholder representatives and half are employee representatives. The shareholders are represented on the Supervisory Board mainly by shareholders and by independent and renowned representatives of the business community who are independent of the Bank. The members of the Supervisory Board are listed in the Group Explanatory Notes on page 239 of this Annual Report.

Section 5.4.1 of the GCGC stipulates that the Supervisory Board is to state specific objectives regarding its composition which, while considering the specifics of the enterprise, take into account its international activities, potential conflicts of interest, the number of independent Supervisory Board members, an age limit to be specified for the members of the Supervisory Board and diversity. The latter objective particularly calls for an appropriate degree of representation by women. The objective "Number of independent Supervisory Board members" has just been added to the Code in its most recent version. As the Supervisory Board already adopted specific targets with respect to the other objectives during its meeting on 17 February 2011, it passed an amendment concerning the objective newly included in the Code on 30 August 2012.

The Supervisory Board's specific objectives are as follows:

1. HSH Nordbank will seek to have at least one non-German member on its Supervisory Board in the future as well.

2. When nominating new members to the Supervisory Board HSH Nordbank will seek to avoid potential conflicts of interest, while also taking the Rules of Procedure for the Supervisory Board into due consideration, in future as well.

3. HSH Nordbank will seek to adhere to the age limit of 68 years stipulated in the Rules of Procedure for the Supervisory Board as of the date of appointment in future as well.

4. HSH Nordbank will seek to maintain the proportion of representation by women at least at the current level of 20 % in future as well. The Supervisory Board considers a target quota of 30 % to be an appropriate percentage of women for the time being.

5. The Supervisory Board aims to ensure that at least half of its members on the shareholder side will be independent, as is the case at present.

There were three changes to the composition of the Supervisory Board during 2012. As in one case a female member succeeded a man, the proportion of women increased from 20 % to 25 %. The number of non-German members remained unchanged. When nominating the new members, care was taken to avoid potential conflicts of interest. The age limit of 68 years at the time of the appointment was not exceeded in any of appointments.

Modus operandi

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

In keeping with Section 5.6 of the German Corporate Governance Code, the Supervisory Board reviews the efficiency of its activities on a regular basis. The Rules of Procedure for the Supervisory Board (Section 12) provide that this be done every two years. Since the last formal efficiency audit was carried out in mid 2011, no such audit was carried out in 2012.

Detailed information of the work of the Supervisory Board in 2012 is contained in the Supervisory Board Report.

MANAGEMENT BOARD

The Management Board is responsible for managing the Bank and in the Bank's best interests works with HSH Nordbank's other corporate bodies and with the employees' representatives on a basis of mutual trust. It defines the Bank's strategic alignment in consultation with the Supervisory Board. The Chairman of the Management Board represents the Management Board as a collegial body, presides over its meetings and coordinates its work. The Management Board mainly met once a week during the period under review. The members of the Management Board are jointly responsible for running the Bank's business. Their duties and responsibilities are laid down in the Rules of Procedure for the Management Board, as supplemented by the business allocation plan. More detailed information on the composition of the Management Board in 2012 is contained in the Group Explanatory Notes on page 241 of this Annual Report. Details of the remuneration system for the Bank's Management Board can be found in the Group financial statements.

SHAREHOLDERS, ANNUAL GENERAL MEETING

HSH Nordbank's shareholders exercise their rights at the Annual General Meeting. The Management Board convenes the Annual General Meeting once a year, stating the agenda and including the requisite reports and documents.

As well as the Annual General Meeting held in May 2012, a further three extraordinary shareholder meetings were held in 2012: The extraordinary shareholder meeting in January 2012 decided on capital measures in order to comply with requirements in connection with the EU Commission's decision on the state aid proceedings. The topic for the meeting in August 2012 was an amalgamation agreement and in December 2012 the shareholder meeting covered the election of a new Supervisory Board member on the shareholder side.

HSH NORDBANK ADVISORY BOARD

HSH Nordbank AG created an Advisory Board for purposes of providing knowledgeable advice to the Management Board in transacting its business as well as promoting contacts between the economy, public administration and the savings banks. The members of the Advisory Board were appointed by the Supervisory Board on the recommendation of the Management Board.

CHAIRMAN (until 31 December 2012)

Dr Fritz Süverkrüp
Honorary and Vice President
Kiel Chamber
of Industry and Commerce,
Kiel

CHAIRMAN (since 1 January 2013)

Erck Rickmers
Chairman E.R. Capital Holding,
Hamburg
(since 5 December 2012)

DEPUTY CHAIRMAN

Thomas H. Eckelmann
Chairman of the Group Management Board
EUROKAI KGaA,
Hamburg

MEMBERS OF THE ADVISORY BOARD

Barbara Ahrons
Managing Director Ahrons Druck GmbH
Former Spokesperson for economic affairs,
medium-sized businesses and trade
of the CDU parliamentary group
Hamburg Parliament,
Hamburg
(until 30 June 2012)

Dr Jan Behrendt
Managing Partner
Behrendt Wohnungsbau KG (GmbH & Co.),
Hamburg

Michael Behrendt
Chairman of the Board of Management
Hapag Lloyd AG,
Hamburg
(until 30 June 2012)

Götz Bormann
Chairman of the Board of Management
Förde Sparkasse,
Kiel

Hans-Joachim Grote
Lord Mayor
City of Norderstedt,
Norderstedt
(until 30 June 2012)

Stefan Grützmacher
Chairman of the Board of Management
Stadtwerke Kiel AG,
Kiel
(until 30 September 2012)

Christoph von Guionneau
Chief Managing Director
Ludwig Görtz GmbH,
Hamburg
(until 1 November 2012)

Jutta Humbert
Managing Partner
NORD DRIVESYSTEMS Gruppe,
Bargteheide
(since 31 May 2012)

Martin Kayenburg
Former President
Schleswig-Holstein Parliament,
Kiel
(until 30 June 2012)

Andreas Keil
Chief Financial Officer
Tipp24 SE,
Hamburg

Jan Christoph Kersig
Managing Director
Kersig GmbH & Co. KG,
Kiel

Dr Bernd Kortüm
Managing Director
Norddeutsche Vermögen
Holding GmbH & Co. KG,
Hamburg

Angela Krüger-Steinhoff
Managing Partner
Steinhoff Familienholding GmbH,
Westerstede
(since 22 March 2012)

Rüdiger Kruse, MdB
Member of the Budget Review Committee
and Budget Committee
German Bundestag,
Berlin
(until 30 June 2012)

Dirk Lütje
Managing Director
CITTI Handelsgesellschaft mbH & Co. KG,
Kiel

Fritz Horst Melsheimer
President of the Hamburg Chamber of Commerce,
Hamburg

Dr Claus-Georg Nette
Member of the Board of Management
Marquard & Bahls AG,
Hamburg

Wolfgang Pötschke
Chairman of the Board of Management
Sparkasse zu Lübeck AG,
Lübeck

Reinhard Sager
Head of the Ostholstein District authority (Landrat),
Eutin

Dieter Schön
Managing Partner
Schön Klinik Verwaltungsgesellschaft mbH,
Prien

Dr Harald Vogelsang
Spokesperson for the Board of Management
Hamburger Sparkasse AG,
Hamburg

Christian Wriedt
Chairman of the Executive Board
Körber-Foundation,
Hamburg

QUARTERLY OVERVIEW

INCOME STATEMENT

(€ m)

					Following adjustment			
	Q4/2012	Q3/2012[1]	Q2/2012	Q1/2012	Q4/2011	Q3/2011	Q2/2011	Q1/2011
Interest income	1,611	1,969	2,406	2,615	2,676	2,944	3,058	2,976
Interest expenses	–1,350	–1,713	–2,179	–2,307	–2,418	–2,597	–2,708	–2,612
Net income from hybrid financial instruments	151	399	–39	–43	–29	139	–40	–39
Net interest income	**412**	**655**	**188**	**265**	**229**	**486**	**310**	**325**
Net commission income	44	31	20	24	27	32	29	32
Result from hedging	–4	1	15	–6	–3	17	4	–14
Net trading income	101	–129	–7	–203	146	–320	35	–34
Net income from financial investments	–122	23	85	67	–55	27	50	68
Net income from financial investments accounted for under the equity method	–2	–2	–	–10	–10	–1	–52	–4
Total income	**429**	**579**	**301**	**137**	**334**	**241**	**376**	**373**
Loan loss provisions	–198	–347	–68	–43	25	47	244	73
Administrative expenses	–263	–173	–186	–199	–266	–189	–175	–207
Other operating income	–91	29	–31	284	26	–3	9	4
Net income before restructuring	**–123**	**88**	**16**	**179**	**119**	**96**	**454**	**243**
Result from restructuring	–14	–10	–13	–6	–238	1	2	–
Expenses for government guarantees	–71	–74	–77	–80	–87	–585	–99	–112
Net income before taxes	**–208**	**4**	**–74**	**93**	**–206**	**–488**	**357**	**131**
Income tax expenses (–)/income (+)	125	–99	4	31	211	–120	–145	–5
Group net income/loss	**–83**	**–95**	**–70**	**124**	**5**	**–608**	**212**	**126**
Group net income attributable to non-controlling interests	–3	–1	–	–	–2	–	–	1
Group net income attributable to HSH Nordbank shareholders	–80	–94	–70	124	7	–608	212	125

[1] Data according to financial information.

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS
(€ m)

					Following adjustment			
	Q4/2012	Q3/2012[1]	Q2/2012	Q1/2012	Q4/2011	Q3/2011	Q2/2011	Q1/2011
Group net income/loss	**–83**	**–95**	**–70**	**124**	**5**	**–608**	**212**	**126**
Changes in:								
Revaluation reserve (before taxes)	60	101	–2	122	7	–19	51	–10
of which: from exchange rate effects	–2	–4	9	–5	15	11	–	–9
Income taxes not recognised in the income statement	–43	–27	–6	–28	10	–10	–14	1
of which: from exchange rate effects	–	–	–1	1	–1	–	–	–1
	17	**74**	**–8**	**94**	**17**	**–29**	**37**	**–9**
Currency conversion reserve	–9	–15	29	–15	18	29	–13	–18
	–9	**–15**	**29**	**–15**	**18**	**29**	**–13**	**–18**
Actuarial gains/losses (before taxes)	–27	–15	–52	–62	–11	–45	–2	12
Income taxes not recognised in the income statement	10	5	16	20	3	14	1	–4
	–17	**–10**	**–36**	**–42**	**–8**	**–31**	**–1**	**8**
Other comprehensive income for the period	**–9**	**49**	**–15**	**37**	**27**	**–31**	**23**	**–19**
Total comprehensive income	**–92**	**–46**	**–85**	**161**	**32**	**–639**	**235**	**107**
Total comprehensive income attributable to non-controlling interests	–4	–	–	–	–2	–	–	1
Total comprehensive income attributable to HSH Nordbank shareholders	–88	–46	–85	161	34	–639	235	106

1) Including Restatement Goodwill Impairment.

MULTI-YEAR OVERVIEW

HSH NORDBANK GROUP 2008 – 2012[1)]

		2012	Following adjustment 2011	2010	2009	2008
Income statement	(€ m)					
Net income before restructuring		160	912	601	–718	–2,796
Net income before taxes		–185	–206	73	–1,325	–2,968
Group net income/ net loss for the year		–124	–265	104	–743	–2,844
Balance sheet	(€ m)					
Equity		5,272	4,816	5,094	4,442	2,005
Total assets		130,606	135,901	150,945	174,484	208,370
Business volume		138,515	145,409	163,741	192,927	237,796
Capital ratios[1)]	(%)					
Tier 1 capital ratio		12.3	13.8	15.2	10.5	5.1
Regulatory capital ratio		19.1	21.3	22.7	16.1	8.3
Employees						
Total		3,750	4,265	3,852	4,188	5,070
Germany		3,411	3,778	3,251	3,490	4,087
Abroad		339	487	601	698	983

1) Including market risk positions, before adoption of the financial statements

CONTACT/ IMPRINT

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Note

If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a gender-specific manner, but occurs exclusively for the sake of better readability.

This Annual Report was published on 11 April 2013 and is available for download at www.hsh-nordbank.com.

This is an English translation of the original German version of the Annual Report.

Forward-looking statements

This Annual Report includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this Annual Report. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this Annual Report does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

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