

INTERIM REPORT AS OF 30 JUNE 2012

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WRK

STARK FÜR UNTERNEHMER

[Strong for entrepreneurs]

HSH NORDBANK

at a **GLANCE**

INCOME STATEMENT

(€ m)

	January - June 2012	January - June 2011
Net income before restructuring	211	697
Net income before taxes	35	488
Group net income	70	338

BALANCE SHEET

(€ bn)

	30.6.2012	31.12.2011
Equity	5.4	4.8
Total assets	138.1	135.9
Business volume	145.9	145.4

CAPITAL RATIOS ¹⁾

(%)

	30.6.2012	31.12.2011
Tier 1 capital ratio	12.7	13.8
Tier 1 capital ratio excl. hybrid financial instruments	10.0	10.3
Regulatory capital ratio	19.4	21.3

EMPLOYEES

	30.6.2012	31.12.2011
Full-time positions	3,436	3,684
Total employees	4,031	4,265
Germany	3,612	3,778
Abroad	419	487

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities ²⁾	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa2	Aa1	Aa1	Aa1	Baa1
Fitch	A-	AAA	-	-	-

¹⁾ including market risk positions; taking the financial statements as at 30 June into account

²⁾ Obligations covered by "Gewährträgerhaftung" (guarantee obligation)

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Ladies and gentlemen,

The underlying economic conditions have become increasingly gloomy over the course of the past few months. In addition to the European debt crisis and the associated depreciation of the euro the figures of HSH Nordbank as at 30 June 2012 reflect the renewed deterioration in the situation in the shipping industry. The negative impact of these market developments is unfortunately currently masking the progress that we have already achieved in the systematic strategic realignment of the Bank.

Group net income of HSH Nordbank amounted to € 70 million for the first six months of the year compared to € 338 million for the comparable period in the previous year. Before taking into account the restructuring expense incurred in the course of the reorganisation of the Group, expenses for government guarantees and tax effects, the Bank generated net income of € 211 million compared to € 697 million for the comparable period in the previous year.

The major factors influencing Group net income were, on the one hand, the measurement effects caused by developments in the financial markets as well as the reduction in interest-bearing assets as result of the winding down of risk positions in our Restructuring Unit, which had a greater impact on income over the past few months than the increase in new business. On the other hand, a significantly higher loan loss provision expense was recognised in the lending business. This mainly related to the Bank's shipping portfolios. In contrast, Group net income benefitted from positive one-off effects.

At the same time the risk-weighted assets of the Bank increased markedly as a result of the negative market environment – despite the continued winding down of portfolios in our Restructuring Unit. This also inevitably affected the capital ratios. At 10 %, the Tier 1 capital ratio excluding hybrid bonds, also called the common equity ratio, however exceeded the stringent minimum figure set by the European Banking

Authority of 9 % thanks to the measures implemented in the first six months of the year to strengthen the capital base.

We further increased business with our customers on a risk-conscious basis in the realigned core areas. Despite a generally restrained demand for loans we were able to increase the amount of new financings transacted compared to the first six months of 2011. We see this trend as evidence of the increasing acceptance of our new business model with the clear focus on entrepreneurs. Over the past few months the Bank has implemented a series of initiatives to further exploit business potential and has driven forward the strengthening of the sales function.

Ladies and Gentlemen, the macroeconomic conditions and developments in the financial markets will continue to have a significant effect on the Bank's situation over the rest of the year. We must therefore expect additional burdens in the second half of the year. We are currently reviewing possible measures in order to equip HSH Nordbank for the increasing challenges ahead and to reduce the increased risk potential. Notwithstanding this we will continue to implement HSH Nordbank's business model for entrepreneurs and also want to consistently exploit in the future the opportunities presented by the Bank's reorganisation having strict regard to the EU requirements applicable to our Bank.

DR PAUL LERBINGER

Chairman of the Management Board of HSH Nordbank



Dr Paul Lerbinger
Chairman of the Management Board of HSH Nordbank

UNDERLYING CONDITIONS

and BUSINESS OVERVIEW

UNDERLYING CONDITIONS

Cooling down of the global economy

Global economic growth slowed down during the course of the first half of the year. Even the Asian region, which started the year relatively dynamically, showed signs of a slowdown in the second quarter due to the debt crisis in the eurozone. The crisis once again worsened in the spring and caused the economic output in the eurozone to decline in the second quarter after having stagnated at the beginning of the year. The US economy continued to expand at a moderate pace – driven by rising consumer demand and increased investment.

The situation in the shipping markets as at the middle of the year has again deteriorated significantly following a temporary improvement in sentiment. Freight rates in the key markets remained at a very low level due to demand growing at a lower rate than expected and, at the same time, a rapidly growing transport capacity.

The German economy proved to be relatively robust – not least because of the decrease in unemployment and higher wage increases. However, the mood in Germany, particularly at industrial companies, has also worsened significantly during the first half of the year in light of the fall in demand from the European crisis countries.

Financial markets characterised by renewed turbulence

Tensions in the financial markets abated in the first few months of the year. The key factor behind this was the inflow of additional central bank liquidity from the ECB, which improved the liquidity situation of the European banks as well as the refinancing conditions of the periphery countries. In addition, thanks to the rescheduling of Greek government bonds and approval of the second rescue package for Greece, agreement on the part of European governments to a fiscal package, agreement on an increase in the “firewall” out of the European Financial Stability Facility, EFSF, and agreement with regard to the planned European Stability Mechanism, ESM, progress was made in coping with the European debt crisis.

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. The rising aversion to risk was reflected in the substantial widening of the spreads on government bonds of periphery countries versus German government bonds. At the same time the yield on the ten year German government bond considered as a “safe haven” fell to a new low by the beginning of June. Following a temporary increase in March, yields on US treasuries with the same maturity have also fallen again since. Yields on German government bonds in particular, but also on US treasuries, rose temporarily following the victory of Greek reform-oriented parties in the Greek national elections.

At the end of June the governments of the euro member states adopted further resolutions regarding in particular the future possibility of the ESM providing direct assistance to banks, the introduction of a common European banking supervisory authority, easier access to assistance from the ESM as well as a € 120 billion growth package. The rescue package for the Spanish banking sector promised to be provided from EFSF funds was finally approved by the eurozone ministers of finance in the middle of July. Nevertheless nervousness in the financial markets increased again in July due to concerns about further financial aid being required by Spain as well as a potential default on the part of Greece.

In light of the weak economies in many industrialised countries, the large central banks exhibited strong expansionary tendencies. The Fed, the US central bank, decided to continue its programme of restructuring its bond portfolios in favour of longer maturities (“Operation Twist”) until the end of the year. Furthermore, it indicated that it will retain the key interest rate at its current low level until at least the end of 2014 and also left open the possibility of making further bond purchases. The ECB initially acted cautiously following the extraordinary measures implemented in December 2011 and February 2012 to increase liquidity. However, it decided in June to maintain the full allocation of central bank liquidity in its tender operations until the beginning of next year. It also relaxed its collateral requirements. Furthermore, in July, it reacted to the increased risk of recession and tensions in the financial markets by reducing the key interest rate to a new historical low.

The foreign exchange markets were also affected by the recent escalation of the debt crisis in the eurozone. After a period of several months during which the Euro fluctuated in relation to the US dollar above the 1.30 level, it has depreciated since the beginning of May. Following a temporary period of stabilisation during the Greek elections and EU summit the exchange rate stood at 1.26 at the end of June, below the level prevailing at the beginning of the year. It subsequently fell again on increasing concerns about Spain and Greece.

The situation in the international stock markets worsened over the course of the first half of the year. Share prices declined sharply in the second quarter following the strong gains recorded in the first three months. The bottom line was that the DAX was still up by about 9% for the first half of the year. The correction was caused by the recurrence of the debt crisis and weaker growth expectations for national economies in Europe and emerging markets. The marked restraint exhibited in some companies' profit forecasts is also affecting investor sentiment.

Banking sector is suffering from the debt crisis

The funding situation within the European banking sector eased significantly as a result of the provision of approximately € 1 trillion in liquidity with a three-year maturity by the ECB. However, investor confidence in the creditworthiness of banks which can be derived from the premiums payable on bond insurance operations decreased significantly again in the spring due to recurring concerns about the financial situation of the periphery countries and the weak economy. The very difficult environment for European banks is also reflected in a number of rating downgrades of banks in recent months. The extension of credit to private households and businesses, which had declined significantly at the end of the previous year, continues to be restrained. Banks are reacting to the stringent regulatory capital and liquidity requirements by, inter alia, winding down risk positions and partially withdrawing from individual business fields.

BUSINESS OVERVIEW

Continued implementation of the strategy

In the first half of the year HSH Nordbank continued its strategic and organisational realignment that was initiated in

the second half of 2011 based on the EU decision regarding the Bank. The objective is to establish HSH Nordbank as a successful medium-sized "bank for entrepreneurs" in our core markets.

The adjusting of structures and processes to the declining size of the Bank and the resultant substantial reduction in administrative expenses are key for the success in implementing the new business model. The cost trends within the Bank are moving in the right direction in the current year. The reduction in staff agreed between the Bank and the works council at the end of 2011 and which was set in motion in the business units at the beginning of 2012 is making a significant contribution to this progress. The number of HSH Nordbank employees (computed on a full-time equivalent (FTE) basis) has further declined by 248 to 3,436 as a result of the measures initiated since the end of 2011. Including the already contractually agreed terminations and hiring of staff, that only take effect after 30 June, about half of the staff reductions planned up to 2014 has already been achieved.

Another core element of the strategy is the risk-conscious expansion of client business in the realigned core business areas. Following a moderate start to the year new business transacted with clients picked up in the second quarter, although there was a noticeable general reluctance on the part of clients to invest and a restrained demand for loans. Nevertheless, new financing business entered into increased compared to the previous year. This increase has not yet been discernibly reflected in income due to the simultaneous continuation of the winding down of non-strategic business in the first half of the year. Over the past few months the Bank has launched targeted initiatives in the product and sales departments in order to further exploit business potential, the implementation of which is regularly reviewed as part of a central project management process.

In the first half of the year the Bank has also consistently continued to wind down equity holdings and portfolios as part of the commitment made to the EU Commission and implemented the additional EU requirements in a consistent manner. Since the start of 2012 compliance with the EU requirements and commitments is being monitored by an independent trustee.

BUSINESS DEVELOPMENTS

OVERVIEW OF BUSINESS PERFORMANCE

Net income after tax of € 70 million – marked negative market environment

The critical macroeconomic environment and difficult market conditions are reflected in HSH Nordbank's results for the first six months of 2012. Net income after tax amounted to € 70 million as at 30 June 2012 compared to € 338 million for the first six months of the previous year. Prior to taking into account restructuring expenses, expenses for government guarantees and tax effects, the Bank generated net income of € 211 million (previous year: € 697 million). Besides the on-going crisis in the shipping markets increasing concerns in the second quarter regarding the eurozone accompanied by the significant depreciation of the euro against the US dollar, amongst others, affected the Bank's position as at the end of the first half of the year.

On the one hand, higher loan loss provisions, particularly in the area of shipping, had a significant impact on Group net income. To the extent that loan loss provisions are recognised on portfolios covered by the second loss guarantee of the federal states of Hamburg and Schleswig-Holstein, the resultant loan loss provision expense was offset by the guarantee as part of the balance sheet hedging effect.

On the other hand, total income was adversely impacted by measurement effects caused by market volatility as well as the on-going winding down of non-core activities in accordance with the EU requirements that led to a reduction in interest-bearing assets. The successful repurchase of subordinated bonds, income from the disposal of non-strategic equity holdings and lower expense for public guarantees had a positive effect.

The Tier 1 capital ratio excluding hybrid instruments (common equity ratio) was 10.0 % as at the end of the first six months of the year (31 December 2011: 10.3 %); it was therefore above the regulatory minimum value and the ratio set by the European Banking Authority of 9 %. The decrease compared to the 2011 year end is attributable to a significant increase in risk-weighted assets, which was only partially offset by measures implemented to strengthen the capital base.

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

EARNINGS SITUATION

INCOME STATEMENT

(€ m)

	January – June 2012	After adjustment January – June 2011	Change in %
Interest income	5,021	6,034	-17
Interest expense	-4,486	-5,320	-16
Net income from hybrid financial instruments	-82	-79	-4
Net interest income	453	635	-29
Net commission income	44	61	-28
Result from hedging	9	-10	> 100
Net trading income	-210	1	> -100
Net income from financial investments	152	118	29
Net income from financial investments accounted for under the equity method	-6	-56	89
Total income	442	749	-41
Loan loss provisions	-111	317	> 100
Administrative expenses	-385	-382	1
Other operating income	265	13	> 100
Net income before restructuring	211	697	-70
Result from restructuring	-19	2	> -100
Expenses for government guarantees	-157	-211	-26
Net income before taxes	35	488	-93
Income tax expenses (-)/ income (+)	35	-150	> -100
Group net income	70	338	-79
Group net income attributable to non-controlling interests	9	1	> 100
Group net income attributable to HSH Nordbank shareholders	61	337	-82

Income influenced by asset reductions as well as measurement and one-off effects

The individual income and expense items were influenced by the following developments in the first six months of 2012:

Net interest income amounted to € 453 million for the first half of 2012 compared to € 635 million for the same period in the previous year. The continued focussing of the business in accordance with the EU requirements had a noticeable impact causing the interest-bearing loan volume to further decrease. The low level of interest rates also had a negative impact. Positive effects arising from the increase in new business and prolongations could not offset the continued reduction in risk positions in the first six months of the year. The measurement of hybrid financial instruments had an effect of € -82 million (previous year: € -79 million).

At € 44 million, net commission income was also lower than that of the previous year (€ 61 million). In addition to reduced loan commission on new business the sale in the previous year of the retail client business of the Luxembourg subsidiary also had an impact on the securities business.

Net trading income which amounted to € -210 million (previous year: € 1 million), reflects the continued high volatility in the markets. Changes in the value of interest rate / currency derivatives (EUR / USD basis swaps) used to refinance foreign currency transactions had the most significant effect on the results. The market value of basis swaps is principally determined by the spread, which has narrowed considerably as at the end of the first six months of the year. The measurement and redemption of own issues at fair value also had a negative effect. The change in value of positions held in the credit investment portfolio had an overall positive effect as at the end of the first six months of the year; this applies to both net trading income and net income from financial investments.

Net income from financial investments increased to € 152 million compared to € 118 million in the previous year. Disposals of non-strategic equity holdings (Qundis Group and Spheros Management GmbH, amongst others) had a significant impact. In addition, write-ups on securities made a positive contribution to income. A counteractive effect resulted from portfolio valuation allowances recognised by the Bank on securities in light of the increased sovereign risk.

Details on our exposure to selected European countries are set out in the default risk chapter in the Risk Report.

The Bank recognised income of € 261 million from a repurchase of publicly placed subordinated bonds transacted in the first quarter under Other operating income of € 265 million (previous year: € 13 million). Income resulted from the difference between the nominal amount of the bonds and their repurchase price.

Higher loan loss provisions partially offset by the guarantee effect

The Bank reported a negative result of € -111 million in the loan loss provisions item compared to a positive € 317 million in the same period of the previous year. This trend reflects the downturn in the global economy and difficult conditions within individual markets. Due to the on-going shipping crisis, the largest need for provisions related to restructuring commitments in the Bank's shipping portfolios. In addition, increased loan loss provisions in various credit areas within the Restructuring Unit also had a negative effect. Currency effects also had a negative influence.

Loan loss provisions continued to be partially offset by the hedging effect of the second loss guarantee, which reduced expenses for loan loss provisions by € 346 million in the first six months of 2012. An additional premium of € -84 million imposed by the EU for the guarantee is included in this amount.

As at 30 June 2012 the guarantors, Hamburg and Schleswig-Holstein, have waived their claim to the additional premium (waiver of claim) via HSH Finanzfonds AöR and deferred this against the granting of a so-called debtor warrant. This measure was consistent with the EU requirements for ensuring an adequate common equity ratio (Tier 1 capital ratio excluding hybrid instruments). This does not affect income as the income arising from the waiver of claim is offset by the expense incurred on the debtor warrant. Further information on this can be found below under "Tier 1 capital ratio adversely impacted by increase in risk-weighted asset" as well as in Note [2] of the Explanatory Notes.

The balance sheet utilisation of the second loss guarantee has increased significantly due to the valuation allowances required and the appreciation of the US dollar in the first six months of the year. However, the hedging effect did not

result in a cash draw down of the guarantee as at the balance sheet date. Details on loan provisions are set out in Notes [11] and [20], and on the second loss guarantee in Note [2].

Cost reductions are showing results

Administrative expenses reflect the continued progress of the cost reduction measures approved during the previous year. Administrative expenses decreased by € 22 million after adjusting for the numerous entities included for the first time in the 2011 consolidated financial statements. Without taking this effect into account these expenses increased slightly from € -382 million to € -385 million. The decrease in personnel expenses after adjusting for consolidation effects is attributable to further reductions in headcount. Compared to the end of 2011, headcount within the Group declined by 248 to 3,436 (computed on a full-time equivalent (FTE) basis). In the case of operating expenses, the Bank achieved savings in various operating expense items including external consultancy services and projects. However, impairment losses recognised on real estate held by consolidated companies had a negative impact.

Expenses for government guarantees reduced

Total expenses for government guarantees declined during the first six months to € 157 million (previous year: € 211 million). The largest portion of this amount is attributable to the second loss guarantee issued by the federal states of Hamburg and Schleswig-Holstein. Thanks to the gradual reduction over the course of 2011 by € 3 billion to € 7 billion, expenses for the guarantee declined to € 141 million (€ 171 million). Costs for the guarantees of the Financial Market Stabilisation Fund (SoFFin) fell to only € 16 million due to reductions (previous year: € 40 million). The Bank repaid its last SoFFin guaranteed bond of € 3 billion as scheduled in July 2012.

Group net income of € 70 million

In total, developments during the first half of 2012 resulted in net income before taxes of € 35 million compared to € 488 million for the same period in the previous year. After taking into account income tax effects of € 35 million (previous year: € -150 million), Group net income amounted to € 70 million (previous year: € 338 million).

NET ASSETS AND FINANCIAL POSITION

ASSETS

(€ m)

	30.6. 2012	31.12. 2011	Change in %
Cash reserve	1,695	1,866	-9
Loans and advances to banks	12,950	8,036	61
Loans and advances to customers	87,492	90,607	-3
Loan loss provisions	-3,447	-3,603	-4
Positive fair values of hedging derivatives	2,270	2,165	5
Positive adjustment item from portfolio fair value hedges	343	311	10
Trading assets	11,556	11,981	-4
Financial investments	23,229	22,388	4
Financial investments accounted for under the equity method	14	41	-66
Intangible assets	77	88	-13
Property, plant and equipment	238	240	-1
Investment property	112	98	14
Non-current assets held for sale and disposal groups	79	122	-35
Current tax assets	166	226	-27
Deferred tax assets	1,206	1,156	4
Other assets	153	184	-17
Total assets	138,133	135,906	2

LIABILITIES

(€ m)

	30.6. 2012	31.12. 2011	Change in %
Liabilities to banks	27,930	24,685	13
Liabilities to customers	43,713	40,239	9
Securitised liabilities	35,580	39,381	-10
Negative fair values of hedging derivatives	814	680	20
Negative adjustment item from portfolio fair value hedge	1,476	1,354	9
Trading liabilities	12,403	12,900	-4
Provisions	1,681	1,593	6
Current tax liabilities	19	28	-32
Deferred tax liabilities	15	13	15
Other liabilities	1,414	1,900	-26
Subordinated capital	7,666	8,308	-8
Equity	5,422	4,825	12
Share capital	3,018	2,635	15
Capital reserve	925	809	14
Retained earnings	1,578	1,911	-17
Revaluation reserve	-122	-210	-42
Currency conversion reserve	-43	-57	-25
Group income/loss	61	-257	> 100
Total before non-controlling interests	5,417	4,831	12
Non-controlling interests	5	-6	> 100
Total equity and liabilities	138,133	135,906	2

Total assets increased

In the first six months of 2012 HSH Nordbank's total assets increased by some € 2 billion to € 138,133 million (31 December 2011: € 135,906 million) despite the continued decrease in volume. The appreciation in the US dollar in the first six months of the year, amongst other things, contributed to this increase.

The largest increase on the asset side of the balance sheet was recorded in loans and advances to banks. These increased by just under € 5 billion to € 12,950 million. This is attributable to higher deposits placed at other banks as well as collateralised money market transactions entered into as part of the operational liquidity management process. On the other hand, the continued concentration on the core business resulted in loans and advances to customers decreasing to € 87,492 million (31 December 2011: € 90,607 million).

Total loan loss provisions decreased slightly to € -3,447 million (31 December 2011: -€ 3,603 million). This reduction is attributable to the deduction of the compensating item on the assets side – which had risen by € 346 million compared to the end of the previous year – based on the hedging effect of the second loss guarantee. Without taking the compensating item into account, total loan loss provisions would have risen by about € 200 million due to increased additions to specific loan loss provisions. See Note [2] and Note [20] in the Explanatory Notes for additional information.

Financial investments increased slightly to € 23,229 million (31 December 2011: € 22,388 million). This is attributable to the investment of liquidity in securities in particular. The reduction in equity holdings and investments in affiliates had an offsetting effect. At € 11,556 million, trading assets decreased slightly compared to the end of 2011 (€ 11,981 million).

The increase in liabilities to banks to € 27,930 million (31 December 2011: € 24,685 million) is primarily attributable to USD refinancing transactions with the ECB in the first quarter of 2012. These transactions replaced derivative transactions in the FX swap market. Liabilities to customers also increased in the first six months of 2012 and reached a level of € 43,713 million (31 December 2011: € 40,239 million). This was primarily attributable to higher demand and fixed-term deposits from customers.

At € 35,580 million, securitised liabilities were lower at the end of the first six months compared to the end of the previous year (€ 39,381 million) as a result of a SoFFin-guaranteed bond of € 3 billion maturing at the beginning of 2012.

As at 30 June 2012, subordinated capital totalled € 7,666 million (31 December 2011: € 8,308 million). The repurchase of subordinated bonds during the first quarter as well as maturing issues contributed to this decline.

Equity increased to € 5,422 million (31 December 2011: € 4,825 million). Share capital and capital reserves increased by means of the re-investment of a one-off payment (€ 500 million) which had been recognised as an expense in the 2011 consolidated financial statements.

Compared to the end of the previous year, business volume increased slightly to € 145,898 million (31 December 2011:

€ 145,415 million). The increase in total assets was offset by reductions in guarantees and warranty agreements (€ 2,427 million; 31 December 2011: € 2,741 million) as well as in irrevocable loan commitments (€ 5,338 million; 31 December 2011: € 6,767 million).

Tier 1 capital ratio adversely impacted by increase in risk weighted assets

REGULATORY CAPITAL RATIOS ¹⁾ (%)

	30.6.2012	31.12.2011
Equity ratio (solvency coefficient)	18.6	22.4
Total ratio/Regulatory capital ratio	17.8	21.0
Tier 1 capital ratio	12.3	15.1
Tier 1 capital ratio (including market risk positions)	11.6	13.8
Tier 1 capital ratio excl. hybrid financial instruments (incl. market risk positions)	8.9	10.0

¹⁾ Report pursuant to the German Solvency Regulation (without taking into account the financial statements as at 30 June 2012).

REGULATORY CAPITAL RATIOS TAKING INTO ACCOUNT THE FINANCIAL STATEMENTS AS AT 30 JUNE 2012. (%)

	30.6.2012	31.12.2011
Equity ratio (solvency coefficient)	20.2	22.8
Total ratio/Regulatory capital ratio	19.4	21.3
Tier 1 capital ratio	13.5	15.1
Tier 1 capital ratio (including market risk positions)	12.7	13.8
Tier 1 capital ratio excl. hybrid financial instruments (incl. market risk positions)	10.0	10.3

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)

	30.6.2012	31.12.2011
Regulatory capital pursuant to Section 3 (1) Sentence 1 in conjunction with Section 2 (6) Sentence 1 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)	60.7	45.9
of which: Risk assets counterparty default risk	53.1	38.2

¹⁾ Report pursuant to the German Solvency Regulation (without taking into account the financial statements as at 30 June 2012).

The Tier 1 capital ratio, excluding hybrid instruments, (common equity ratio) was 10.0 % as at the end of the first six months of the year (31 December 2011: 10.3 %); it was therefore above the regulatory minimum value and the ratio set by the European Banking Authority of 9 %. The Tier 1 capital ratio, including market risk positions, was 12.7 % (31 December 2011: 13.8 %) and the regulatory capital ratio reached 19.4 % (31 December 2011: 21.3 %). These figures take the interim financial statements for the first six months of 2012 into account.

The reduction in the capital ratios compared to the 2011 year end is attributable to the significant increase in risk weighted assets that has only been partially offset by the measures implemented to strengthen the capital base, the continued winding down of non-strategic portfolios as well as the hedging effect of the second loss guarantee. The increase in risk weighted assets was caused by adverse market developments. The renewed appreciation of the US dollar over the past few months as well as the crisis in the shipping markets, which caused the risk parameters to deteriorate significantly, had a major impact.

The capital increase of € 500 million, under which – in accordance with an EU condition – the one-off payment made to the federal states of Hamburg and Schleswig-Holstein in the previous year was reinvested in the Bank as well as the repurchase of subordinated bonds in the first quarter, had a positive impact on the ratios. The Tier 1 capital was also strengthened by the receivables waiver of the guarantor in favour of a debtor warrant for the additional premium. This measure was consistent with the EU requirements for ensuring an ade-

quate common equity ratio. See Note [2] in the Explanatory Notes for more details.

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

Refinancing in the first six months of the year

It was possible to expand the funding base of HSH Nordbank on a stable basis in the period between January and June 2012.

The focus of the issuing activities remained the placement of unsecured bonds with the German Sparkassenverbund (Savings Bank Association) and institutional investors. Sales of Pfandbriefe were successful. The Bank was able to benefit in the first half of the year from the good economic conditions for German Pfandbriefe which are internationally regarded as high-quality and safe investments. The most significant issues of the Bank included two benchmark mortgage Pfandbriefe which the Bank placed successfully in the market in March and May in an amount of € 500 million each and with a term of five and four years respectively. The issues were in high demand among both domestic and foreign institutional investors. The Bank issued further Pfandbriefe as private placements, some of which are denominated in foreign currencies. For example, the Bank was able to place a mortgage bond of USD 75 million.

In total, the Bank was able to exceed the plan target for 30 June 2012 set for its issuing strategy.

In order to develop additional primary US dollar funding, the Bank was able to enter into several repo transactions during the first six months of the year and thereby expanded the refinancing of US dollar transactions by means of asset-based transactions.

In addition to issuing activities, a well-diversified mix of fixed-term and demand deposits from corporate customers, banks and other institutional investors contributed to funding of the Bank's business. Deposit levels were also increased in the first six months through targeted initiatives. HSH Nordbank's free collateral pool held as a liquidity reserve at central banks increased in the second quarter to some € 14 billion. The Bank repaid its last SoFFin-guaranteed bond of € 3 billion as scheduled in July 2012.

The Risk Report section of this Interim Report contains detailed information regarding the liquidity and risk situation.

SEGMENT REPORTING

Reorganisation of the Core Bank continued

The repositioning of the business units and the creation of an integrated and uniform sales organisation was driven forward in the first six months of 2012 in the Core Bank, which comprises the business areas strategically relevant for the future. The strategic programme established as part of the EU decision was further implemented as a result.

Total assets of the Core Bank amounted to about € 82 billion as at 30 June 2012 (31 December 2011: € 77 billion). Core Bank net income before restructuring, including consolidation effects, reached € 62 million (previous year: € 361 million).

Details of market and business trends within the Bank's individual segments are provided below.

SEGMENT OVERVIEW AS AT 30 JUNE 2012

(€ m)

		Corporate and Private Clients	Products, Capital Markets and Corporate Center	Consolida- tion Core Bank	Total Core Bank	Restructur- ing Unit	Consolida- tion Restructur- ing Unit	Total Restructur- ing Unit
	H1-2012	444	-30	-277	137	473	-168	305
Total income	H1-2011	513	53	-34	532	313	-96	217
	H1-2012	-148	-7	61	-94	-301	284	-17
Loan loss provisions	H1-2011	101	-14	-34	53	62	202	264
	H1-2012	126	154	-218	62	33	116	149
Net income before restructuring	H1-2011	404	27	-70	361	230	106	336

CORPORATE AND PRIVATE CLIENTS SEGMENT

The Corporate and Private Clients segment combines the business conducted with corporate clients, real estate clients, private clients, shipping clients and clients in the energy & infrastructure industry.

CORPORATE AND PRIVATE CLIENTS SEGMENT

(€ m)

		Corporate and Private Clients	Shipping	Energy & Infrastruc- ture	Corporate and Private Clients	Real Estate Clients
Total income	H1-2012	444	176	63	124	81
	H1-2011	513	218	52	155	88
Loan loss provisions	H1-2012	-148	-153	6	-6	5
	H1-2011	101	158	-3	-	-54
Administrative expenses	H1-2012	-181	-64	-24	-58	-35
	H1-2011	-212	-76	-26	-76	-34
Other operating income	H1-2012	11	2	4	4	1
	H1-2011	2	2	2	-1	-1
Net income before restructuring	H1-2012	126	-39	49	64	52
	H1-2011	404	302	25	78	-1
Segment assets (€ bn)	30.6.2012	42	19	5	9	10
	31.12.2011	43	19	5	9	10

Heterogeneous market trends

In our view, the markets important for our corporate and private client business were characterised in the first six months of the year by the following trends:

The German economy benefited in the first six months of the year from stimuli provided by foreign trade and private consumption and continued to be relatively robust, although corporate sentiment has worsened due to the on-going debt crisis in Europe. Exports, particularly within the eurozone, suffered from the economic weakness of many of these European countries, whereas exports to third countries outside Europe continued to bolster the economy. The fall in the oil price provided relief on the cost side. The good situation in the German labour market was one of the main pillars of consumer demand. Sales in the German retail sector remained at a more than stable level despite consumer uncertainty caused by the debt crisis.

The German real estate markets benefitted from the relatively strong German economy. The turnover of office space remained quite brisk in the office real estate markets and rents are continuing to rise in some major cities. Following the continued dominant position of international retailers the domestic chain stores were also very active again in the retail rental market. Retail rents remained stable at a high level. Demand in the residential real estate markets in metropolitan regions remains as high as ever resulting in a strong rise in rents. Demand in the commercial real estate market remained strong on a partially scarce supply. In addition to retail space, investors were again on the search for office properties. Residential portfolios were also still in very strong demand.

The renewable energy sector is currently being greatly expanded in many countries. This applies in particular to the solar and wind energy areas. In Germany, it was decided to cut public subsidies in view of the strong growth. As things stand now, future photovoltaic projects above 10 Megawatts

peak (MWp) will no longer be subsidised. Due to the transitional period arrangements existing projects should not be impacted by the reduction in the support measures. Offshore wind energy activities are being delayed due to the slow pace of development of grid connections. The investment decision for an offshore wind farm generating about 1 gigawatt was recently deferred as a result of uncertain timetables and unclarified questions regarding liability. The German Federal Government wants to present a solution for this question of liability in the second half of the year, which would also remove any obstacles to the financing. The market volume of project financings for renewable energies in Europe remained at a very moderate level in the first half of the year. This reflects, on the one hand, the effects of the European debt crisis and, on the other, the specific uncertainties in this sector.

Project financings concluded in the first half of the year for transport infrastructure in Europe were substantially above the volume in the same period of the previous year. This sector has not yet shown any signs of the current economic weakness.

Following a slow start to the year shipping markets also showed no signs of improvement in the second quarter. The temporary improvement in sentiment gave way to another sharp rise in uncertainty in the middle of the year. Demand in the most important market segments was worse than expected on an overall basis. In particular, container traffic from Asia to Europe suffered from the recession in the Euro periphery countries, and the traffic volume to North America also remained below expectations. The bulk shipping market was affected by the weakening Chinese economy. Following a positive trend at the beginning of the year demand for oil shipments decreased slightly in the second quarter due to the weak global economy.

On the other hand transport capacity is still growing strongly. Ship deliveries continue at a high level; in the case of bulkers they have reached a historical high. The continued high scrapping levels are having a positive effect and are somewhat easing the supply pressure. High fuel prices also reduced the effective capacity, because ship speeds were reduced to decrease fuel consumption.

As a result of trends on the supply and demand side freight and time charter rates in all three markets (container ships, bulkers and oil tankers) were at very low levels that only

partially covered costs. In the case of liner traffic container shipping companies were able to push through freight rate increases that were also reflected in slightly increased time charter rates. The freight rates for bulkers also increased slightly after reaching a 26 year low in February. This has not yet had any effect on the time charter rates. Freight rates for oil tankers declined further, whereas time charter rates continued their slightly upward trend. Ship prices for five year old second-hand ships in all market segments moved sideways at a very low level. However, newbuild prices continued to fall slightly.

Investor interest in private banking continued to be mainly focussed on safe short-term investments. The general reluctance of customers to invest was also noticeable in the first six months of the year.

Focus on expanding customer relationships

In the first half of the year the customer departments pushed forward with the acquisition of new business, the repositioning of the Bank in the core markets and further development of customer relationships. We were able to expand our new lending business compared to the first six months of 2011 despite a generally restrained demand for loans and customer uncertainty caused by the European debt crisis. Targeted sales initiatives are being implemented to further expand the financing business and make cross-selling even more successful. Furthermore, we have supported clients by prolonging existing commitments as part of our risk-conscious business policy.

Net income marked by loan loss provision expense

Net income of the Corporate and Private Clients segment is significantly impacted by higher valuation allowance expense for credit risks related to shipping commitments. The Bank has thus taken into account the very difficult situation in the shipping sector. Loan loss provision expense for the segment has increased in total to € -148 million compared to a net reversal of € 101 million in the same period of the previous year. Currency effects also had a negative effect as at 30 June 2012.

Total income of the Corporate and Private Clients segment amounted to € 444 million (previous year: € 513 million). The reclassification of transactions into the Restructuring Unit in the fourth quarter 2011 in accordance with the EU requirements is reflected, amongst other things, in this develop-

ment. Furthermore, non-recurring income arising from the disposal of non-strategic equity holdings was recognised in the first six months of the previous year. These developments resulted in net income for the segment of € 126 million (previous year: € 404 million).

OUTLOOK CORPORATE AND PRIVATE CLIENTS SEGMENT

Market developments hampered by great uncertainty

In our view, the markets important for our business with corporate and private clients will develop as follows over the remainder of the year:

Germany's economic situation is better than that of many other countries within the eurozone. The expected growth of the German economy for the full year forms the basis for the targeted new business with corporate clients. However, the sovereign debt crisis may affect the upwards trend of the economy more strongly than currently assumed. The ifo Business Climate Index has recently dropped noticeably, although it remains at a relatively high level. It remains to be seen whether the current mood of the markets is negatively impacting economic development on an only temporary or a more sustained basis. Consumer demand in particular should provide positive stimuli this year.

The demand for space in the German office real estate markets should decline over the course of the year. However, new space should be fully absorbed by the market. Modern space is therefore still in short supply and the vacancy rate should decrease further. Rents should continue to increase. A continued high demand for space from retailers is expected due to the sustained good consumer climate. Retail rents should increase where space is in scarce supply, particularly in good locations. Demand remains very high in residential markets in urban conurbations not least because of the large number of people moving into these areas. Given the level of rents already achieved the pace of growth should slow noticeably over the next quarters.

The expansion of renewable energy sources continues to be aggressively pushed forward in many countries. Notwithstanding the existing expansion targets a further reduction in the subsidy tariffs can be expected, as the burden placed on con-

sumers is being increasingly becoming the centre of attention due to the weak economic environment. The comparatively more expensive solar power in particular should be affected by the tariff reductions. However, since at the same time prices for solar equipment are falling, the expansion of capacity is progressing.

Falling equipment prices are primarily attributable to overcapacity on the manufacturing side in both the photovoltaic and wind energy market segments. This trend is being pushed not least by Chinese manufacturers. Growth in onshore wind power is flattening out in some countries. However, the market is growing regionally. In Germany, increasing expansion in central and more southerly regions, which are becoming more attractive due to special wind turbines for weak wind regions and which have greater hub heights, is ensuring a relatively constantly high level of growth. In the long term, the offshore segment is gaining increasing importance and is thus becoming an additional growth driver. The electricity grid infrastructure must be extended on a more adequate basis in order to implement the wind farm projects.

Slow economic growth is expected to lead to a weakening demand in passenger and air freight traffic at European airports. From the beginning of 2012 the airlines have also been included in emission trading so that all flights to, within and from Europe must have emission permits. The recent slight decrease in kerosene prices is likely to provide some relief.

In tandem with the airports, sea cargo handling and rail freight traffic are also being adversely impacted by economic developments in Europe. Against the backdrop of weakened growth rates, only a moderate increase in container transshipment is expected in Northern Europe. Furthermore, several governments might attempt to privatise infrastructure facilities and transport companies in order to generate new revenue streams.

Macroeconomic developments in the eurozone as well as in China have further increased uncertainty regarding the outlook for shipping. We expect the cyclical low of the sector to be reached over the next 12 to 18 months. The reduction in order books through ship deliveries and the high volume of scrapping will result over the short-term in a loss of momentum on the supply side. Growth in tonnage will be limited over the medium-term, because only a reduced number of

new orders are likely to be placed due to the current difficult market conditions, not least on the financing side. Given these conditions we do not now expect freight and time charter rates as well as ship prices to start to recover before the end of 2013.

Further development of customer relationships

We want to take advantage of upcoming market opportunities and expand new business on a very risk-conscious basis. We are continuing to realign the business areas in order to exploit business potential in the existing demanding environment and are establishing new customer relationships in the core region of Northern Germany and beyond. By means of an integrated and uniform sales approach we will create added value for corporate clients and increase sales of the total product range. In private banking we will continue to focus more strongly on entrepreneurs and general managers and seek to further increase assets under management by winning new clients.

Business opportunities are limited by the difficult situation in the international shipping markets. In addition, loan demand continues to be affected by economic developments and the course of the European debt crisis.

PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT

The Products & Capital Markets division is responsible for the development, structuring, sales and trading in financial products as well as providing support to 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)

	H1-2012	-30
Total income	H1-2011	53
	H1-2012	-7
Loan loss provisions	H1-2011	-14
	H1-2012	-62
Administrative expenses	H1-2011	-16
	H1-2012	253
Other operating income	H1-2011	4
	H1-2012	154
Net income before restructuring	H1-2011	27
	30.6.2012	39
Segment assets (€ bn)	31.12.2011	34

Financing and capital markets products business expanded

In the first six months of the year the Products business unit implemented its new organisational structure bundling product sales forces. Through the cross-departmental sales approach and close coordination with the loan departments our product specialists are able to offer comprehensive tailor-made and innovative loan solutions directly to our customers. There was a high demand for structured financings in the first half of the year. In the case of capital market-oriented products customers are increasingly interested in loan notes as they wish to diversify their funding sources.

The Capital Markets division unit benefitted in the first half of the year from the volatility in the financial markets. The importance of hedging transactions increased as a result of sharp movements in the commodity, interest and currency markets. Interest rate hedges and funding products were in particular demand.

Overall, HSH Nordbank's cross-selling business with corporate and private clients, savings banks and institutional clients remained below the level of the previous year against the backdrop of the continued winding down of the balance sheet. Net income from the cross-selling business is primarily allocated to the customer departments in the other segments in line with the Bank's business management framework.

Within the savings bank business, our focus during the first six months of the year remained on the sale of investment

products to customers of the Sparkassenverbund (German Savings Bank Association) as well as on the raising of funds. For example, we were successful in placing bond products specifically aimed at the savings bank sector. With regard to the own investments of the savings banks, the focus was primarily on the short- and medium-term products with a term of up to two years.

Net income characterised by successful bond repurchase

During the first half of 2012, the income situation of the Products, Capital Markets and Corporate Center segment was affected by income realised on the repurchase of subordinated bonds partly offset by losses arising on the measurement of hybrid financial instruments. Furthermore, the low level of market interest rates and the moderate cross selling business had a negative impact on total income. After allocating cross-selling income the capital markets business was able to generate a slightly positive net income. Segment net income for the first six months of the year increased to € 154 million after a net income of € 27 million had been reported for the segment in the same period of the previous year.

OUTLOOK PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT

In the second half of the year the Products & Capital Markets divisions will also continue to pursue the business approaches launched in close coordination with the customer relationship managers and offer tailor-made solutions to customers. At the same time the product range in Products & Capital Markets is being enhanced on a focussed basis and cooperation between all loan departments driven forward in order to strengthen sales even further.

RESTRUCTURING UNIT SEGMENT

Winding down process continued on schedule

During the first six months of 2012 we have continued to wind down credit and capital market transactions which are discontinued in the Core Bank. Since December 2011 the Restructuring Unit has also been responsible for the winding down of the aircraft loan portfolio and additional shipping commitments transferred from the Core Bank to the Restruc-

turing Unit as part of the measures agreed with the EU Commission.

The winding down of the portfolio was made more difficult in the past months by the reluctance of market participants to purchase certain asset classes because of the sovereign debt crisis. Nevertheless, it was possible taking into account the additional non-strategic portfolios to further reduce segment assets as at 30 June 2012 to € 53 billion (31 December 2011: € 58 billion).

Against the backdrop of the reduction in business achieved to date and the transfer of additional portfolios from the Core Bank the Restructuring Unit is currently realigning its organisational structures and winding down strategies. The related strategic guidelines include the realisation of the potential for the reversal of impairment losses, active restructuring, active winding-down and liquidation as well as the effective management of the remaining portfolio business.

RESTRUCTURING UNIT SEGMENT

	H1-2012	H1-2011
Total income	473	313
Loan loss provisions	-301	62
Administrative expenses	-145	-153
Other operating income	6	8
	H1-2012	H1-2011
Net income before restructuring	33	230
	30.6.2012	31.12.2011
Segment assets (€ bn)	53	58

Lending business reduced by a further € 3 billion

The portfolios in the lending business under the responsibility of the Restructuring Unit were reduced by a further € 3 billion to € 34 billion as at 30 June 2012 (31 December 2011: € 37 billion). The largest reductions were achieved in the corporate clients portfolio. The situation in the relevant markets and the associated progress achieved in winding down significant credit portfolios are currently assessed by the Bank as follows:

First of all, the real estate markets in Great Britain, France and Sweden have stabilised during the first half of 2012 follow-

ing their recovery during the previous year; however, the aggravation of the debt crisis was increasingly being felt in the market in the second quarter. The continuing reluctance of banks to provide financing in particular had a negative impact. The trend in the German real estate market was still positive, but even here banks are acting with reluctance. By contrast, the weak markets in Denmark and the Netherlands still do not show any signs of recovery. The Dutch banks in particular have almost completely withdrawn from the financing business. The recovery of the US real estate markets was also slow in the second quarter of 2012, whereby there were, however, disparities in relation to regions and asset classes. While loan loss provisions for European real estate loans were increased, loan loss provisions were reversed for US real estate loans on an overall basis.

The trend in the shipping portfolio of the Restructuring Unit reflects the global economy as well as the extremely difficult situation in the shipping market. The market situation resulted in further restructuring cases in the portfolio in the first half of the year, which is why loan loss provisions were increased.

The lending environment remained difficult for the foreign corporate clients/LBO portfolio. As a result of increasing pricing pressure and continuing refinancing problems on the part of customers, loan quality declined further during the first six months of 2012 resulting in a moderate increase in non-performing loans. Leasing/retail loans in the domestic corporate clients business were reduced by scheduled principal repayments, whereas loan loss provisions were increased significantly for corporate loans.

The winding down of the aircraft loan portfolio transferred from the Core Bank to the Restructuring Unit at the end of 2011 was started.

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. As at 30 June 2012, the assets held in the capital market portfolios declined further to some € 19 billion (31 December 2011: € 21 billion).

The general upward trend in the securitisation markets in the first quarter was followed by a sideways trend in the second quarter accompanied by a continued stable performance of the ABS portfolio. However, active and value optimising winding down measures could only be implemented on a very selective basis for individual items in this market environment. Problems in Southern Europe remain the focal point and are also affecting liquidity in the securitisation markets. Sustained or increasing uncertainty in the markets may lead to additional negative developments in the credit investment portfolio (CIP) in the course of the year.

In the second quarter of 2012 the majority of the commitments in the public cover pool and the government financing portfolio again benefitted from the European sovereign debt crisis, as German (sub-) sovereign instruments are still regarded as safe investments. Yields on German government bonds reached new and at the same time historical lows during the sovereign debt crisis. As a result, spreads on German public sector borrowers fell further or at least remained stable.

The Chapter 'Default risk' in the Risk Report sets out details on our exposure to countries considered by the Bank to be high risk.

Increases in loan loss provisions

Net income of the Restructuring Unit segment has been significantly impacted at the end of the first half by higher loan loss provisions. The restructuring commitments in the shipping portfolio accounted for most of the loan loss provision expense due to the continuing difficult situation in the sector. Furthermore, additions to the asset classes – European real estate, energy and corporates – increased markedly compared to the previous year. Additions to loan loss provisions for the segment amounted in total to € –301 million compared to reversals of € 62 million in the same period of the previous year.

Total income for the segment increased to € 473 million compared to € 313 million in the previous year. It benefited in particular from the non-recurring effects of disposals of equity holdings and reversals of impairment losses previously recognised in the credit investment portfolio. However, the previous year amount included impairment losses and measurement losses on government bonds. 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 € 33 million (previous year: € 230 million) was achieved.

OUTLOOK RESTRUCTURING UNIT SEGMENT

Portfolio reduction affected by market conditions

The winding down of the portfolio in the Restructuring Unit is being driven forward through regular principal repayments and active measures. The results of the Restructuring Unit are largely influenced by developments in the relevant industry sectors and financial markets, which may be subject to further considerable fluctuations particularly as a result of the debt crisis in Europe. However, higher loan loss provisions may also be required for individual portfolios in the second half of the year.

In the real estate area the potential for further recovery in most European real estate markets may be limited for the time being. Whereas the French and English markets should stabilise further, it is anticipated that the Danish market will remain difficult. We expect to see a continuing downward movement in the Dutch market. The mood among investors in the German market remains positive in the case of all common property categories. By contrast, the recovery in the US real estate market continues to move slowly due to the sluggish growth of the US economy. The situation of the market for retirement homes in particular, which accounts for a significant portion of our US portfolio, is difficult.

In respect of the shipping portfolio processed in the Restructuring Unit we expect that there will be a further need for the restructuring of commitments as a result of the difficult situation in the sector and the associated economic deterioration in the loan commitments. The shipping portfolio can only be comprehensively wound down in the course of a sustained market recovery.

In light of worsened refinancing options of customers in the foreign corporate clients/foreign LBO portfolio we assume that there will be an increased need for prolongations in this segment. Notwithstanding smaller successful winding downs, the focus of portfolio management will primarily be on the reduction of default risks. In the domestic corporate clients business (leasing/retail), we expect scheduled principal repayments, accompanied by individual early repayments.

The aircraft loan portfolio will be mainly reduced through scheduled repayments. There are only limited early repayment opportunities, as aircraft financings are generally structured on a long-term basis and rapid progress in the winding down process is not to be expected due to the extremely limited financing options available in the secondary market. Nevertheless there have been some smaller winding down successes. Loan loss provisions may increase in this sector.

Although further measures for resolving the European sovereign debt crisis have been approved and introduced in the interim, the market environment remains very unstable and volatile. Given this we are assuming for the time being that the relevant credit markets will not settle down on a sustained basis. It is therefore likely that many market prices will also not recover significantly over the remaining months of 2012 and will instead remain under pressure. Against this backdrop the reduction in sovereign risk and the exposure to banks in particular still represent a challenge for the Bank.

Consolidation columns

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

The negative total income in the consolidation column of the Core Bank (€ -277 million) is attributable to negative net trading income in particular. Included here is the impact of the differences arising on the mapping of economic hedging relationships, changes in the fair value of EUR / USD basis swaps and effects of creditworthiness on own issues not allocated to a segment, respectively. The negative total income in the consolidation column of the Restructuring Unit (€ -168 million) is attributable to changes in fair value arising on EUR / USD basis swaps.

The loan loss provisions item in the consolidation column includes hedging effects arising on the second loss guarantee recognised in the financial statements, but which are not allocated to segments. In the loan loss provisions of the Core Bank (€ 61 million) this resulted in a relieving effect that is lower than the effect on the loan loss provisions of the Restructuring Unit (€ 284 million).

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

OUTLOOK

The following section should be read in conjunction with the other chapters in this Management Report. The forward-looking statements contained in this outlook are based on our beliefs and assumptions made using information currently available to us. The statements rely 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 results may differ materially from the following forward-looking statements.

ANTICIPATED UNDERLYING CONDITIONS

Moderate global economic growth

We are assuming that the global economy will continue to grow in the second half of the year. However, growth should be subdued due to structural problems in many countries. For example, we expect growth rates in the US to remain below the dynamic levels of previous years due to high government and private debt burdens. Economic activity in the eurozone in 2012 will be well below that of the previous year, as cutbacks made by governments and private households and increasing unemployment are dampening consumption and investment demand. Despite the sluggish demand from the European periphery countries the development of the German economy – supported by demand from emerging markets and stable domestic consumption – should be more favourable than that of the rest of the eurozone.

Macroeconomic developments have further increased the uncertainty regarding the outlook for shipping. We expect that the cyclical low of the sector will be reached over the next 12 to 18 months. We do not expect that freight rates, time charter rates and ship prices will begin their slow recovery before the end of 2013.

Monetary policy should remain expansionary in most of the Western industrialised countries against the backdrop of an environment of weak economic growth, especially since inflation risks are likely to decrease further and the sovereign debt crisis in the eurozone continues to be a threat for the longer term. We expect that the associated debt and structural problems can only be gradually resolved and the process

for overcoming these problems will also be subject to setbacks and further periods of uncertainty.

European banks will continue to benefit from the expansionary measures implemented by the ECB. Nevertheless, their situation will remain challenging in light of the continuing debt crisis, weak economy and the more stringent regulatory requirements for capital and liquidity.

ANTICIPATED BUSINESS SITUATION

Mounting challenges

In the second half of 2012 HSH Nordbank will continue to reorganise its business in order to put the Bank on a successful path by implementing sustainable, effective measures. We will therefore concentrate on pushing ahead with the cost-cutting programme on the basis of the measures already implemented. Emphasis will also be placed on further developing business relationships with customers and to exploit any earnings potential on a risk-conscious basis. Where necessary, we will introduce changes to organisational structures and processes on a timely basis in order to meet the challenges for a successful implementation of the business model.

Notwithstanding the progress made in implementing its strategic programme, HSH Nordbank is currently being confronted by mounting challenges due to the in part significantly deteriorating, general environment. These must be overcome by HSH Nordbank in addition to complying with the EU requirements and implementing the new business model.

We are therefore assuming that higher loan loss provisions will be required in light of the weak economic environment and the tense situation in individual markets, particularly in the international shipping market. To the extent that loan loss provisions are recognised on the portfolio covered by the second loss guarantee, loan loss provisions are offset by the hedging effect of the second loss guarantee of the federal states of Hamburg and Schleswig-Holstein to the largest extent. However, risk provisions for portfolios not covered by the guarantee are recognised in full through profit or loss. The balance sheet utilisation under the second loss guarantee increased significantly in the first six months of the year due to the loan loss provisions required for the lending busi-

ness and the movement in the US dollar. Accordingly, the probability of drawing down the second loss guarantee – for the first euro of the provisions covered by the guarantee – as calculated by the Bank as at 30 June has increased, but it is still below 50 %. Given the continuing critical underlying conditions it cannot be excluded that, in the future, payment defaults are incurred under the guarantee in an amount that exceeds the amount retained by the Bank and which would therefore result in the guarantee being drawn down.

In addition to a possible further increase in the loan loss provisions and the resultant negative consequences for the utilisation of the second loss guarantee and net income for 2012, a further appreciation in the US dollar and a deterioration in the risk parameters resulting from a further worsening of the environment could offset the progressive reduction in business volume and lead to a further increase in risk assets with the corresponding consequences for the capital ratios. Therefore, the highest priority for the Bank remains the management of risks in such a way that the regulatory requirements are always met and the sustainability of the Bank is not jeopardised. Besides the systematic continuation of the restructuring initiated in the previous year the Bank is also reviewing internal and external measures for the purposes of reducing risk assets and strengthening the capital base in order to counteract the sharp rise in risk potential and to ensure that adequate capital ratios are maintained on a permanent basis.

In summary, concerns regarding the eurozone and the related currency fluctuations remain significant factors of uncertainty for the future net income and risk situation of the Bank in addition to the crisis in the shipping markets. As a result of the renewed increase in the downside potential it will become more difficult for the Bank to achieve its financial objectives despite the progress made in implementing its strategy. Deterioration in the position of the Bank cannot be excluded if the economic environment also worsens further in the second half of the year. Notwithstanding this additional challenge, HSH Nordbank however remains confident that, based on the progress achieved and the results generated in the first six months of the year, the gradual transition to the new business model will show further benefits and that opportunities presented by the reorganisation of HSH Nordbank under strict compliance with the EU requirements can be exploited.

ANTICIPATED FUNDING SITUATION

Funding base is being further expanded

HSH Nordbank will continue its balanced funding strategy. The emphasis will remain on the very successful focussing on the Sparkassenverbund (Savings Bank Association) as well as the placement of covered and uncovered bonds with institutional investor groups. The Bank is also aiming to place additional public issues on the capital markets provided that the capital markets offer attractive conditions. Deposit business also remains an important pillar that is to be strengthened with the corporate clients of the Bank in particular. The refinancing of the US dollar asset business remains a major challenge for European banks.

ANTICIPATED SEGMENT PERFORMANCE

The expectations of the individual segments are influenced by developments in the economy and in the financial markets, whereby the effects on future opportunities and risks are expected to differ based on specific market conditions within the industry sectors. Within different credit portfolios, additional specific loan loss provisions may be required depending on economic developments and the markets. The largest burden should still relate to portfolios which no longer belong to the core business and which have been consolidated in the Restructuring Unit for systematic winding-down. Details of developments anticipated within the individual segments are set out in the Segments chapter.

The Risk Report included below in this Interim Report contains detailed information on bank-specific risks of HSH Nordbank, in particular credit, market, liquidity and operational risks.

RISK REPORT

The Bank's significant risks include default, liquidity, market and operational risks. The methods, instruments and processes used in the risk management are explained in detail in the Risk Report contained in our 2011 Annual Report. In addition, the "Outlook" contained in this Interim Report provides information on the anticipated business situation with a current assessment of material risks and rewards for HSH Nordbank for the remainder of the year.

RISK-BEARING CAPACITY

As part of the monitoring of our risk-bearing capacity the economic capital required to cover unexpected losses (overall risk) is regularly compared to the available amount of risk coverage potential. The basis for our calculation of risk-bearing capacity is a liquidation approach which focuses on protection of creditors (so-called "gone concern" approach). In addition to equity capital modified for economic purposes the risk coverage potential takes into account, amongst other things, unrealised gains and losses arising on securities, 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 30 June 2012, risk coverage potential amounted to € 9.8 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 overall risk takes into account default risk, market risk, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required as an expression of unexpected losses is determined

monthly for default, liquidity and market risks in a methodical consistent manner with a confidence level of 99.9 % and a risk horizon of one year. In order to do so, market risks are scaled up to this one year horizon based on the daily value-at-risk. 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.

Since 31 March 2012 institution-specific asset correlations are 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 default risks as at the reporting date taking the relieving effect of the second loss guarantee into account amounted to € 1.9 billion (31 December 2011: € 2.1 billion).

As part of the risk-bearing capacity concept, market risk (value-at-risk, VaR), 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 economic capital required for market risk as at the reporting date amounted to € 1.1 billion (31 December 2011: € 1.1 billion).

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 open liquidity position. The liquidity-value-at-risk (LVaR) as a measurement of this risk amounted to € 0.4 billion as at 30 June 2012 (31 December 2011: € 0.5 billion). 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, amongst 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 30 June 2012 (31 December 2011: € 0.3 billion).

The overall economic risk as at the reporting date amounted to € 3.7 billion (31 December 2011: € 4.0 billion). The utilisation of risk coverage potential amounted to 38 % (normal case). 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)

	30.6.2012	31.12.2011
Economic risk coverage potential ¹⁾	9.8	9.2
Economic capital required	3.7	4.0
of which: for default risks ²⁾	1.9	2.1
for market risks	1.1	1.1
for liquidity risks	0.4	0.5
for operational risks	0.3	0.3
Risk coverage potential buffer	6.1	5.2
Utilisation of risk coverage potential (in %)	38	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⁾ There is a significant reduction in the economic capital required for default risk after taking into account the second loss guarantee.

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. The conservative forecast in the stress case is reinforced even further by foregoing taking the diversification effects between the risk types into account. As at the

reporting date, economic capital required was supported by sufficient risk coverage potential even in this stress scenario.

DEFAULT RISK

The total loan loss provisions item amounted to € -111 million in the first half of the year 2012 compared to € 317 million in the corresponding period of the previous year. Loan loss provisions continued to be reduced by the hedging effect of the second loss guarantee (compensation item). Thanks to this effect the Bank was able to reduce expenses for loan loss provisions in the first half of 2012. The following table provides an overview by segments. For reasons of comparability, the values for the first half of 2011 have been adjusted in accordance with the organisational changes implemented in the previous year.

CHANGES IN LOAN LOSS PROVISIONS

(€ m)

	January – June 2012				
	Individual valuation allowances / Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	Total
Corporate and Private Clients	- 122	- 19	- 7	0	- 148
Products, Capital Markets and Corporate Center	- 11	2	2	0	- 7
Consolidation Core Bank ¹⁾	7	- 3	- 5	62	61
Total Core Bank	- 126	- 20	- 10	62	- 94
Restructuring Unit	- 302	39	- 38	0	- 301
Consolidation Restructuring Unit ¹⁾	0	0	0	284	284
Total Restructuring Unit	- 302	39	- 38	284	- 17
Group	- 428	19	- 48	346	- 111

CHANGES IN LOAN LOSS PROVISIONS

(€ m)

	January – June 2011				
	Individual valuation allowances / Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	Total
Corporate and Private Clients	- 83	152	32	0	101
Products, Capital Markets and Corporate Center	0	0	- 14	0	- 14
Consolidation Core Bank ¹⁾	7	1	- 6	- 36	- 34
Total Core Bank	- 76	153	12	- 36	53
Restructuring Unit	- 17	2	77	0	62
Consolidation Restructuring Unit ¹⁾	0	0	0	202	202
Total Restructuring Unit	- 17	2	77	202	264
Group	- 93	155	89	166	317

¹⁾ Those elements of the income that are not allocated to specific divisions are disclosed in the consolidation rows of the Core Bank and the Restructuring Unit.

The trends reflect the downturn in the global economy and difficult conditions within individual markets. Due to the ongoing shipping crisis, the largest need for loan loss provisions related to restructuring exposures in the shipping portfolios within the Core Bank and the Restructuring Unit. In addition, increased loan loss provisions in various credit units within the Restructuring Unit also had a negative effect. The US dollar trend also had a negative impact in this regard. Detailed information regarding developments within individual business areas as well as our expectations for the year 2012 are contained in the chapters entitled “Segment Report” and “Outlook” in this interim management report.

Details regarding the total loan loss provisions are presented in Notes [11] and [20].

Because of 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 Portugal, Ireland, Italy, Greece and Spain as well as Belgium. The EU Member State of Hungary is also being closely monitored in light of its equally high level of national debt, the negative economic forecasts and the disputed economic policy that has led to a loss of confidence on the part of international investors in particular. Limitations of these and other

countries classified by the Bank as high risk countries were continued in the first six months of 2012.

The following table shows the loan amounts outstanding and the IFRS carrying amounts of sovereign exposure in the aforementioned European countries.

SOVEREIGN EXPOSURE TO SELECTED EUROPEAN COUNTRIES

(€ m)

	Loan amount outstanding		IFRS carrying amount	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011
Greece	27	258	16	51
Ireland	0	0	0	0
Italy	587	598	575	557
Portugal	280	297	241	267
Spain	229	233	173	180
Belgium	339	339	360	347
Hungary	37	62	33	31
Total	1,499	1,787	1,398	1,433

The total loan amount outstanding on sovereign exposures was € 1,499 million as at 30 June 2012. Greece, Ireland, Italy, Portugal and Spain accounted for € 1,123 million of this amount. Exposures to banks within the countries listed in the table amounted to € 1,969 million as at the reporting date; thereof € 1,367 million was attributable to Spanish banks which increasingly were subject to public scrutiny during the second quarter of 2012 in light of the difficult environment for European banks. The outstanding loan amount for the exposure presented includes the volume of loans, securities, derivative financial instruments and guarantees before valuation allowances, not determined at fair value and not taking into account pro-rata interest.

The total IFRS carrying amounts amounted to € 1,398 million as at the reporting date. Greece, Ireland, Italy, Portugal and Spain accounted for € 1,005 million of this amount. As at the reporting date, exposures to banks in the countries mentioned in the table above amounted in total to € 1,978 million of which € 1,338 million was attributable to Spanish banks. In accordance with their IAS 39 category, the IFRS carrying amounts reported for the sovereign exposures were determined at fair value, including pro-rata interest, taking into account any impairments and / or measurements.

In order to present risk in a conservative light, a first-to-default credit linked note (CLN) is reported in full with its loan amount outstanding of € 50 million in the corresponding values for Italy, Portugal, Spain and Belgium. Contrary to this, from a balance sheet perspective, the IFRS carrying amount of this CLN of € 37 million is taken into account for Portugal only, since the worst rating of the countries stated above is assigned to Portugal.

Note [44] includes more information on the selected European countries.

MARKET RISK

For purposes of measuring and managing market risk, HSH Nordbank employs a value-at-risk approach (99.0 % confidence level, holding period of one day, and historical observation period of 250 days). Developments with respect to the individual risk types during the first six months of 2012 are presented in the table set out below. As at 30 June 2012, the market risk related to our trading book positions amounted

to € 0.7 million and that to our banking book positions amounted to € 54.5 million. Taking correlation effects which reduce risk into account, the aggregated market risk amounted to € 54.4 million, of which € 39.5 million relates to the Core Bank and € 66.4 million to the Restructuring Unit. As part of the risk-bearing capacity management, the VaR of € 54.4 million is scaled up to the amount of € 1.1 billion in the framework of aggregating the individual risk types to the overall risk.

DAILY VALUE-AT-RISK OF THE GROUP

(€ m)

	Interest rate risk ¹⁾		Credit spread risk ¹⁾		Foreign exchange risk		Equity risk		Commodity risk		Total ²⁾	
	Jan – June 2012	Jan – Dec 2011	Jan – June 2012	Jan – Dec 2011	Jan – June 2012	Jan – Dec 2011	Jan – June 2012	Jan – Dec 2011	Jan – June 2012	Jan – Dec 2011	Jan – June 2012	Jan – Dec 2011
Average	27.6	9.7	47.2	37.1	23.2	11.7	2.4	2.4	0.6	0.3	52.7	41.2
Maximum	46.9	13.7	58.4	41.6	27.6	23.4	3.0	3.5	1.5	1.0	65.0	54.5
Minimum	5.7	5.5	37.6	30.4	15.2	4.6	1.9	2.0	0.2	0.1	44.2	33.0
Period end amount	40.2	7.6	55.1	38.2	15.2	23.4	2.2	2.3	0.5	0.6	54.4	54.5
of which: Core Bank	40.5	13.6	8.7	5.9	3.8	2.4	0.7	1.0	0.5	0.6	39.5	14.4
of which: Restructuring Unit	14.1	13.2	46.0	31.2	16.4	25.0	1.6	1.6	0.0	0.0	66.4	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.

As at 9 March 2012 the interest rate risk reported increased substantially due to the various methodological enhancements made to the measurement of market risk – the planned integration of foreign exchange basis risk 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 estimate of credit spread risk in certain valuation units containing hedged structured products was updated on a monthly basis in the first half of 2012. This affects valuation units in which the credit spread risk from the hedged item (government bonds) is not hedged. This resulted ceteris paribus in a decrease in the corresponding risk as at the reporting date of approximately € 2 million compared to the end of the year 2011.

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into insolvency risk and liquidity maturity transformation risk. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept and is discussed in the section "Risk-bearing capacity". The insolvency risk 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.

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. The difference between inflows and outflows may serve as a measure for the insolvency risk. These so-called gaps 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.

In addition to the normal case liquidity development report, which is compiled on the assumption of business develop-

ments 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.

Thanks to the measures implemented by HSH Nordbank the liquidity situation of the Bank was further improved in the short- and medium-term buckets. The measures focussed on increased efforts to obtain new funding. For example, within the framework of two benchmark issues, we successfully placed a five-year mortgage Pfandbrief at the end of March 2012 and a four-year mortgage Pfandbrief at the end of May 2012 in the amount of € 500 million each. Additional issues contributed to an improvement in the liquidity position along with an increase in deposits.

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 30 June 2012 as well as at 30 December 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	
	30.6.2012	30.12.2011	30.6.2012	30.12.2011
1st day	0	0	4	6
7th day	0	28	3	48
14th day	3	29	11	39
3rd week	11	50	22	65
4th week	38	54	52	71
8th week	56	66	77	90
3rd month	67	74	90	103
6th month	78	73	112	110
9th month	81	77	126	126
12th month	85	74	134	131

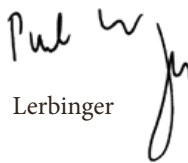
Risk tolerance of the Bank with regard to liquidity risk is reflected, among other things, in the definition of a survival period in the sense of a minimum survival period, which describes how long a utilisation of a liquidity potential under 100 % is to be maintained under the normal and stress cases for insolvency risk. In the normal case assessment the liquidity potential had a peak utilisation of 85 % in the 12th month as at the reporting date. All limits within the defined survival period of twelve months were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was 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 reporting date 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 regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.65 and 2.14, our liquidity ratio remained above the regulatory minimum value of 1.0 at all times throughout the reporting period. The average value for the first six months of 2012 was 1.84 (2011: 1.79).

The liquidity position of HSH Nordbank remains stable. Long-term funding in the first six months of 2012 was better than planned on a pro rata temporis basis, while deposits displayed a positive trend. The placement of the mortgage Pfandbriefe also contributed to this. Despite this success, access to unsecured long-term capital markets remains limited so that the future funding and the Bank's rating continue to represent some of the significant challenges.

The chapters of this Interim Report entitled "Business developments" and "Outlook" provide additional detailed information regarding funding activities.

Hamburg/Kiel, 21 August 2012



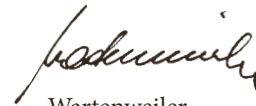
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Wartenweiler



STATEMENT OF COMPREHENSIVE INCOME

for the period 1 JANUARY TO 30 JUNE 2012

INCOME STATEMENT

(€ m)

	Note	January - June 2012	Following adjustment January - June 2011	Change in %
Interest income		5,021	6,034	-17
Interest expenses		-4,486	-5,320	-16
Net income from hybrid financial instruments		-82	-79	-4
Net interest income	(5)	453	635	-29
Net commission income	(6)	44	61	-28
Result from hedging	(7)	9	-10	> 100
Net trading income	(8)	-210	1	> -100
Net income from financial investments	(9)	152	118	29
Net income from financial investments accounted for under the equity method	(10)	-6	-56	89
Total income		442	749	-41
Loan loss provisions	(11)	-111	317	> 100
Administrative expenses	(12)	-385	-382	1
Other operating income	(13)	265	13	> 100
Net income before restructuring		211	697	-70
Result from restructuring	(14)	-19	2	> -100
Expenses for government guarantees	(15)	-157	-211	-26
Net income before taxes		35	488	-93
Income tax expenses (-)/income (+)		35	-150	> -100
Group net income		70	338	-79
Group net income attributable to non-controlling interests		9	1	> 100
Group net income attributable to HSH Nordbank shareholders		61	337	-82

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS

(€ m)

	January - June 2012	Following adjustment January - June 2011
Group net income	70	338
Changes in:		
Revaluation reserve (before taxes)	122	41
of which: from exchange rate effects	4	-9
Income taxes not recognised in the income statement	-34	-13
of which: from exchange rate effects	-	-1
	88	28
Currency conversion reserve	14	-31
	14	-31
Actuarial gains/losses (before taxes)	-114	10
Income taxes not recognised in the income statement	36	-3
	-78	7
Other comprehensive income for the period	24	4
Total comprehensive income	94	342
Total comprehensive income attributable to non-controlling interests	9	1
Total comprehensive income attributable to HSH Nordbank shareholders	85	341

EARNINGS PER SHARE

(€)

	Note	January - June 2012	January - June 2011
Undiluted	(16)	0.21	1.28
Diluted		0.21	1.28
Number of shares (millions)		291	263

QUARTERLY REVIEW

STATEMENT OF COMPREHENSIVE INCOME

QUARTELY REVIEW INCOME STATEMENT (€ m)

	Q2 / 2012	Q1 / 2012	Q4 / 2011	Q3 / 2011	Following adjustment	
					Q2 / 2011	Q1 / 2011
Interest income	2,406	2,615	2,676	2,944	3,058	2,976
Interest expenses	-2,179	-2,307	-2,418	-2,597	-2,708	-2,612
Net income from hybrid financial instruments	-39	-43	-29	139	-40	-39
Net interest income	188	265	229	486	310	325
Net commission income	20	24	27	32	29	32
Result from hedging	15	-6	-3	17	4	-14
Net trading income	-7	-203	146	-320	35	-34
Net income from financial investments	85	67	-55	27	50	68
Net income from financial investments accounted for under the equity method	-	-6	-5	-	-52	-4
Total income	301	141	339	242	376	373
Loan loss provisions	-68	-43	25	47	244	73
Administrative expenses	-186	-199	-266	-189	-175	-207
Other operating income	-19	284	23	-4	9	4
Net income before restructuring	28	183	121	96	454	243
Result from restructuring	-13	-6	-238	1	2	-
Expenses for government guarantees	-77	-80	-87	-585	-99	-112
Net income before taxes	-62	97	-204	-488	357	131
Income tax expenses (-) / income (+)	4	31	211	-120	-145	-5
Group net income / loss	-58	128	7	-608	212	126
Group net income attributable to non-controlling interests	9	-	-7	-	-	1
Group net income attributable to HSH Nordbank shareholders	-67	128	14	-608	212	125

QUARTELY REVIEW
RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS

(€ m)

	Q2 / 2012	Q1 / 2012	Q4 / 2011	Q3 / 2011	Following adjustment	
					Q2 / 2011	Q1 / 2011
Group net income / loss	- 58	128	7	- 608	212	126
Changes in:						
Revaluation reserve (before tax)	-	122	8	-19	51	-10
of which: from exchange rate effects	9	-5	15	11	-	-9
Income taxes not recognised in the income statement	-6	-28	10	-10	-14	1
of which: from exchange rate effects	-1	1	-1	-	-	-1
	- 6	94	18	- 29	37	- 9
Currency conversion reserve	29	-15	18	29	-13	-18
Actuarial gains/losses (before taxes)	-52	-62	-11	-45	-2	12
Income taxes not recognised in the income statement	16	20	3	14	1	-4
	- 36	- 42	- 8	- 31	- 1	8
Other comprehensive income for the period	- 13	37	28	- 31	23	- 19
Total comprehensive income	- 71	165	35	- 639	235	107
Total comprehensive income attributable to non-controlling interests	9	-	-7	-	-	1
Total comprehensive income attributable to HSH Nordbank shareholders	-80	165	42	-639	235	106
Earnings per share (€) ¹⁾	0.21	0.46	-0.97	-1.03	1.28	0.48

¹⁾ Period under review: 1 January until reporting date

STATEMENT OF FINANCIAL POSITION

as at **30 JUNE 2012**

ASSETS

(€ m)

	Note	30.6.2012	31.12.2011	Change in %
Cash reserve	(17)	1,695	1,866	-9
Loans and advances to banks	(18)	12,950	8,036	61
Loans and advances to customers	(19)	87,492	90,607	-3
Loan loss provisions	(20)	-3,447	-3,603	-4
Positive fair value of hedging derivatives	(21)	2,270	2,165	5
Positive adjustment item from portfolio fair value hedges		343	311	10
Trading assets	(22)	11,556	11,981	-4
Financial investments	(23)	23,229	22,388	4
Financial investments accounted for under the equity method	(24)	14	41	-66
Intangible assets	(25)	77	88	-13
Property, plant and equipment	(26)	238	240	-1
Investment property	(27)	112	98	14
Non-current assets held for sale and disposal groups	(28)	79	122	-35
Current tax assets		166	226	-27
Deferred tax assets	(29)	1,206	1,156	4
Other assets	(30)	153	184	-17
Total assets		138,133	135,906	2

LIABILITIES

(€ m)

	Note	30.6.2012	31.12.2011	Change in %
Liabilities to banks	(31)	27,930	24,685	13
Liabilities to customers	(32)	43,713	40,239	9
Securitised liabilities	(33)	35,580	39,381	-10
Negative fair values of hedging derivatives	(34)	814	680	20
Negative adjustment item from portfolio fair value hedge		1,476	1,354	9
Trading liabilities	(35)	12,403	12,900	-4
Provisions	(36)	1,681	1,593	6
Current tax liabilities		19	28	-32
Deferred tax liabilities		15	13	15
Other liabilities	(37)	1,414	1,900	-26
Subordinated capital	(38)	7,666	8,308	-8
Equity	(39)	5,422	4,825	12
Share capital		3,018	2,635	15
Capital reserve		925	809	14
Retained earnings		1,578	1,911	-17
Revaluation reserve		-122	-210	-42
Currency conversion reserve		-43	-57	-25
Group income/loss		61	-257	> 100
Total before non-controlling interests		5,417	4,831	12
Non-controlling interests		5	-6	> 100
Total equity and liabilities		138,133	135,906	2

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		-	-
Adjusted as at 1 January 2011		2,635	1,028
Group net income		-	-
Changes not recognised in the income statement		-	-
Changes recognised in the income statement		-	-
Exchange rate changes		-	-
Comprehensive income 30 June 2011		-	-
Changes in retained earnings		-	-
Adjusted as at 30 June 2011		2,635	1,028
As at 1 January 2012		2,635	809
Group net income		-	-
Changes not recognised in the income statement		-	-
Changes recognised in the income statement		-	-
Exchange rate changes		-	-
Comprehensive income 30 June 2012		-	-
Dividend payments and distributions		-	-
Capital increases		383	116
Changes in retained earnings		-	-
As at 30 June 2012	(39)	3,018	925

	Retained earnings	Currency conversion reserve	Revaluation reserve	Group net income/loss	Total before non-controlling interests	Non-controlling interests	Total	
	of which actuarial gains/losses as per IAS 19							
	1,724	135	-60	-227	-3	5,097	-3	5,094
	-56	-	-	56	-	-	-	-
	1,668	135	-60	-227	53	5,097	-3	5,094
	-	-	-	337	337	1		338
	7	7	-	20	27	-		27
	-	-	-	2	2	-		2
	-	-	-31	6	-25	-		-25
	7	7	-31	28	337	1		342
	53	-	-	-53	-	1		1
	1,728	142	-91	-199	337	-1		5,437
	1,911	104	-57	-210	-257	4,831	-6	4,825
	-	-	-	61	61	9		70
	-78	-78	-	70	-8	-		-8
	-	-	-	19	19	-		19
	-	-	14	-1	13	-		13
	-78	-78	14	88	61	9		94
	-	-	-	-	-	-1		-1
	-	-	-	-	499	1		500
	-255	-	-	257	2	2		4
	1,578	26	-43	-122	61	5		5,422

CONDENSED CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT

(€ m)

	January – June 2012	January – June 2011
Cash and cash equivalents as at 1 January	1,866	1,410
Cash flow from operating activities	919	– 1,705
Cash flow from investing activities	– 852	1,758
Cash flow from financing activities	– 225	– 257
Changes in cash and cash equivalents due to exchange rate fluctuations	– 13	43
Cash and cash equivalents as at 30 June	1,695	1,249

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.

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 half-year financial report consists of condensed interim Group financial statements and a condensed Group management report taking into account the requirements stipulated in IAS 34. The condensed interim Group financial statements consist of a condensed statement of comprehensive income, a condensed statement of financial position, a condensed statement of changes in equity, a condensed statement of cash flows and selected explanatory notes.

Compared to the previous year, the presentation of the statement of income disclosed separately within the framework of the total income statement was changed, in order to bring it into line with the presentation used in segment reporting and / or for internal reporting purposes. In this context, total income, which is significant for purposes of commenting on results, among other things, is reported as a separate item.

The interim Group financial statements as at 30 June 2012 are prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as

European law by the European Union (EU). In doing so, particular attention has been paid to IAS 34 (Interim Financial Reporting).

In the interim Group financial statements, the same accounting policies have basically been applied as in the consolidated financial statements of HSH Nordbank AG as at 31 December 2011.

In accordance with IAS 34.C4, HSH Nordbank AG does not prepare any pension obligation reviews in the course of the current fiscal year and bases its figures on the data from the last expert opinion made as of 31 December 2011. Each quarter it is assessed whether essential parameters related to pension provisions have changed. If this is the case, these are adjusted accordingly and are taken into account in accounting (in particular changes in the discount factor).

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.

Application of this amended standard had no impact on the consolidated financial statements.

Amendments to IAS 12 – Deferred Tax on Investment Property

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 makes clear that deferred taxes must be measured on the basis of the rebuttable presumption that they will be reversed as a result of a disposition.

Application of this amended standard had no or no material impact on the interim Group financial statements.

HSH Nordbank does not plan to apply the following new or amended standards and interpretations before such application becomes mandatory in later financial years.

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 for the period 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, i. e. 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.

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:

The revised version of IAS 19 eliminates the option of recognising so-called actuarial gains and losses 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. In future, direct recognition in Other comprehensive income is the only permissible option.

Furthermore, the expected rate of return on plan assets is currently determined on the basis of the management’s subjective 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 current discount rate applicable to the pension obligations.

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 associated enterprises in IFRS single-entity financial statements.

Subject to the still-pending adoption into EU law – the amendment will probably need 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. This standard governs the application of the equity method to investments in associates and joint ventures. The option to include joint ventures in the consolidated financial statements on a pro rata basis has been eliminated (see IFRS 11).

Subject to the still-pending adoption into EU law – the amendment will probably need 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 the application guidelines for IAS 32 has only a clarifying effect for the requirements for offsetting financial instruments (IAS 32.42). The addition addresses the significance of the current legally enforceable right of offset and

clarification is provided as to 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.

Subject to the still-pending transposition into EU law – the amendment of IAS 32 needs to be applied for the first time in financial years which start on or after 1 January 2014.

Subject to the still-pending transposition into EU law – the amendment of IFRS 7 needs 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 other income or loss. 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 profit or loss.

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

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, with regard to special purpose vehicles.

Subject to the still-pending adoption into EU law – the new standard will probably need 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.

This standard replaces IAS 31. Subject to the still-pending transposition into EU law – the new standard will probably need 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, e. g. 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.

Subject to the still-pending adoption into EU law – the new standard will probably need to be applied for the first time in financial years which start on or after 1 January 2014.

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

In the case of conforming consolidation decisions under IAS 27 and IFRS 10, an adjustment of comparable information is not necessary at the time of the first application of IFRS 10. Otherwise, a retroactive adjustment is only required for the period immediately preceding the first application. In the case of non-consolidated structured entities, no comparable information is required when IFRS 12 is applied for the first time.

Subject to the still-pending adoption into EU law – the amendment will probably need 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 Leasing and IFRS 2 Share-based Payments.

Fair value under IFRS 13 is defined as the exit price, i. e. 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.

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

In addition to the IFRS HSH Nordbank has also observed the German Accounting Standard GAS 16 (excluding GAS 16.15 – 16.33) in interim financial reporting.

Accounting and measurement are based on the assumption that the enterprise is a going concern.

These interim consolidated financial statements were reviewed by an auditor.

All facts up to 21 August 2012 were taken into account.

2. PROVISION OF A GUARANTEE FACILITY

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 is subject to approval by the European Commission in line 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. This means that the measures to support HSH Nordbank AG have been approved in a legally binding manner.

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

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

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee claim 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. Once reduced, the guarantee amount cannot be increased again.

HSH Nordbank AG has reduced the guarantee by € 3 billion to € 7 billion so far. No reduction occurred in the period under review.

In exchange for the guarantee HSH Nordbank AG pays a contractual base premium of 4 % p. a. on the guarantee volume outstanding. Drawdowns do not reduce the calculation basis of the premium. The cost of the base premium is reported under the item Expenses for government guarantees. The premium payments are recognised as an expense pro rata temporis.

Furthermore the EU Commission required the Bank to pay an additional premium of 3.85 % p. a. of the losses actually settled. The additional premium is only paid in cases where a call is made on the guarantee. Accordingly, the right to dispose on the part of the HSH Finanzfonds AöR with respect to this claim is first applicable in such cases. Until any actual drawdown of the guarantee it is only a deferred liability of the Bank with a corresponding right of recourse to HSH Finanzfonds AöR. In the event of a drawdown this premium bears additional 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 the additional premium is calculated based on the outstanding guarantee facility not yet cancelled. Drawdowns do not reduce the calculation basis of the premium. This requirement becomes effective within four weeks of the signing of the amendment to the existing guarantee agreement which took place on 12 December 2011. 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. For the years 2009 and 2010 a total amount of € 479 million was paid on 9 January 2012. The payment for the year 2011 in the amount of € 273 million was made on 8 March 2012, as originally agreed. A pro-rata amount of € 137 million was determined for the first and second quarter 2012. From an economic perspective, this results in an additional premium as at the balance sheet date 30 June 2012 amounting to € 889 million since 1 April 2009.

Insofar as the obligation to pay the additional premium would have the effect of decreasing the Tier 1 capital ratio 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. The deferred entitlement to the additional premium is resurrected during the duration of the debtor warrant by the respective amount by which the minimum common equity ratio is exceeded.

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 € 1,956 million as at 30 June 2012. The hedging effect is reported in the consolidated financial statements subject to the application of IAS 39. If and insofar as a final cash draw-down of the guarantee – which exceeds the sum of the first loss piece to be borne by the Bank in the amount of € 3.2 billion – has not yet been offset via finally recognised losses, there is no capitalisable claim to compensation against the HSH Finanzfonds AöR. In light of the foregoing, the Bank presents the hedging effect of the guarantee using the net accounting method. The Bank accomplishes this by first creating specific loan loss provisions and portfolio valuation allowances without taking into account the hedging effect of the second loss guarantee. In a second step, the hedging effect is accounted for using a compensation item which is offset against the balance of the loan loss provisions on the asset side. As at 30 June 2012, € 1,956 million was taken into account on an offsetting basis. An additional premium in the amount of 3.85 % was computed with respect to this amount from 1 April 2009 through 30 June 2012 and recognised as an expense in the amount of € 249 million. A claim for compensation of interest of € 1 million was determined for this amount. Since in the event of an actual draw down of the guarantee compensation to HSH Finanzfonds AöR would be paid net, the compensation item and the corresponding additional premium as well as the claim for compensation of interest are netted in accordance with IAS 32.42 (cf. Note [11]). Accordingly HSH Nordbank discloses a netted compensation item in the amount of € 1,706 million which reduces loan loss provisions accordingly (cf. Note [20]).

The common equity ratio of 10 % was initially not reached as at 30 June 2012. HSH Nordbank has thereupon made use of the full amount of the debt waiver of the guarantor under the additional premium.

At the time of the complete waiver of the claim under the additional premium an obligation resulting from the grant of the debtor warrant is recognised which is directly deducted from loan loss provisions. Both transactions completely offset each other both on the face of the balance sheet as well as in the income statement in the loan loss provision items. There was no impact on Group net income.

The guarantee from the federal states is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9.

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 a trustee appointed by the guarantor. The maximum guarantee amount is not altered by the creation of the partial guarantee, as the sum of the individual amounts remains the same.

Once the credit derivative has been created the guarantee premium is divided pro rata between the partial guarantees. The derivative is accounted for under IAS 39. Since the acceptance of the guarantee individual commitments notified to the guarantor have been transferred to the partial guarantee of the credit derivative. As at 30 June 2012 this led to a disclosure under Trading assets in the amount of € 2 million. An additional premium in the amount of € 0.3 million was allocated to this amount.

Furthermore, HSH Nordbank AG is obliged to make a one off payment in the amount of € 500 million to the guarantor of the second loss guarantee that is to be recovered by means of a contribution in kind. A mixed cash and non-cash capital increase was approved by the extraordinary shareholders' meeting held on 18 January 2012. The capital increase became effective upon its entry in the Commercial Register 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.

I. CHANGE IN ACCORDANCE WITH IAS 8.14 ET SEQ. CHANGED DISCLOSURE OF THE HEDGING EFFECT OF THE GUARANTEE FACILITY

In the consolidated financial statements as at 31 December 2011 we reported changes with respect to the disclosure and

presentation of the hedging effect of the second loss guarantee. Until 30 September 2011 the hedging effect of the second loss guarantee was presented by first reversing the existing portfolio valuation allowances in the amount of the guarantee's hedging effect. For purposes of a more transparent presentation, valuation allowances are now created in the required amount without taking the hedging effect into account. Thereafter, the hedging effect is taken into account using a compensation item (cf. Note [2]). The resulting adjustments are presented in the following table:

ADJUSTMENTS 2011 INCOME STATEMENT (€ m)

	January – June 2011		
	Before adjustment	Adjustment	Following adjustment
Net income from financial investments	164	-46	118
Loan loss provisions	271	46	317
Other items (without adjustment)	-97	-	-97
Group net income	338	-	338
Group net income attributable to non-controlling interests	1	-	1
Group net income attributable to HSH Nordbank shareholders	337	-	337

CHANGED DISCLOSURE OF LOANS AND ADVANCES AND LIABILITIES TO EUREX CLEARING AG

As at 31 December 2011 we reported changes with respect to the disclosure of the business relationships with Eurex Clearing AG. Since the consolidated financial statements as at 31 December 2011 Eurex Clearing AG is reported as a bank and disclosure adjusted retroactively. In the past, our classification followed that of the European Central Bank which treated this institution as a non-monetary institute and accordingly did not classify it as a financial institution.

This changed disclosure resulted in a reclassification of interest income (cf. Note [5]). Accordingly, we have reclassified € 10 million of interest expense from liabilities to customers to liabilities to banks.

II. CORRECTION OF ERRORS 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

In the presentation of impaired financial assets (cf. Note [45]), financial instruments were included in the comparative figure of loans and advances to customers (LaR) which were corrected due to an error in data supplied. 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.

4. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, 78 companies (31 December 2011: 83) have been consolidated. This includes seven (31 December 2011: seven) special purpose entities which need only be consolidated due to the requirements of SIC-12. 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 subsidiaries and special purpose entities are included in the interim Group financial statements of HSH Nordbank:

FULLY CONSOLIDATED COMPANIES

	Registered office	Share of equity capital in %
1. Adessa Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG	Kiel	0.0
2. AGV Irish Equipment Leasing No. 1 unlimited ¹⁾	Dublin	100.0
3. AGV Irish Equipment Leasing No. 4 Limited ¹⁾	Dublin	100.0
4. Aircraft Rescue Acquisition LLC	New York	100.0
5. Alchemy Plan (HLB) L.P.	London	99.5
6. AMENTUM CAPITAL LIMITED	Dublin	100.0
7. Amentum Lux S.à.r.l. ¹⁾	Luxembourg	100.0
8. Anthracite Balanced Company Limited	George Town	100.0
9. AVUS Fondsbesitz und Management GmbH ⁹⁾	Berlin	100.0
10. Bu Wi Beteiligungsholding GmbH	Hamburg	100.0
11. Capcellence Private Equity Beteiligungen GmbH & Co. KG ⁸⁾	Hamburg	100.0
12. Capcellence Vintage Year 05 / 06 Beteiligungen GmbH & Co. KG ⁴⁾	Hamburg	83.3
13. Capcellence Vintage Year 06 / 07 Beteiligungen GmbH & Co. KG ⁴⁾	Hamburg	83.3
14. Capcellence Vintage Year 07 / 08 Beteiligungen GmbH & Co. KG ⁴⁾	Hamburg	83.3
15. Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG ⁴⁾	Hamburg	83.3
16. Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG ⁴⁾	Hamburg	83.3
17. Capcellence Vintage Year 11 Beteiligungen GmbH & Co. KG ⁴⁾	Hamburg	83.3
18. CHIOS GmbH	Hamburg	100.0
19. CPM Luxembourg S.A. ⁷⁾	Luxembourg	3.2
20. CPM Securitisation Fonds S.A. ⁷⁾	Luxembourg	3.2
21. DEERS Green Power Development Company S.L. ¹³⁾	Zaragoza	99.0
22. DMS Beteiligungs GmbH ³⁾	Radolfzell	100.0
23. DMS Dynamic Micro Systems Semiconductor Equipment GmbH ⁵⁾	Radolfzell	100.0
24. EALING INVESTMENTS LIMITED	London	100.0
25. Einkaufs-Center Plovdiv G.m.b.H. & Co. KG ¹⁴⁾	Hamburg	75.0
26. Enders Holdings LLC	Dover	100.0
27. Endor 9. Beteiligungs GmbH & Co. KG ⁹⁾	Hamburg	100.0
28. Godan GmbH	Hamburg	100.0
29. Grundstücksgesellschaft Barstraße GbR (GEHAG-Fonds 18) ²⁾	Berlin	72.5
30. Grundstücksgesellschaft Rudow-Süd / Straße 633 GbR (GEHAG-Fonds 20) ²⁾	Berlin	67.0
31. Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG	Bremen	63.7
32. HGA Capital Grundbesitz und Anlage GmbH ⁹⁾	Hamburg	100.0
33. HGA Fondsbeteiligung GmbH ⁹⁾	Hamburg	100.0
34. HGA Objekte Hamburg und Hannover AG & Co. KG ¹¹⁾	Hamburg	71.9
35. HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0
36. HSH Care+Clean GmbH ⁶⁾	Hamburg	51.0

FULLY CONSOLIDATED COMPANIES

	Registered office	Share of equity capital in %
37. HSH Corporate Finance GmbH	Hamburg	100.0
38. HSH Debt Advisory ApS	Copenhagen	100.0
39. HSH Equitypartners GmbH ⁹⁾	Hamburg	100.0
40. HSH Facility Management GmbH	Hamburg	100.0
41. HSH Gastro+Event GmbH ⁶⁾	Hamburg	100.0
42. HSH Kunden- und Kontenservice GmbH	Hamburg	100.0
43. HSH Move+More GmbH ⁶⁾	Kiel	51.0
44. HSH N Composites GmbH	Kiel	100.0
45. HSH N Finance (Guernsey) Limited	St. Peter Port	100.0
46. HSH N Financial Securities LLC	Wilmington	100.0
47. HSH N Funding I ¹⁰⁾	George Town	66.3
48. HSH N Funding II	George Town	56.3
49. HSH N Residual Value Ltd.	Hamilton	100.0
50. HSH Nordbank Securities S.A.	Luxembourg	100.0
51. HSH Private Equity GmbH	Hamburg	100.0
52. HSH Real Estate AG	Hamburg	100.0
53. HSH Real Estate US Invest. LLC ⁹⁾	Wilmington	100.0
54. HSH Rechnungswesen GmbH	Kiel	100.0
55. HSH Restructuring Advisory ApS	Copenhagen	100.0
56. HSH Security GmbH	Kiel	100.0
57. International Fund Services & Asset Management S.A. ⁷⁾	Munsbach	51.5
58. JANTAR GmbH	Hamburg	100.0
59. KAPLON GmbH & Co. KG ⁹⁾	Hamburg	100.0
60. Kipper Corporation	Wilmington	100.0
61. Kontora Family Office GmbH	Hamburg	75.0
62. Leashold Verwaltungs-GmbH & Co. KG	Hamburg	100.0
63. Neptune Finance Partner S.à.r.l.	Luxembourg	100.0
64. Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0
65. Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie. S.e.c.s.	Luxembourg	100.0
66. Northern Blue 2009 S.A.	Luxembourg	0.0
67. RESPARCS Funding Limited Partnership I	Hong Kong	0.0
68. RESPARCS Funding II Limited Partnership	St. Helier	0.0
69. SBF II. LLC ¹²⁾	Wilmington	100.0
70. Senior Assured Investment S.A.	Luxembourg	0.0
71. Senior Preferred Investments S.A.	Luxembourg	0.0
72. Solar Holding S.à.r.l.	Luxembourg	100.0
73. Sotis S.à.r.l. ⁷⁾	Luxembourg	100.0
74. Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG	Hamburg	100.0
75. Teukros GmbH	Hamburg	100.0
76. Turis 1. Beteiligungs GmbH & Co. KG ⁹⁾	Hamburg	100.0
77. Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0
78. 2200 Victory LLC	Dover	100.0

¹⁾ Subsidiaries of AMENTUM CAPITAL LIMITED²⁾ Subsidiary of AVUS Fondsbesitz und Management GmbH³⁾ Subsidiary of Bu Wi Beteiligungsholding GmbH⁴⁾ Subsidiaries of Capcellence Private Equity Beteiligungen GmbH & Co. KG⁵⁾ Subsidiary of DMS Beteiligungs GmbH⁶⁾ Subsidiaries of HSH Facility Management GmbH⁷⁾ Subsidiaries of HSH Nordbank Securities S.A.⁸⁾ Subsidiary of HSH Private Equity GmbH⁹⁾ Subsidiaries of HSH Real Estate AG¹⁰⁾ Subsidiary of HSH N Composites GmbH¹¹⁾ Subsidiary of KAPLON GmbH & Co. KG¹²⁾ Subsidiary of Kipper Corporation¹³⁾ Subsidiary of Solar Holding S.à.r.l.¹⁴⁾ Subsidiary of Turis 1. Beteiligungs GmbH & Co. KG

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

- 2200 Victory LLC, Dover
- Aircraft Rescue Acquisition LLC, New York

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

- EQUILON GmbH, Hamburg
- HSH Nordbank Private Banking S.A., Luxembourg
- Mesitis GmbH, Hamburg
- MINIMOA GmbH, Hamburg
- Nubes GmbH, Lockstedt
- PREGU GmbH, Hamburg
- THESTOR GmbH, Hamburg

The company Nubes GmbH, Lockstedt, was merged with HSH Auffang- und Holdinggesellschaft mbH & Co. KG with effect from 1 January 2012. HSH Nordbank Private Banking S.A., Luxembourg, was merged with HSH Nordbank Securities S.A. with effect from 1 January 2012. The companies EQUILON GmbH, Mesitis GmbH, MINIMOA GmbH, PREGU GmbH and THESTOR GmbH, all with their registered offices in Hamburg, were merged with Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG with effect from 30 April 2012.

As at the 30 June 2012 reporting date, the following ownership interests in associated companies or joint ventures are included in the interim Group financial statements under the equity method:

COMPANIES CONSOLIDATED AT EQUITY

	Registered office	Share of equity capital in %
1. Amentum Aircraft Leasing No. Five Limited	Dublin	49.0
2. Amentum Aircraft Leasing No. Six Limited	Dublin	49.0
3. Amentum Aircraft Leasing No. Three Limited	Dublin	49.0
4. Belgravia Shipping Ltd.	London	33.3
5. FREIGHTER LEASING S.A.	Luxembourg	22.6
6. gardeur Beteiligungs GmbH	Mönchengladbach	92.9
7. PRIME 2006-1 Funding Limited Partnership	St. Helier	47.5
8. SITUS NORDIC SERVICES ApS (former HSH Real Estate Debt Advisory ApS)	Copenhagen	40.0

The following companies included in the scope of consolidation as at 31 December 2011 will no longer be consolidated using the equity method:

- ALIDA Grundstücksgesellschaft mbH & Co. KG, Hamburg
- Relacom Management AB, Stockholm

All of the shares in ALIDA Grundstücksgesellschaft mbH & Co. KG, Hamburg, were sold on 5 April 2012 (cf. also Notes [10] and [24]). Following the sale of a part of the shares held in Relacom Management AB, Stockholm, in March 2012 the Bank no longer has any significant influence as at the reporting date.

Additional information on companies to be consolidated under the equity method may be found under Notes [10] and [24].

NOTES ON THE INCOME STATEMENT

5. NET INTEREST INCOME

NET INTEREST INCOME

(€ m)

	January – June 2012	Following adjustment January – June 2011
Interest income from		
Lending and money market transactions	1,287	1,493
Fixed-interest securities	314	303
Trading transactions	10	14
Derivative financial instruments	3,255	4,058
Unwinding	119	92
Disposal of receivables	10	14
Current income from		
Equities and other non-fixed-interest securities	8	8
Associated companies	9	2
Equity holdings	5	46
Other holdings	4	4
Interest income	5,021	6,034
of which attributable to financial instruments not classified as HfT or DFV	1,687	1,883
Interest expenses for		
Liabilities to banks	270	270
Liabilities to customers	572	665
Securitised liabilities	468	544
Subordinated capital	120	129
Other liabilities	2	5
Disposal of receivables	3	11
Derivative financial instruments	3,051	3,696
Interest expenses	4,486	5,320
of which attributable to financial instruments not classified as HfT or DFV	1,226	1,401
Net income from discounting and compounding	-82	-79
Net income from hybrid financial instruments	-82	-79
of which attributable to financial instruments not classified as HfT or DFV	-82	-79
Total	453	635

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: € 11 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.

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 € 161 million (previous year: € 133 million). € 790 million are attributable to the result from the reassessment of interest and repayment cash flows (previous year: € 602 million) and € -629 million are attributable to the income / loss from discounting and compounding (previous year: € -469 million).

The difference between the valuation for tax purposes of the hybrid financial instruments and the measurement of such instruments according to IAS 39.A8 resulted in deferred tax assets of € 9 million (previous year: € 9 million deferred tax assets).

6. NET COMMISSION INCOME

NET COMMISSION INCOME (€ m)

	January – June 2012	January – June 2011
Commission income from		
Lending business	28	34
Securities business	37	43
Guarantee business	10	15
Payments and account transactions as well as documentary business	11	11
Other commission income	7	10
Commission income	93	113
Commission expenses from		
Lending business	6	8
Securities business	32	37
Payments and account transactions as well as documentary business	2	2
Other commission expenses	9	5
Commission expenses	49	52
Total	44	61

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 € 46 million (previous year: € 64 million) of Net commission income.

7. RESULT FROM HEDGING

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

RESULT FROM HEDGING

	January – June 2012	January – June 2011
Fair value changes from hedging transactions	194	-238
Micro fair value hedge	-27	-70
Portfolio fair value hedge	221	-168
Fair value changes from underlyings	-185	228
Micro fair value hedge	22	68
Portfolio fair value hedge	-207	160
Total	9	-10

8. 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.

The item 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	
	January - June 2012	January - June 2011	January - June 2012	January - June 2011	January - June 2012	January - June 2011	January - June 2012	January - June 2011
Realised net income								
Held for trading	161	5	-3	15	-36	72	122	92
Designated at fair value	-145	-17	1	-	-	-1	-144	-18
Subtotal	16	-12	-2	15	-36	71	-22	74
Valuation result								
Held for trading	-154	-205	30	19	19	-39	-105	-225
Designated at fair value	-55	176	-28	-25	-	1	-83	152
Subtotal	-209	-29	2	-6	19	-38	-188	-73
Total	-193	-41	-	9	-17	33	-210	1

Net trading income includes net income from foreign currency of € -22 million (previous year: € 41 million).

In the period under review, € 34 million (previous year: € 7 million) of the changes in fair value of the financial assets classified as Designated at Fair Value (DFV) related to changes in the credit spread. In cumulative terms, a total of € -782 million (previous year: € -627 million) was attributable to changes in the credit spread.

During the reporting period, changes in value related to changes in the credit spread for liabilities in the category DFV, amounted to € -63 million (previous year: € 29 million). In cumulative terms, a total of € 171 million (previous year: € 380 million) was attributable to changes in the credit spread.

9. 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. Interest income for securities is recorded under Net interest income.

NET INCOME FROM FINANCIAL INVESTMENTS

(€ m)

	January – June 2012	January – June 2011
Classified as AfS		
+ Realised gains/losses (-)	154	178
- Write-downs	5	15
+ Write-ups	1	-
Subtotal	150	163
Classified as LaR		
+ Realised gains/losses (-)	13	18
- Write-downs	13	71
+ Write-ups	45	48
Subtotal	45	- 5
- Additions to portfolio valuation allowances	43	40
+ Reversal of portfolio valuation allowances	-	-
Subtotal	- 43	- 40
Total	152	118

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

As at the 30 June 2012 reporting date, the HSH Nordbank owns shares in seven associated companies and one joint venture that are included in the interim Group financial statements under the equity method (see Note [4]).

The pro rata net income assigned to the Group from financial investments accounted for under the equity method as at 30 June 2012 is summed up below.

NET INCOME FROM FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

(€ m)

	January – June 2012	January – June 2011
Pro rata net income for the period	- 1	-
Net income from financial investments accounted for under the equity method	- 5	- 3
Impairments	-	- 53
Total	- 6	- 56

The total net income from financial investments accounted for under the equity method amounted to € -6 million (previous year: € -56 million). The loss of disposal of € -5 million

included in this net income as at 30 June 2012 is attributable to the deconsolidation of ALIDA Grundstücksgesellschaft mbH & Co. KG as at 31 March 2012 due to the sale in the beginning of April 2012. This share was deconsolidated as at the previous reporting date of 31 March 2012 and disclosed in accordance with IFRS 5. Furthermore, deconsolidation of the shares in Relacom Management AB as at 31 March 2012 (cf. Note [24]) resulted in positive net income of € 0.3 million.

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 € -4 million, was no longer recorded in the current period. The accumulated non-recognised pro rata share in the losses of these companies amounts to € -29 million.

The results of ALIDA Grundstücksgesellschaft mbH & Co. KG are presented in the segment report in the consolidation of the Core Bank and the results of Relacom Management AG are presented in the Restructuring Unit segment.

11. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)

	January – June 2012	January – June 2011
– Expenses from allocations to loan loss provisions	1,065	706
+ Income from reversal of loan loss provisions	617	708
Subtotal	-448	2
– Expenses from allocations to provisions in the lending business	114	29
+ Income from reversal of provisions in the lending business	96	52
Subtotal	-18	23
– Direct write-downs	15	11
+ Payments received on loans and advances previously written down	71	48
Subtotal	56	37
+ Income from the disposal of receivables	1	–
+ Foreign currency income from loan loss provisions denominated in foreign currency	-48	89
Total before compensation	-457	151
+ Compensation item	346	166
Total	-111	317

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

Direct write-downs of € 15 million (previous year: € 11 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)

	January – June 2012	January – June 2011
Individual valuation allowances	-463	-139
Portfolio valuation allowances	15	141
Subtotal	-448	2
Compensation item	346	166
Total	-102	168

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)

	January – June 2012	January – June 2011
Individual loan loss provisions		
for contingent liabilities	29	15
for loan commitments	-51	-5
for other credit risks	–	-1
Subtotal	-22	9
Portfolio valuation allowances		
for contingent liabilities	2	14
for loan commitments	2	–
Subtotal	4	14
Total	-18	23

12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES

(€ m)

	January – June 2012	January – June 2011
Personnel expenses	184	183
Operating expenses	166	181
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	35	18
Total	385	382

Depreciation includes € 10 million of unscheduled write-downs of investment properties resulting from 2200 Victory LLC, Dover, being included in the scope of consolidation for the first time in the period under review as well as from Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG, Bremen.

13. OTHER OPERATING INCOME

OTHER OPERATING INCOME

(€ m)

	January – June 2012	January – June 2011
Other operating income	360	34
Other operating expenses	95	21
Total	265	13

Other operating income includes gains of € 261 million on the redemption of two subordinated bonds.

14. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING

(€ m)

	January – June 2012	January – June 2011
Personnel expenses	1	7
Operating expenses	21	9
Income from the reversal of provisions and the release of liabilities	3	18
Total	- 19	2

15. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES (€ m)

	January – June 2012	January – June 2011
Financial Market Stabilisation Fund (SoFFin)	16	40
HSH Finanzfonds AöR	141	171
Total	157	211

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 to € 7 billion, compared to € 8 billion as at 30 June of the previous year.

Furthermore the guarantee facility issued by SoFFin, the bank rescue fund, was reduced by € 3 billion compared to 30 June 2011 to € 3 billion now as a result of the maturity of an issue as at 20 January 2012. This last issue was repaid in full on 23 July 2012.

16. EARNINGS PER SHARE

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

EARNINGS PER SHARE

	January – June 2012	January – June 2011
Attributable Group net income (€ m) – undiluted / diluted	61	337
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted / diluted	291	263
Earnings per share (€)		
Undiluted	0.21	1.28
Diluted	0.21	1.28

NOTES ON THE STATEMENT OF FINANCIAL POSITION

17. CASH RESERVE

CASH RESERVE

(€ m)

	30.6.2012	31.12.2011
Cash on hand	9	10
Balances at central banks	1,320	1,505
of which: At the Deutsche Bundesbank	1,139	761
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	366	351
of which: Eligible for refinancing at the Deutsche Bundesbank	359	342
Total	1,695	1,866

18. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS

(€ m)

	30.6.2012	31.12.2011
Payable on demand	7,220	5,286
Other loans and advances	5,730	2,750
Total before loan loss provisions	12,950	8,036
Loan loss provisions	152	188
Total after loan loss provisions	12,798	7,848

19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS

(€ m)

	30.6.2012	31.12.2011
Retail customers	1,341	1,583
Corporate clients	79,667	82,412
Public authorities	6,484	6,612
Total before loan loss provisions	87,492	90,607
Loan loss provisions	5,001	4,776
Total after loan loss provisions	82,491	85,831

20. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS

(€ m)

	30.6.2012	31.12.2011
Loans and advances to banks	152	188
Loans and advances to customers	5,001	4,776
Loan loss provisions for items in the statement of financial position	5,153	4,964
Provisions in the lending business	414	393
Subtotal	5,567	5,357
Compensation item	-1,706	-1,361
Total	3,861	3,996

The individual and portfolio valuation allowances are created without taking the hedging effect of the second loss guarantee into account, to start with. In a second step the hedging effect is reflected in the balance sheet through the recognition of a compensation account, which is directly deducted from loan loss provisions (cf. 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 (€ m) before compensation

	Individual valuation allowances		Portfolio valuation allowances		Total	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011
As at 1 January	187	191	1	3	188	194
Additions	8	4	2	4	10	8
Reversals	11	5	2	6	13	11
Utilisation	47	3	-	-	47	3
Reclassifications	14	-	-	-	14	-
Unwinding	-1	-1	-	-	-1	-1
Exchange rate changes	1	1	-	-	1	1
As at 30 June 2012/ 31 December 2011	151	187	1	1	152	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 (€ m) before compensation

	Individual valuation allowances		Portfolio valuation allowances		Total	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011
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	1,055	2,216	-	23	1,055	2,239
Reversals	589	1,220	14	288	603	1,508
Utilisation	164	528	-	-	164	528
Reclassifications	-14	-	-	-	-14	-
Unwinding	-118	-191	-	-	-118	-191
Exchange rate changes	59	59	10	2	69	61
As at 30 June 2012/ 31 December 2011	4,441	4,212	560	564	5,001	4,776

The valuation allowances relate exclusively to items classified as loans and receivables (LaR).

21. 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.

Changes in this item are directly related to changes in the item Negative fair values of hedging derivatives (Note [34]). The overall changes in the items are mainly due to a change in portfolio composition and movements in interest rates in the USD and EUR capital markets.

POSITIVE FAIR VALUE OF HEDGING DERIVATIVES (€ m)

	30.6.2012	31.12.2011
Positive fair value of derivatives used in micro fair value hedges	355	318
Positive fair value of derivatives used in portfolio fair value hedges	1,915	1,847
Total	2,270	2,165

22. 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 (€ m)

	30.6.2012	31.12.2011
Bonds and other fixed-interest securities	618	1,380
Shares and other non-fixed-interest securities	9	10
Positive fair value of financial derivatives	10,927	10,579
Other trading assets	2	12
Total	11,556	11,981

23. 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-inter-

est securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associated companies not carried at equity in the interim Group financial statements.

FINANCIAL INVESTMENTS

(€ m)

	30.6.2012	31.12.2011
Bonds and other fixed-interest securities	22,541	21,672
Shares and other non-fixed-interest securities	432	446
Equity holdings	215	205
Interests in affiliated companies	41	65
Total	23,229	22,388

24. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

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

As at the 30 June 2012 reporting date, the HSH Nordbank Group owns shares in seven associated companies and one joint venture that are included in the interim Group financial statements under the equity method (31 December 2011: nine associated companies and one joint venture). The carrying amount of these equity holdings was € 14 million as at 30 June 2012 (31 December 2011: € 41 million).

An overview of the associated companies and joint ventures included in the consolidated financial statements under the equity method can be found in Note [4]. Net income from financial investments accounted for under the equity method is disclosed in Note [10].

HSH Nordbank lost its significant influence over Relacom Management AB within the meaning of IAS 28 by means of the sale of some of its voting shares in the company acquired in the previous year in March 2012. For this reason the shares in the company were already deconsolidated as at end of March 2012. The remaining shares are accounted for

in accordance with IAS 39 and disclosed as an equity holding under financial investments. The remaining shares are measured at fair value. This resulted in an income of € 0.3 million which is disclosed under Net income from financial investments accounted for under the equity method (cf. Note [10]).

The shares in ALIDA Grundstücksgesellschaft mbH & Co. KG accounted for using the equity method had also already been deconsolidated as at 31 March 2012 in light of the sale taking place on 5 April 2012 and were disclosed in accordance with IFRS 5 until their disposal.

A summary of the financial information as to the associated companies and joint ventures included in the interim Group financial statements under the equity method as at 30 June 2012 is presented here:

ASSOCIATED COMPANIES CONSOLIDATED UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)

	30.6.2012	31.12.2011
Total assets	448	1,236
Total liabilities	-450	-826
Sales revenue	12	67
Net loss	-3	-27

JOINT VENTURES CONSOLIDATED UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)

	30.6.2012	31.12.2011
Total current assets	6	6
Total non-current assets	14	14
Total current liabilities	-	-
Total non-current liabilities	-9	-9
Sales revenue	-	13
Expenses	-	-10

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

Belgravia Shipping Ltd. made available its most recent financial statements as at 31 May 2012. This was used for consolidation as at 30 June 2012.

The financial years for each of gardeur Beteiligungs GmbH and Prime 2006-1 Funding Limited Partnership do not match the financial year of HSH Nordbank. Both end three months earlier on 30 September of the respective year. Therefore the financial statements of the first half of the financial year as at the 31 March 2012 reporting date were used for applying the equity method as at 30 June 2012. There were no material transactions that would have required an adjustment to the Group reporting date.

As at 30 June 2012, two associated companies were not included in the consolidated financial statements using the equity method, as the equity interests were classified as Non-current assets held for sale and were accounted for under IFRS 5.

Please see Note [23] for a summary of financial information related to financial investments not accounted for using the equity method.

25. INTANGIBLE ASSETS**INTANGIBLE ASSETS**

(€ m)

	30.6.2012	31.12.2011
Software	74	85
Developed in-house	47	53
Acquired	27	32
Software in development	3	3
Developed in-house	1	2
Acquired	2	1
Total	77	88

26. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT (€ m)

	30.6.2012	31.12.2011
Land and buildings	16	17
Plant and equipment	63	65
Leased assets	156	156
Technical equipment and machinery	3	2
Total	238	240

27. INVESTMENT PROPERTY

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)

	30.6.2012	31.12.2011
Investment property	112	98
Total	112	98

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

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

	30.6.2012	31.12.2011
Loans and advances to customers	26	24
Financial investments	33	80
Investment property	20	18
Total	79	122

This item mainly contains equity holdings, real estate and loans and advances from the credit business. It is highly likely for these to be sold within the next twelve months in the course of the strategic realignment.

Pursuant to IFRS 5.5B, as at the 30 June 2012 reporting date, a change in presentation was made such that assets classified as held-for-sale are no longer presented subject to the provisions of other IAS / IFRS.

29. DEFERRED TAX ASSETS

Of the deferred tax assets amounting to € 1,206 million (31 December 2011: € 1,156 million), € 427 million (31 December 2011: € 427 million) are attributable to tax loss carry-forwards. The HSH Nordbank business model, strategic ad-

justments and the future taxable income derived from these ensure that the tax claims carried as assets will meet expectations.

30. OTHER ASSETS

OTHER ASSETS

(€ m)

	30.6.2012	31.12.2011
Tenant loans	18	17
Prepaid expenses	12	12
Receivables from fund transactions	5	7
Receivables from other taxes	4	6
Receivables from participations and affiliated companies	3	2
Other assets	111	140
Total	153	184

31. LIABILITIES TO BANKS

LIABILITIES TO BANKS

(€ m)

	30.6.2012	31.12.2011
Liabilities payable on demand	974	874
Other term liabilities	26,956	23,811
Total	27,930	24,685

32. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS

(€ m)

	30.6.2012	31.12.2011
Savings deposits	61	63
Other liabilities		
Liabilities payable on demand	10,657	7,693
Other term liabilities	32,995	32,483
Total	43,713	40,239

33. SECURITISED LIABILITIES

SECURITISED LIABILITIES (€ m)

	30.6.2012	31.12.2011
Bonds issued	35,355	39,204
Money market securities issued	225	177
Total	35,580	39,381

Under the item Securitised liabilities own bonds repurchased – in part for the purpose of market support – in the

amount of € 4,424 million (31 December 2011: 5,834 million) were deducted. As at the reporting date a bond issued in the amount of € 3 billion is guaranteed by the Financial Market Stabilisation Fund (SoFFin) (31 December 2011: € 6 billion). This was repaid on 23 July as scheduled.

As was the case at the year-end of 2011 HSH Nordbank does not hold any repurchased own money market instruments.

34. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

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

Changes in this item are directly related to changes in the item Positive fair value of hedging derivatives (Note [21]). The overall changes in the items are mainly due to changes in portfolio compositions and movements in interest rates in the EUR and USD capital markets.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES (€ m)

	30.6.2012	31.12.2011
Negative fair value of derivatives used in micro fair value hedges	182	205
Negative fair value of derivatives used in portfolio fair value hedges	632	475
Total	814	680

35. TRADING LIABILITIES

Only financial assets 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

(€ m)

	30.6.2012	31.12.2011
Negative fair values from derivative financial instruments		
Interest rate-related business	11,293	11,346
Currency-related business	399	838
Other business	711	716
Total	12,403	12,900

36. PROVISIONS**PROVISIONS**

(€ m)

	30.6.2012	31.12.2011
Provisions for pension obligations and similar obligations	776	644
Other provisions		
Provisions in the lending business	414	393
Provisions for restructuring	231	276
Provisions for litigation risks and costs	108	108
Provisions for personnel expenses	43	66
Other provisions	109	106
Total	1,681	1,593

The net change in pension obligations of € 132 million comprises the payments for pension obligations in the amount of € 17 million and additions in the amount of € 149 million. The increase in pension obligations is mainly attributable to the decline in market interest rates.

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

PROVISIONS IN THE LENDING BUSINESS

(€ m)

	30.6.2012	31.12.2011
Specific loan loss provisions for		
Contingent liabilities	55	90
Irrevocable loan commitments	280	217
Other credit risks	12	16
Subtotal	347	323
Portfolio loan loss provisions for		
Contingent liabilities	49	50
Irrevocable loan commitments	18	20
Subtotal	67	70
Total	414	393

37. OTHER LIABILITIES

OTHER LIABILITIES (€ m)

	30.6.2012	31.12.2011
Collateral provided for guarantees given	1,044	1,096
Personnel liabilities	15	21
Liabilities for outstanding invoices	40	46
Deferred income	37	38
Liabilities for restructuring	19	8
Other tax liabilities	18	10
Liability to HSH Finanzfonds AöR	–	500
Liabilities from open bearer notes	52	–
Other	189	181
Total	1,414	1,900

The collateral provided for assumed liabilities serves to hedge leasing transactions of our customers with third parties. The € 500 million reported under Liability to HSH Finanzfonds AöR relate to the one-off payment within the context of the EU state aid proceedings (cf. Note [2]).

38. SUBORDINATED CAPITAL

SUBORDINATED CAPITAL (€ m)

	30.6.2012	31.12.2011
Subordinated liabilities	4,372	5,175
Silent participations	1,506	1,442
Profit participation capital	1,788	1,691
Total	7,666	8,308

The decrease in subordinated capital is mainly due to the fact that HSH Nordbank AG repurchased two subordinated issues with a total volume of € 821 million from the investors in the first quarter of 2012.

The carrying amounts of silent participations and profit participation capital were determined on the basis of assumptions of the future earnings situation of HSH Nordbank Group and assumptions with regard to making use of termination or extension options (IAS 39.A8).

39. EQUITY

EQUITY
(€ m)

	30.6.2012	31.12.2011
Share capital	3,018	2,635
Capital reserve	925	809
Retained earnings	1,578	1,911
Gains on pension obligations and similar obligations not recognised in the income statement	42	156
Deferred taxes on gains from pension obligations and similar obligations not recognised in the income statement	-15	-52
Revaluation reserve	-122	-210
Currency conversion reserve	-43	-57
Group income/loss	61	-257
Total before non-controlling interests	5,417	4,831
Non-controlling interests	5	-6
Total	5,422	4,825

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]). The transfer only became effective on the day on which the implementation of the capital increase has been 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.

Accordingly, the share capital of HSH Nordbank AG was increased from € 2,635 million to € 3,018 million on the entry of the implementation of the capital increase in both commercial registers of HSH Nordbank AG on 20 February 2012. Deducting the costs related to the capital measure, the capital reserve increased from € 809 million to € 925 million.

CHANGES IN ORDINARY SHARES

(number of shares)

	30.6.2012	31.12.2011
Number at the beginning of the year	263,508,277	263,508,277
Capital increase	38,314,176	-
Number at end of the period	301,822,453	263,508,277

SEGMENT REPORTING

40. SEGMENT REPORT

(€ m / %)

	Corporate and Private Clients		Products, Capital Markets and Corporate Center		Consolidation Core Bank		Total Core Bank	
	30.6. 2012	30.6. 2011	30.6. 2012	30.6. 2011	30.6. 2012	30.6. 2011	30.6. 2012	30.6. 2011
Net interest income	399	412	-79	-161	-81	77	239	328
Net commission income	36	43	1	4	-12	-7	25	40
Result from hedging	-	-	-	-	9	-10	9	-10
Net trading income	12	42	74	196	-192	-109	-106	129
Net income from financial investments ¹⁾	-3	16	-26	14	-1	15	-30	45
Total income	444	513	-30	53	-277	-34	137	532
Loan loss provisions	-148	101	-7	-14	61	-34	-94	53
Administrative expenses	-181	-212	-62	-16	3	-1	-240	-229
Other operating income	11	2	253	4	-5	-1	259	5
Net income before restructuring	126	404	154	27	-218	-70	62	361
Result from restructuring	-	-	-	-	-13	6	-13	6
Expenses for government guarantees	-	-	-	-	-61	-89	-61	-89
Net income before taxes	126	404	154	27	-292	-153	-12	278
Cost/Income Ratio (CIR)	41%	41%					175%	43%
Return on equity before tax	26%	67%					-1%	19%
Average equity	975	1,210	373	308	1,292	1,372	2,640	2,890
	30.6. 2012	31.12. 2011	30.6. 2012	31.12. 2011	30.6. 2012	31.12. 2011	30.6. 2012	31.12. 2011
Segment assets (€ bn)	42	43	39	34	1	-	82	77

¹⁾ incl. net income from financial investments accounted for under the equity method

(€ m / %)

	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	30.6. 2012	30.6. 2011	30.6. 2012	30.6. 2011	30.6. 2012	30.6. 2011	30.6. 2012	30.6. 2011
Net interest income	217	306	-3	1	214	307	453	635
Net commission income	19	21	-	-	19	21	44	61
Result from hedging	-	-	-	-	-	-	9	-10
Net trading income	61	-31	-165	-97	-104	-128	-210	1
Net income from financial investments ¹⁾	176	17	-	-	176	17	146	62
Total income	473	313	-168	-96	305	217	442	749
Loan loss provisions	-301	62	284	202	-17	264	-111	317
Administrative expenses	-145	-153	-	-	-145	-153	-385	-382
Other operating income	6	8	-	-	6	8	265	13
Net income before restructuring	33	230	116	106	149	336	211	697
Result from restructuring	-	-	-6	-4	-6	-4	-19	2
Expenses for government guarantees	-	-	-96	-122	-96	-122	-157	-211
Net income before taxes	33	230	14	-20	47	210	35	488
Cost/Income Ratio (CIR)							87%	51%
Return on equity before tax							1%	19%
Average equity	2,484	2,376	-	-	2,484	2,376	5,124	5,266
	30.6. 2012	31.12. 2011	30.6. 2012	31.12. 2011	30.6. 2012	31.12. 2011	30.6. 2012	31.12. 2011
Segment assets (€ bn)	53	58	3	1	56	59	138	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. For reasons of comparability, the segment results of the previous year have been adjusted in accordance with the organisational changes implemented in 2011.

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 and structuring 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. The Restructuring Unit is divided into four divisions and structured independently from the market and trading divisions of the Bank. The Special Loans division primarily manages restructuring cases and the Wind-Down Loans division mainly manages the other loan portfolios. The aircraft loan portfolio is wound down in the Aviation division. A fourth division is responsible for the capital market portfolios (Divestments). In addition the Restructuring Unit performs supporting administrative functions.

The basis for the segment reporting is internal reporting to management. Income and expenses were assigned to the segments in which they originated.

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 summary provides little information. In the case of the Restructuring Unit, the segment involves business areas which are not strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income 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 mainly 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 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 [10] for comments on companies consolidated under the equity method recognised as part of net income from financial investments.

NOTES ON FINANCIAL INSTRUMENTS

41. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY (€ m)

	30.6.2012						
	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	Total
Assets							
Cash reserve	1,329	366	-	-	-	-	1,695
Loans and advances to banks	12,792	39	119	-	-	-	12,950
Loans and advances to customers	86,078	-	1,243	-	-	-	87,321
Receivables under finance leases	-	-	-	-	-	171	171
Positive fair values of hedging derivatives	-	-	-	-	-	2,270	2,270
Trading assets	-	-	-	11,556	-	-	11,556
Financial investments	11,748	9,365	2,116	-	-	-	23,229
Other assets	153	-	-	-	-	-	153
Total assets	112,100	9,770	3,478	11,556	-	2,441	139,345
Liabilities							
Liabilities to banks	-	-	308	-	27,622	-	27,930
Liabilities to customers	-	-	3,119	-	40,594	-	43,713
Securitised liabilities	-	-	5,220	-	30,360	-	35,580
Negative fair values of hedging derivatives	-	-	-	-	-	814	814
Trading liabilities	-	-	-	12,403	-	-	12,403
Subordinated capital	-	-	1,876	-	5,790	-	7,666
Other liabilities	-	-	-	-	1,414	-	1,414
Total liabilities	-	-	10,523	12,403	105,780	814	129,520

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

(€ m)

							31.12.2011
	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 values of hedging derivatives	-	-	-	-	-	2,165	2,165
Trading assets	-	-	-	11,981	-	-	11,981
Financial investments	12,679	7,556	2,153	-	-	-	22,388
Other assets	184	-	-	-	-	-	184
Total assets	111,478	7,944	3,482	11,981	-	2,342	137,227
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
Trading liabilities	-	-	-	12,900	-	-	12,900
Subordinated capital	-	-	1,752	-	6,556	-	8,308
Other liabilities	-	-	-	-	1,900	-	1,900
Total liabilities	-	-	10,551	12,900	103,962	680	128,093

42. RECLASSIFICATION UNDER IAS 39 (2008 REVISION)

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 released 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)

	Carrying amount as at the time of reclassification	30.6.2012		31.12.2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	134	122	156	136
Reclassified from AfS to LaR	1,841	31	31	78	77
Total financial assets reclassified as LaR	2,861	165	153	234	213

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 € 2,988 million.

More assets were reclassified in the second quarter of 2009. These are shown in the following table.

(€ m)

	Carrying amount as at the time of reclassification	30.6.2012		31.12.2011	
		Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	399	285	293	292	298
Reclassified from AfS to LaR	6,336	4,705	4,676	5,322	5,296
Total financial assets reclassified as LaR	6,735	4,990	4,969	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 compared to the time of reclassification was due to extensive changes in holdings. At the time of reclassification as HfT, the carrying amount of the financial instruments affected was € 985 million and the carrying amount of assets classified as AfS was € 3,493 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 € 9 million (previous year: € 14 million) for the financial instruments reclassified in the 2008 financial year and € 2 million (previous year: € -3 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 € 2 million (previous year: € -4 million) for the financial instruments reclassified in the 2008 financial year and € -1 million (previous year: € 4 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)

	January - June 2012			January - June 2011		
	From HfT	From AfS	Total	From HfT	From AfS	Total
Net interest income	8	75	83	9	81	90
Net trading income	2	-	2	-5	-15	-20
Net income from financial investments	2	7	9	-2	-58	-60
Total	12	82	94	2	8	10

43. DISCLOSURE OF FAIR VALUE IN ACCORDANCE WITH IFRS 7

In addition to changes to the valuation levels of individual transactions, there were significant changes to the valuation levels of interest-bearing securities in the holding categories AfS 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. These securities have a carrying amount of € 563 million as at the time of level transfer. Furthermore interest-bearing securities in the DFV category in the amount of € 108 million were transferred from level 3 to level 2 based on the availability of input parameters on the determination of the fair value of individual securities observable in the market.

44. FINANCIAL TRANSACTIONS WITH SELECTED EUROPEAN STATES

The following tables contain overviews of HSH Nordbank's commitments with European states where an increased economic risk is assumed. Due to a high level of public debt the EU Member States Belgium and Hungary are classified as high risk countries by HSH Nordbank and reported under other countries in the following table. The tables present the risk directly attributable to the listed European countries.

The income statement effects are only shown for the original positions, that is the valuation results arising from hedging derivatives are not taken into account.

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)

	30.6.2012					
	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	180	170	–	170	96
Ireland	–	–	–	–	–	–
Italy	63	63	64	–	64	53
Greece	–	–	–	–	–	–
Spain	179	178	173	–	173	105
Other countries	44	44	42	–	42	44
Total	466	465	449	0	449	298

ASSETS CLASSIFIED AS LAR

(€ m)

	31.12.2011					
	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
Other countries	44	41	41	–	41	43
Total	623	597	600	–87	513	395

ASSETS CLASSIFIED AS AFS

(€ m)

	30.6.2012					
	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	52	-	-17	35
Greece	102	27	28	-6	-6	16
Spain	-	-	-	-	-	-
Other countries	32	32	32	-	-1	31
Total	175	100	112	-6	-24	82

ASSETS CLASSIFIED AS AFS

(€ m)

	31.12.2011					
	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	-	-	-	-	-	-
Other countries	32	32	32	-	-3	29
Total	91	93	94	-15	-3	75

ASSETS CLASSIFIED AS DFV

(€ m)

	30.6.2012				
	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated valuation affecting P&L	Fair value of assets
Portugal	100	100	100	- 29	71
Ireland	-	-	-	-	-
Italy	430	430	434	42	476
Greece	68	-	-	-	-
Spain	-	-	-	-	-
Other countries	250	250	256	64	320
Total	848	780	790	77	867

ASSETS CLASSIFIED AS DFV

(€ m)

	31.12.2011				
	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	-	-	-	-	-
Other countries	250	250	252	56	308
Total	904	906	914	- 79	835

ASSETS CLASSIFIED AS HFT

(€ m)

	30.6.2012	31.12.2011
	Fair value of assets	Fair value of assets
Portugal	-	6
Ireland	-	-
Italy	-	4
Greece	-	-
Spain	-	-
Other countries	-	-
Total	-	10

From HSH Nordbank's perspective there is no reason to believe that the new bond positions received as a result of restructuring are impaired. One bond position not yet swapped continues to be impaired.

Bond positions which HSH Nordbank received as a result of restructuring the old Greece bonds were initially recognised at market value at the date of initial recognition. The swap resulted in an income of € 3 million compared to the carrying amount as at 31 December 2011.

45. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS

I. CREDIT QUALITY OF FINANCIAL INSTRUMENTS WHICH ARE NEITHER IMPAIRED NOR OVERDUE

The table below gives information on the credit quality of financial instruments which were neither impaired nor overdue as of the reporting date. The table provides a breakdown of the financial instruments by category and rating class of the respective counterparty.

CREDIT QUALITY

(€ m)

	1(AAA) to 1(AA+)		1(AA) to 1(A-)		2 to 5	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011
Held for trading (HfT)						
Trading assets	1,790	3,169	5,035	4,998	2,054	1,365
Designated at Fair Value (DFV)						
Loans and advances to banks	39	46	-	-	80	77
Loans and advances to customers	1,167	1,167	-	-	10	12
Financial investments	215	567	787	822	883	453
Available for Sale (AFS)						
Cash reserve	366	351	-	-	-	-
Loans and advances to banks	22	20	13	13	3	4
Financial investments	5,126	3,827	3,120	2,620	623	699
Loans and Receivables (LaR)						
Cash reserve	1,328	1,020	1	495	-	-
Loans and advances to banks	3,563	3,231	7,727	3,960	1,138	367
Loans and advances to customers	5,862	6,486	6,753	7,888	18,270	19,870
Financial investments	6,419	6,856	2,077	2,857	1,600	1,351
Other assets	-	-	-	-	-	-
No IAS 39 category						
Positive fair values of hedging derivatives	576	895	1,513	1,098	147	166
Receivables under finance leases	15	15	16	19	44	47
Total	26,488	27,650	27,042	24,770	24,852	24,411

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.

	6 to 9		10 to 12		13 to 15		16 to 18	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011
	1,298	1,183	301	512	692	416	386	338
	-	-	-	-	-	-	-	-
	-	-	34	27	32	-	-	-
	-	3	111	143	11	33	109	132
	-	-	-	-	-	-	-	-
	1	-	-	-	-	-	-	-
	192	49	61	60	24	29	16	19
	-	-	-	-	-	-	-	-
	103	12	3	3	-	1	-	60
	18,782	20,230	5,648	8,930	9,718	6,783	4,892	4,767
	504	362	207	117	399	408	73	97
	153	184	-	-	-	-	-	-
	8	5	10	-	16	1	-	-
	46	48	14	21	24	16	12	11
	21,087	22,076	6,389	9,813	10,916	7,687	5,488	5,424

CARRYING AMOUNTS OF OVERDUE, UNIMPAIRED FINANCIAL ASSETS

(€ m)

	Overdue < 3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011
Loans and Receivables (LaR)								
Loans and advances to banks	-	5	-	-	78	10	-	-
Loans and advances to customers	1,894	959	890	252	280	162	575	749
Total	1,894	964	890	252	358	172	575	749

Payments of € 74 million on transactions with a carrying amount volume of € 909 million were received up to ten days after the reporting date of 30 June 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 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	
	30.6.2012	31.12.2011	30.6.2012	31.12.2011	30.6.2012	31.12.2011
Loans and Receivables (LaR)						
Loans and advances to banks	180	227	151	187	29	40
Loans and advances to customers	12,514	12,148	4,441	4,212	8,073	7,936
Financial investments ¹⁾	934	1,244	465	613	469	631
Available for Sale (AFS)						
Financial investments ¹⁾	497	610	294	357	203	253
Total	14,125	14,229	5,351	5,369	8,774	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 [41] as well as off-balance sheet liabilities as presented in Note [46].

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 [20]. 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 instruments as well as the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)

	30.6.2012			
	Value of collateral received			
	Carrying amount	Real estate liens and registered liens	Sureties and guarantees	Other collateral
Held for Trading (HfT)				
Trading assets	11,556	361	1	591
Designated at Fair Value (DFV)				
Loans and advances to banks	119	–	63	–
Loans and advances to customers	1,243	–	–	–
Financial investments	2,116	–	–	–
Available for Sale (AFS)				
Cash reserve	366	–	–	–
Loans and advances to banks	39	–	–	–
Financial investments	9,365	–	–	–
Loans and Receivables (LaR)				
Cash reserve	1,329	–	–	–
Loans and advances to banks	12,792	–	1,238	1,575
Loans and advances to customers	86,078	29,777	1,963	5,382
Financial investments	11,748	–	–	–
Other assets	153	–	–	–
No IAS 39 category				
Positive fair values of hedging derivatives	2,270	–	–	–
Receivables under finance leases	171	–	–	–
Contingent liabilities	2,427	271	191	135
Irrevocable loan commitments	5,338	398	64	246
Total assets	147,110	30,807	3,520	7,929

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL

(€ m)

	31.12.2011			
	Carrying amount	Value of collateral received		
		Real estate liens 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	7,556	–	–	–
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	12,679	–	75	66
Other assets	184	1	–	–
No IAS 39 category				
Positive fair values of hedging derivatives	2,165	–	–	–
Receivables under finance leases	177	–	–	–
Contingent liabilities	2,741	262	261	196
Irrevocable loan commitments	6,767	735	208	606
Total assets	146,735	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. In the course of the year 2011 the original guarantee facility of € 10 billion granted by the federal states was reduced by € 3 billion 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 € 4,919 million (31 December 2011: € 3,031 million). The collateral received is split up as follows: € 553 million (31 December 2011: € 916 million) related to OTC derivatives and structured transactions. The

Group received collateral in the amount of € 4,366 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 € 494 million (31 December 2011: € 394 million). Of the collateral received, an amount of € 1,832 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, assets in the amount of € 36 million (previous year: € 0 million) were recognised from the realisation of collateral that are still disclosed on the face of the balance sheet as at the reporting date.

In November 2008, HSH Nordbank AG received a guarantee facility for up to a maximum of € 30 billion from the Financial Market Stabilisation Fund (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 30 June 2012, issues remained outstanding in the amount of € 3 billion (31 December 2011: € 6 billion) which were repaid on 23 July 2012. This means that the guarantee facility was reduced as scheduled.

For further information on the second loss guarantee please refer to Note [2].

46. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS**OFF-BALANCE-SHEET BUSINESS**

(€ m)

	30.6.2012	31.12.2011
Contingent liabilities	2,427	2,741
Irrevocable loan commitments	5,338	6,767
Total	7,765	9,508

OTHER DISCLOSURES

47. 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, associated companies, joint ventures, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, call and 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 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 (cf. Note [2] and [15]) is identified as a significant transaction within the meaning of IAS 24.

II. SUBSIDIARIES

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES - ASSETS

	30.6.2012	31.12.2011
Loans and advances to customers	133	120
Loan loss provisions	- 17	- 15
Financial investments	41	65
Other assets	2	2
Total	159	172

SUBSIDIARIES - LIABILITIES

	30.6.2012	31.12.2011
Liabilities to customers	39	60
Provisions	4	11
Other liabilities	1	1
Total	44	72

SUBSIDIARIES - INCOME STATEMENT

	January - June 2012	January - June 2011
Net interest income	3	5
Net trading income	-	3
Net income from financial investments	1	-2
Loan loss provisions	4	1
Other operating income	-	-2
Total	8	5

Furthermore there are contingent liabilities to subsidiaries of € 6 million (31 December 2011: € 6 million) and € 10 million (31 December 2011: € 8 million) of irrevocable loan commitments.

There were no other financial liabilities to subsidiaries as at the reporting date (31 December 2011: € 0 million).

III. ASSOCIATED COMPANIES

The following table shows the transactions with associated companies:

ASSOCIATED COMPANIES – ASSETS

(€ m)	30.6.2012	31.12.2011
Loans and advances to customers	544	717
Loan loss provisions	-54	-42
Trading assets	12	9
Financial investments	257	245
Other assets	2	1
Total	761	930

ASSOCIATED COMPANIES – LIABILITIES

(€ m)	30.6.2012	31.12.2011
Liabilities to customers	38	39
Other liabilities	24	1
Total	62	40

ASSOCIATED COMPANIES – INCOME STATEMENT

(€ m)	January – June 2012	January – June 2011
Net interest income	9	19
Loan loss provisions	-13	-
Net trading income	3	-1
Net income from financial investments	10	-
Total	9	18

In addition, there are € 3 million (31 December 2011: € 9 million) of contingent liabilities to associated companies and € 56 million (31 December 2011: € 52 million) of irrevocable loan commitments.

Other financial liabilities to associated companies amount to € 175 million (31 December 2011: € 182 million).

IV. JOINT VENTURES

The following table shows the transactions with joint ventures:

JOINT VENTURES – ASSETS

(€ m)	30.6.2012	31.12.2011
Loans and advances to customers	136	132
Loan loss provisions	-3	-3
Trading assets	11	13
Total	144	142

JOINT VENTURES – INCOME STATEMENT

(€ m)	January – June 2012	January – June 2011
Net interest income	2	5
Net commission income	-	1
Net trading income	-2	-1
Total	-	5

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)	30.6.2012	31.12.2011
Liabilities to customers	1	1
Total	1	1

48. BOARD MEMBERS

Dr Paul Lerbinger

Born in 1955
Chairman

Dr Martin van Gemmeren (until 10 February 2012)

Born in 1970
Restructuring Unit

Constantin von Oesterreich

Born in 1953
Chief Financial Officer

Torsten Temp

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

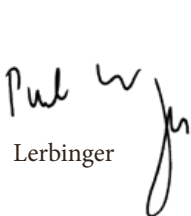
Edwin Wartenweiler (since 1 June 2012)

Born in 1959
Chief Risk Officer

Chief Operating Officer: Ulrich Voß
(General Agent [Generalbevollmächtigter],
until 31 March 2012)

Restructuring Unit: Wolfgang Topp
(General Agent [Generalbevollmächtigter],
since 12 March 2012)

Hamburg/ Kiel, 21 August 2012


Lerbinger


von Oesterreich


Temp


Wartenweiler

REVIEW OPINION

TO HSH NORDBANK AG, HAMBURG AND KIEL

We have reviewed the condensed interim consolidated financial statements of HSH Nordbank AG, Hamburg and Kiel, – comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and selected explanatory notes – together with the interim group management report of HSH Nordbank AG for the period from 1 January to 30 June, 2012 that are part of the semi annual financial report according to § 37 w WpHG [“Wertpapierhandelsgesetz”: “German Securities Trading Act”]. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company’s management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor’s report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the

interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Hamburg, 21 August 2012

KPMG AG

Wirtschaftsprüfungsgesellschaft



Madsen

Wirtschaftsprüfer



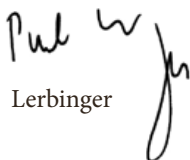
König

Wirtschaftsprüfer

RESPONSIBILITY STATEMENT by the MANAGEMENT BOARD

We hereby affirm that to the best of our knowledge the interim Group financial statements have been prepared in accordance with the applicable accounting principles and give a true and fair view of the net assets, financial position and results of operations of the HSH Nordbank Group and that the interim 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 August 2012


Lerbinger


von Oesterreich


Temp


Wartenweiler

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This interim report is available for download at
www.hsh-nordbank.com.

This is an English translation of the original German version
of the interim report.

FORWARD-LOOKING STATEMENTS

This interim report includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this report. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this report does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

S **T** **A**

NRK

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