INTERIM REPORT AS OF 31 MARCH 2012

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HSH NORDBANK

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STARK FÜR UNTERNEHMER

[Strong for entrepreneurs]

HSH NORDBANK GROUP
at a GLANCE

INCOME STATEMENT
(€ m)

	1.1. – 31.3 2012	1.1. – 31.3 2011
Net income before restructuring	183	243
Net income before taxes	97	131
Group net income	128	126

BALANCE SHEET
(€ bn)

	31.3.2012	31.12.2011
Equity	5.5	4.8
Total assets	133.4	135.9
Business volume	142.6	145.4

CAPITAL RATIOS [1]
(%)

	31.3.2012	31.12.2011
Tier 1 capital ratio	14.5	13.8
Tier 1 capital ratio excl. hybrid financial instruments	11.1	10.3
Regulatory capital ratio	22.4	21.3

EMPLOYEES

	31.3.2012	31.12.2011
Full-time positions	3,578	3,684
Total employees	4,156	4,265
Germany	3,706	3,778
Abroad	450	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 31 March 2012 into account
[2] Obligations covered by "Gewährträgerhaftung" (guarantee obligation)

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Ladies and gentlemen,

Against the backdrop of its continuing efforts for the reorganisation of the Group, and despite a market environment that remained difficult during the first quarter of 2012, HSH Nordbank generated net income after taxes of € 128 million compared to € 126 for the same period in the previous year. Net income of the Bank before restructuring expenses, expenses for government guarantees and tax effects decreased from 243 million in the previous year to € 183 million. Net income for the Core Bank increased to € 263 million compared to € 145 million during the first quarter of 2011.

The Bank's quarterly net income reflects the effects of a series of positive and negative factors. In addition to extraordinary income from the successful repurchase of subordinated bonds for purposes of strengthening the capital base, reductions in government guarantees, income from the sale of equity holdings and the cost reduction measures initiated in the previous year all had a positive impact on net income. However, valuation effects caused by market fluctuations as well as the winding-down of additional interest-bearing transactions had a negative impact.

Increased loan loss provisions for credit risks related to restructuring commitments within the Restructuring Unit, in the shipping portfolio among others, were largely offset by the hedging effect of the second loss guarantee granted by the federal states of Hamburg and Schleswig-Holstein. This means that the guarantee had the intended risk-reducing effect during the first quarter of 2012. The relief of the Bank is still not associated with effective payment obligations on the part of the federal states.

We expanded customer business on a targeted basis during the first quarter and continued to push forward the acquisition of new business. This led to an increase in the volume of new financing transactions in the Core Bank compared to the same period in the previous year; however the level seen in the final quarter of 2011 could not yet be achieved at the start of 2012. On the basis of intensified sales measures and increasing acceptance of the new business model in the markets, the Bank is confident that it can expand new business during the course of the year.

HSH Nordbank continued to reduce total assets during the reporting period. Total assets still amounted to € 133 billion as at 31 March 2012 compared to € 136 billion at the 2011 year-end. In addition, the capital base was further strengthened during the first quarter. The Tier 1 capital ratio, including market risk positions, rose to 14.5 % compared to 13.8 % at the end of 2011. In particular, the capital injection by the federal states of Hamburg and Schleswig-Holstein during the first quarter pursuant to an EU requirement contributed to the increase in the ratios. In addition, the repurchase of subordinated bonds had a positive effect.

We expect increasing success in the customer business for 2012. However, business developments during the course of the year will also be influenced by uncertainties in the overall economic development, the incalculable consequences of the European sovereign debt crisis and, in particular, by the situation in the international shipping industry. Against this backdrop, we expect an increased need for loan loss provisions.

In spite of all these uncertainties, I am convinced that we will succeed in the market with our business model "Bank for entrepreneurs", when looking at the progress we have already made and the results we achieved in the first quarter of 2012. I am confident, that we will master the challenges which lie ahead of us and that we will be able to take advantage of the opportunities associated with the necessary transformation of HSH Nordbank.

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

Global economy stabilising

While the global economy lost significant momentum at the end of the past year, signs of an upward trend were observable during the early months of this year. The Asian region in particular expanded dynamically. The US economy – supported by declines in unemployment – exhibited moderate growth while the economy in the eurozone merely stagnated. Growth was particularly dampened by the increased savings efforts on the part of many countries within the eurozone. Compared to Fall 2011, expectations of European businesses and consumers were again slightly more optimistic.

Germany experienced marked improvement despite the drag resulting from the European debt crisis. Foreign trade in particular provided a boost, however, consumer spending increased as well supported by continued declines in unemployment and increases in wages.

Reduced tension in the financial markets during the first quarter

Compared to the high levels of turbulence experienced during the second half of 2011, tension in the financial markets declined significantly during the first few months of the current year. The driving factor for increased willingness to accept risk on the part of investors was primarily the injection of additional central bank liquidity following the three-year tenders offered by the ECB in December 2011 and February 2012. These measures not only improved the liquidity situation at the European banks but also improved the funding situation in the peripheral countries as a portion of the additional liquidity was invested in government bonds from these countries.

In addition, the rescheduling of Greek government bonds and the approval of the second rescue package for Greece, agreements on the part of European governments to a fiscal package, on a temporary increase in the European "firewall" out of the European Financial Stability Facility, EFSF, and agreement with regard to the future European Stability Mechanism, ESM, all contributed to making progress in coping with the European debt crisis. Increased confidence in the countries on the periphery of the eurozone on the part of investors was also visible in the intervening decline in premiums which must be paid for insurance on government bonds of the peripheral countries.

In light of disappointing economic data from both sides of the Atlantic as well as the prospects of higher government deficits in Spain, investors again experienced heightened levels of disillusionment so that the premiums on insurance for government bonds issued by the peripheral countries rose again. Elections in France and Greece in early May also contributed to an increase in uncertainty on the part of investors regarding future developments within the eurozone. While yields on ten-year German government bonds rose to over 2 % at one point, they declined to new historic lows during the second quarter as a result of a rise in risk aversion. Following a marked increase in March, yields on US treasuries with the same maturity have since fallen again.

In light of the weak economies in many industrialised countries, the large central banks exhibited strong expansionary tendencies. For example, the Fed continued to hold open the possibility of additional bond repurchases and signalled that it would retain the key interest rate at its currently low level until the end of 2014. The ECB acted cautiously for the time being following the extraordinary measures implemented to increase liquidity.

Tensions eased somewhat on the foreign exchange markets as well during the first quarter. In particular, the euro stabilised again somewhat compared to its low point versus the US dollar mid-January.

Trends in the international stock markets were exceedingly positive during the first quarter. The primary sources of this optimism included hope of solution to the debt crisis, a slight improvement in the US economy and low interest rates. For example, the DAX rose by almost 18 %. However, during April the markets resumed a downward trend as concerns about Spain's stability contributed to a dampening of the mood.

Stabilisation in the banking sector supported by central banks measures

The funding situation within the European banking sector eased significantly as a result of the provision of approximately EUR 1 billion in liquidity with a three-year maturity. Higher confidence levels in bank solvency led to a re-opening of markets for new issues, in particular in the covered bond segment. However, the extension of credit to private households and businesses, which had declined significantly at the end of the previous year, continues to be restrained.

BUSINESS OVERVIEW

HSH Nordbank continued strategic realignment

During the first quarter of 2012, HSH Nordbank remained on schedule with its business restructuring efforts with the goal of reorganising the Bank as a medium-sized "bank for entrepreneurs" started during the second half of 2011. The first few months of the year continued to be characterised by the targeted strengthening and positioning of our customer business in focussed markets as well as the reorganisation of our operational structures, processes and service offerings to reflect the new business model developed within the framework of the requirements imposed by the EU.

As part of these efforts, the Bank initiated the reduction in staff approved during the previous year which is expected to make a significant contribution to adjusting costs in line with the Bank's lower total assets levels. The plans call for a significant reduction in headcount by more than one third through 2014 which reflects reorganisation within the individual divisions in light of the target organisational structure. The number of employees (computed on a full-time equivalent (FTE) basis) continued to decline during the first quarter as a result of the measures initiated by the Bank and totalled 3,578 FTE as of the end of March 2012 (31 December 2011: 3,684). In addition, the Bank commenced reductions in operating expenses approved in the previous year. Active cost management is used to track progress in implementing the cost guidelines on an on-going basis.

Advanced winding-down of the equity holding portfolio

HSH Nordbank continued to make progress in winding-down non-strategic equity holdings. Shares in the Europa Passage (via the ALIDA KG special-purpose entity) were sold to the Allianz Group in March; the sale closed at the beginning of April. Through its acquisition of the 45 % share held by HSH Nordbank, the Europa Passage is now wholly owned by the Allianz Group.

Approximately one-half of the equity holdings to be wound-down by the end of 2013 according to the catalogue of conditions and undertakings agreed with the EU have been disposed of. The portfolio's value has actually been reduced by about 80 % as companies with the largest amount of investments at the time such as DekaBank, DAL Deutsche Anlagen-Leasing, ALIDA KG and the private equity fund portfolio, were disposed of first. In addition, several disposal and / or wind-down processes have been initiated for the remaining equity holding portfolio so that additional reductions in equity holdings may be achieved during the current year.

BUSINESS DEVELOPMENTS

OVERVIEW OF BUSINESS PERFORMANCE

Positive quarterly results in a challenging environment
In light of continued progress in implementing the new business model required under the EU guidelines, as well as market conditions which remain difficult, HSH Nordbank reported Group net income of € 128 million for the first three months of 2012 compared to € 126 million in the same quarter of the previous year. Prior to taking into account restructuring expenses, expenses for government guarantees and tax effects, the Bank generated net income of € 183 million (previous year: € 243 million).

Quarterly net income benefitted from the successful repurchase of subordinated bonds, reductions in government guarantees and cost-reduction measures underway. By contrast, the wind-down of additional business and valuation effects resulting from market fluctuations had a negative effect. Increased loan loss provisions for credit risks in wind-down portfolios were largely offset by the hedging effect of the second loss guarantee granted by the states of Hamburg and Schleswig-Holstein.

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

EARNINGS SITUATION

INCOME STATEMENT
(€ m)

	January – March 2012	Following adjustment January – March 2011	Change in %
Interest income	2,615	2,976	– 12
Interest expenses	– 2,307	– 2,612	– 12
Net income from hybrid financial instruments	– 43	– 39	– 10
Net interest income	**265**	**325**	**– 18**
Net commission income	24	32	– 25
Result from hedging	– 6	– 14	57
Net trading income	– 203	– 34	> – 100
Net income from financial investments	67	68	– 1
Net income from financial investments accounted for under the equity method	– 6	– 4	– 50
Total income	**141**	**373**	**– 62**
Loan loss provisions	– 43	73	> 100
Administrative expenses	– 199	– 207	– 4
Other operating income	284	4	> 100
Net income before restructuring	**183**	**243**	**– 25**
Result from restructuring	– 6	–	–
Expenses for government guarantees	– 80	– 112	– 29
Net income before taxes	**97**	**131**	**– 26**
Income tax expenses (–) / income (+)	31	– 5	> – 100
Group net income	**128**	**126**	**2**
Group net income attributable to non-controlling interests	–	1	– 100
Group net income attributable to HSH Nordbank shareholders	128	125	2

Income influenced by asset reductions as well as measurement and one-off effects
The individual income and expense items developed as following during first three months of 2012:

Net interest income amounted to € 265 million during the first quarter of 2012 compared to € 325 million for the same period in the previous year. This development was driven by the continued wind-down of non-strategic portfolios, which caused the Bank’s interest-bearing business volumes to decline further. The measurement of hybrid financial instruments had an effect of € –43 million (previous year: € –39 million).

By contrast, the Bank's new lending business, which was slowly but continuously expanded during the first quarter, made a positive contribution with improved margins. However, the volume effect from disbursements of new transactions and prolongations was not yet large enough to significantly offset as a whole continued reductions in portfolio volumes of the Restructuring Unit which have been subject to additional reductions in, amongst others, the aviation portfolio since the fourth quarter in order to satisfy requirements of the EU. Within the Core Bank customer business (segment Corporate and Private Clients), net interest income remained nearly constant at the same level as the previous year.

At € 24 million, net commission income likewise was lower than that of the previous year (€ 32 million). Loan fees in particular reflected the missing business from the additional portfolios subject to wind-down and the slow expansion of new business.

Net trading income amounted to € –203 million (previous year: € –34 million). The most significant burden during the first quarter related to changes in value of interest rate / currency derivatives (EUR / USD basis swaps) employed by banks for refinancing foreign currency transactions. The value of basis swaps is in particular influenced by the spread in the basis swaps and the USD exchange rate. The valuation effects of own liabilities likewise had a negative influence during the first quarter. On the other hand, the valuation of European government bonds made a positive contribution at the end of the quarter in light of improved mood in the markets. The valuation of additional positions likewise made a positive contribution to net trading income.

At € 67 million, net income from financial investments for the first three months of the year remained at about the same level as (€ 68 million) for the same period in the previous year. As in the previous quarters, the Bank benefitted from sales of equity investments not relevant to the Bank's core business. In addition, write-ups on securities made a positive contribution to income.

The Bank reports income in the amount of € 261 million from a repurchase of publicly placed subordinated bonds performed in the first quarter under other operating income. Income resulted from the difference between the nominal amount of the bonds and their repurchase price. In total, other operating income amounted to € 284 million (31 March 2011: 4 million).

Effect of loan loss provisions reduced by the guarantee

The Bank reported a negative result of € –43 million in the loan loss provisions item (same period for the previous year: € 73 million). The primary drivers were valuation allowances related to restructuring exposures in the Restructuring Unit (in particular in the shipping, international real estate and energy portfolios). In contrast, loan loss provisions for individual counterparties were reduced somewhat in the client business of the Core Bank. Portfolio valuation allowances recognised for individual asset classes had an adverse impact; in the previous year it had been possible to reverse a large portion of portfolio valuation allowances through profit or loss.

Loan loss provisions continued to be offset by the hedging effect of the second loss guarantee, which reduced expenses for loan loss provisions by € 131 million in the first quarter of 2012. An additional premium imposed by the EU for the balance sheet drawdown of the guarantee of € –34 million is included in this amount.

However, the hedging effect did not result in a cash draw down of the guarantee as of the balance sheet date. Details on the loan loss provisions are set out in Notes [11] and [20] and on the second loss guarantee in Note [2].

Cost reductions show effect

Administrative expenses reflect the continued progress of the cost reduction measures approved during the previous year. Costs declined by € 8 million from € –207 million to € –199 million even though a large number of new enterprises were included in the scope of consolidation for the 2011 consolidated financial statements. Adjusted for this effect, administrative expenses declined by € 20 million. Declines in personnel expenses after adjustment for consolidation effects are due to additional reductions in head count. Compared to the end of 2011, head count (computed on a full-time equivalent (FTE) basis) within the Group declined by 106 to 3,578. In the case of operating expenses, the Bank benefitted from savings in various operating expense items including external consultancy services and projects.

Expenses for government guarantees reduced

Total expenses for government guarantees declined during the first quarter to € 80 million (previous year: € 112 million). The main share of this amount is attributable to the second loss guarantee issued by the 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 € 71 million (€ 90 million). Costs for the guarantees of the Financial Market Stabilisation Fund (SoFFin) fell to only € 9 million due to planned reductions (previous year: € 22 million).

Group net income of € 128 million

In total, developments during the first quarter resulted in net income before taxes in the amount of € 97 million compared to € 131 million for the same period in the previous year. After taking into account income tax effects in the amount of € 31 million (previous year: € –5 million), Group net income of € 128 million (previous year: € 126 million) remains.

NET ASSETS AND FINANCIAL POSITION

ASSETS
(€ m)

	31.3. 2012	31.12. 2011	Change in %
Cash reserve	1,070	1,866	– 43
Loans and advances to banks	9,610	8,036	20
Loans and advances to customers	86,662	90,607	– 4
Loan loss provisions	– 3,522	– 3,603	– 2
Positive fair values of hedging derivatives	2,027	2,165	– 6
Positive adjustment item from portfolio fair value hedges	299	311	– 4
Trading assets	12,027	11,981	0
Financial investments	23,181	22,388	4
Financial investments accounted for under the equity method	14	41	– 66
Intangible assets	82	88	– 7
Property, plant and equipment	233	240	– 3
Investment properties	118	98	20
Non-current assets held for sale and disposal groups	65	122	– 47
Current tax assets	198	226	– 12
Deferred tax assets	1,183	1,156	2
Other assets	146	184	– 21
Total assets	**133,393**	**135,906**	**– 2**

LIABILITIES
(€ m)

	31.3. 2012	31.12. 2011	Change in %
Liabilities to banks	28,191	24,685	14
Liabilities to customers	40,204	40,239	0
Securitised liabilities	35,825	39,381	– 9
Negative fair values of hedging derivatives	808	680	19
Negative adjustment item from portfolio fair value hedge	1,357	1,354	0
Trading liabilities	11,059	12,900	– 14
Provisions	1,564	1,593	– 2
Current tax liabilities	20	28	– 29
Deferred tax liabilities	17	13	31
Other liabilities	1,369	1,900	– 28
Subordinated capital	7,486	8,308	– 10
Equity	5,493	4,825	14
Share capital	3,018	2,635	15
Capital reserve	925	809	14
Retained earnings	1,613	1,911	– 16
Revaluation reserve	– 116	– 210	– 45
Currency conversion reserve	– 72	– 57	26
Group net loss / income	128	– 257	> – 100
Total before non-controlling interests	5,496	4,831	14
Non-controlling interests	– 3	– 6	– 50
Total equity and liabilities	**133,393**	**135,906**	**– 2**

Total assets continue to decline

HSH Nordbank's total assets declined to € 133,393 million during the first quarter of 2012 (31 December 2011: € 135,906 million). This change is due to partially offsetting effects.

Loans and advances to customers declined to € 86,662 million (31 December 2011: € 90,607 million). This resulted from active portfolio wind-downs as well as extraordinary repayments in various lending departments. Loans and advances to banks exhibited a contrary trend, rising to € 9,610 million during the first quarter (31 December 2011: € 8,036 million). This figure reflects the effects of reverse repurchase transactions which were entered into in the course of investing short-term liquidity.

Total loan loss provisions decreased slightly to € –3,522 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 € 131 million compared to the end of the previous year – based on the hedging effect of the second loss guarantee. Before taking the compensating item into account, total loan loss provisions rose due to increased additions to individual valuation allowances. See Note [2] in the Explanatory Notes for additional information.

Despite the disposal of equity holdings and interests in affiliated companies, financial investments rose to € 23,181 million (31 December 2011: € 22,388 million). This increase is primarily attributable to the investment of liquidity in securities. At € 12,027 million, trading assets remained nearly unchanged compared to the end of 2011 (€ 11,981 million).

The increase in liabilities to banks to € 28,191 million (31 December 2011: € 24,685 million) is primarily attributable to USD refinancing transactions with the ECB. These transactions replaced derivative transactions in the FX swap market.

At € 35,825, securitised liabilities were significantly lower at the end of the first quarter compared to the end of the previous year (€ 39,381 million) which was primarily attributable to the expiration of a SoFFin-guaranteed bond in the amount of € 3 billion. Trading liabilities, which consisted primarily of the negative fair value of derivatives, also declined. This was particularly the case with respect to interest rate and currency derivatives.

As at 31 March 2012, subordinated capital totalled € 7,486 million (31 December 2011: € 8,308 million). The repurchase of subordinated bonds during the first quarter contributed to this decline.

Reported equity capital increased to € 5,493 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 posted as an expense in the 2011 consolidated financial statements. Group net income earned during the first quarter in the amount of € 128 million provided an additional positive effect.

Decline in business volume

Compared to the end of the previous year, business volume declined to € 142,555 million (31 December 2011: € 145,414 million). In addition to reduced total assets, this was attributable to slight declines in guarantees and warranty agreements to € 2,478 million (31 December 2011: € 2,741 million) as well as irrevocable loan commitments to € 6,684 million (31 December 2011: € 6,767 million).

Tier 1 capital ratio holds steady at high levels

REGULATORY CAPITAL RATIOS [1]
(%)

	31.3.2012	31.12.2011
Equity ratio (solvency coefficient)	22.3	22.4
Total ratio / Regulatory capital ratio	21.1	21.0
Tier 1 capital ratio	14.8	15.1
Tier 1 capital ratio (including market risk positions)	13.7	13.8
Tier 1 capital ratio excl. hybrid financial instruments (incl. market risk positions)	10.5	10.0

[1] Report pursuant to the German Solvency Regulation (without taking into account the quarterly financial statements as at 31 March 2012).

REGULATORY CAPITAL RATIOS TAKING INTO ACCOUNT THE QUARTERLY FINANCIAL STATEMENTS AS AT 31 MARCH 2012
(%)

	31.3.2012	31.12.2011
Equity ratio (solvency coefficient)	23.7	22.8
Total ratio / Regulatory capital ratio	22.4	21.3
Tier 1 capital ratio	15.7	15.1
Tier 1 capital ratio (including market risk positions)	14.5	13.8
Tier 1 capital ratio excl. hybrid financial instruments (incl. market risk positions)	11.1	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)

	31.3.2012	31.12.2011
Regulatory capital pursuant to Section 3 (1) Sentence 1 in conjunction with Section 2 (6) Sentence 1 SolvV	10.6	9.6
of which: Tier 1 capital for solvency purposes	6.8	6.3
Total risk assets (including market risks and operational risk)	50.0	45.9
of which: Risk assets counterparty default risk	42.4	38.2

[1] Report pursuant to the German Solvency Regulation (without taking into account the quarterly financial statements as at 31 March 2012).

The capital adequacy of HSH Nordbank remained solid during the first quarter of 2012. The Tier 1 capital ratio, including market risk positions, rose to 14.5 % as at 31 March 2012 compared to 13.8 % at the end of 2011. Without including hybrid instruments, the Tier 1 capital ratio improved to 11.1 % (31 December 2011: 10.3 %). These figures take the interim financial statements for the first quarter of 2012 into account. Developments with regard to the capital ratios are attributable to several effects. On the one hand, the Bank's Tier 1 capital increased significantly during the first quarter. This was primarily attributable to a capital increase in the amount of € 500 million, with which – in accordance with an EU condition – the one-off payment made to the states of Hamburg and Schleswig-Holstein in the previous year was reinvested in the Bank. In addition, the Bank's repurchase of some of its subordinated bonds, performed for purposes of shoring up Tier 1 capital, had a positive effect.

The rise in risk assets during the first quarter attributable primarily to a worsening of risk parameters had a counteractive effect.

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

Successful refinancing activities during the first quarter

HSH Nordbank's refinancing basis was further strengthened at the start of the year through the addition of a broad range of instruments. Issuing activities within the German Association of Savings Banks (Sparkassenverbund) remained a point of focus. The Bank's bonds which were specially tailored to customers of the savings banks were again subject to high demand during the first quarter 2012.

In addition, HSH Nordbank increased sales of Pfandbriefs. The most significant issues included a benchmark mortgage Pfandbrief which was subject to successful placement in the market with a volume of € 500 million and a term of five years. The issue was in high demand among both domestic and foreign institutional investors. Upon closing, the order book was nearly three times oversubscribed in a very short amount of time. The Bank issued additional Pfandbriefs as part of private placements a portion of which is denominated in foreign currencies. For example, the Bank was able to place a mortgage bond with a volume of USD 75 million.

In order to develop additional US dollar funding, the Bank was able to perform additional repo transactions during the first quarter. The goal is to further expand the refinancing of US dollar assets by means of asset-based transactions and to concurrently reduce refinancing via derivatives.

In addition to issuing activities, a well-diversified mix of fixed-term and demand deposits from corporate customers, banks, and savings banks contributed to funding the Bank's business. The average term of the deposits was subject to further extension with volumes remaining stable. In addition, the Bank continues to have a sufficient free collateral pool available in the amount of approximately € 12 billion as of the end of the first quarter – despite maturity of an additional SoFFin bond in the amount of € 3 billion at the start of 2012.

As a result of successful refinancing activities, the Bank was able to exceed the pro rata portion of its issuance plan through 31 March 2012. In addition to the favourable market conditions during the first quarter, these positive developments reflect an improved image of HSH Nordbank among investors attributable to the Bank's stabilised business situation and the conclusion of the EU proceedings during the previous year.

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

SEGMENT REPORTING

Implementation of the new segment structure strengthens business of the Core Bank

Within the divisions of the Core Bank, the first quarter was influenced by the continuing implementation of the re-aligned organisational structure approved at the end of 2011. The combination of the customer business in the newly-created segment Corporate and Private Clients, as well as the concentration of product competence and the support for the savings banks in the segment Products, Capital Markets and Corporate Center, contribute to reinforcing the Bank's market presence and the ability to more consistently exploit cross-selling opportunities.

Taking into account portfolios transferred to the Restructuring Unit in the previous year, total assets of the Core Bank amounted to approximately € 76 billion as at 31 March 2012 compared to € 77 billion at the end of 2011. Core Bank net income before restructuring, including consolidation effects, rose to € 263 million (previous year: € 145 million).

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

SEGMENT OVERVIEW AS AT 31 MARCH 2012
(€ m)

		Corporate and Private Clients	Products, Capital Markets and Corporate Center	Consolidation Core Bank	Total Core Bank	Restructuring Unit	Consolidation Restructuring Unit	Total Restructuring Unit
	Q1-2012	235	– 6	– 129	100	248	– 207	41
Total income	Q1-2011	271	19	– 33	257	221	– 105	116
	Q1-2012	– 12	4	19	11	– 163	109	– 54
Loan loss provisions	Q1-2011	137	– 14	– 105	18	94	– 39	55
	Q1-2012	**143**	**233**	**– 113**	**263**	**18**	**– 98**	**– 80**
Net income before restructuring	**Q1-2011**	**303**	**– 8**	**– 150**	**145**	**242**	**– 144**	**98**

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
	Q1-2012	235	101	29	63	42
Total income	Q1-2011	271	111	26	82	52
	Q1-2012	– 12	– 12	– 2	– 1	3
Loan loss provisions	Q1-2011	137	168	– 2	– 15	– 14
	Q1-2012	– 85	– 31	– 12	– 28	– 14
Administrative expenses	Q1-2011	– 107	– 38	– 14	– 38	– 17
	Q1-2012	5	1	2	1	1
Other operating income	Q1-2011	2	1	1	–	–
	Q1-2012	**143**	**59**	**17**	**35**	**32**
Net income before restructuring	**Q1-2011**	**303**	**242**	**11**	**29**	**21**
	31.3.2012	41	18	5	8	10
Segment assets (€ bn)	31.3.2011	43	19	5	9	10

Noticeable difficult market environment

The German economy remained relative robust over the past several months. Economic performance in Germany, however, also slowed at the end of the year in light of declining consumption as well as a slump in exports. We are confident though that this is only a short-term economic dip since, among other things, the Ifo Business Climate Index for medium-sized companies continued to rise in the first three months of 2012. In addition, industry order volumes rose slightly in February after they had still been on the decline in January. With respect to loan loss provisions, our business with Corporate Clients benefitted from the comparatively better trend in Germany, however, uncertainty continues in light of weaknesses in several eurozone countries.

During the first three months of 2012, German real estate markets benefitted from an improved mood among commercial tenants and investors. Economic prospects within these markets, which remained subdued at the end of the year, have since gained a certain degree of confidence. Although turnover of office space declined slightly at an overall high level, net space demand remained positive. At the same time less new space entered the market than in the previous year which led to reduced vacancy rates and a continued rise in rents in metropolitan areas.

Due to expansion among foreign and domestic chain stores, demand for retail space also showed positive trends. This was partly due to leases of large spaces in prime locations. Rents were stable at high levels recently. Residential real estate markets in metropolitan areas remain characterised by very high demand so that growth in rents remains strong. Although transaction volumes in the commercial investment market declined somewhat, some prices continued to rise. In addition to commercial space, investors were again on the search for office properties. Residential portfolios saw high demand.

In the Private Banking segment, retail investors remained primarily interested in safe, short-term investments against the backdrop of the global financial crisis that lead to a general lack of confidence.

The expansion of renewable energy industry continues to be driven forward. In Germany, which saw the biggest increase in power output in the photovoltaic sector (PV) in 2011 after Italy, discussions flared up regarding significant reductions in compensation in light of the fast pace of growth. As things stand now, it appears that future PV projects above 10 Megawatts peak (MWp) will no longer be promoted. However, given transition rules this should not negatively affect any existing projects. In the meantime, offshore wind power opportunities are limited due to the slow pace of the development of grid connections. The backlog of the project financing business could clear up once liability and financing issues are resolved.

Based on available data, project financing activities in Europe were at very moderate levels during the first quarter. Market volumes of just under € 1.3 billion compared to just over € 1.6 billion in the previous quarter reflect both the European debt crisis and segment-specific uncertainties. The fact that the photovoltaic segment has been characterised by significant growth rates in output performance despite moderate project financing volumes is attributable to the significant share of mostly private investments which are not relevant for project financing purposes.

The following developments characterised the infrastructure markets at the beginning of the year: Passenger numbers at the most important European airports showed positive trends during January and February compared to figures from the previous year. By contrast, air freight traffic declined year-on-year due to the low vibrancy of economies within Europe.

European sea ports continued their recovery and were well on track to reach pre-crisis levels. Rail freight transport continued to gain ground in Europe. Freight volumes increased, but, on a comparative basis, still remained below the pre-crisis level. The weak global economy during the previous year resulted in a correspondingly low demand for shipping services. In addition, the shipping market saw many new ship deliveries which enlarged already-existing overcapacities and led to continued relatively low fleet utilisation rates. Both factors exercised strong pressure on freight and time charter rates.

In container shipping, 2011 was characterised by massive price competition among shipping lines, in particular on the prestigious East-West routes. At the start of 2012, the shipping lines stopped their practically self-destructive strategy and again demanded higher prices. Whether this change in course can be maintained given overcapacity levels, which remain high, remains to be seen.

In the case of bulk carriers, only the capesize bulker segment was able to recover from significant declines in charter rates during the second half of 2011. However, oversupply is on the rise overall so that charter rates will remain subject to downward pressure. This imbalance will likely continue to dampen the market during 2012. The oil tanker market continued to suffer from the massive delivery of new ships in the face of low demand. In light of recent developments, large crude oil customers such as China and India are increasingly striving to become more independent of oil from the Arabian region and are importing oil from Western Africa and Latin America. This should provide a boost to the tanker market in the medium term.

New business expanded more slowly at the start of 2012

The customer areas continue to drive the acquisition of new business and were able to increase the overall volume of newly-concluded financing transactions during the first quarter compared to the same period in the previous year. However, at the start of 2012 the strong expansion in business seen during the second half of 2011 could not be continued. Based on accelerated sales activities and an increased presence in the market, it is anticipated that new business with corporate clients will grow in the course of the year. In addition, the Bank continues to provide support to clients in the form of prolongations of existing commitments where needed.

Revenues influenced by portfolio transfers

Developments within the Corporate and Private Client segment reflected various effects. Net interest and commission income was held stable compared to the same period in the previous year even though additional transactions were transferred to the Restructuring Unit in the final quarter of 2011 to satisfy EU requirements which led to corresponding declines in interest-bearing volume within the segment. By contrast, risk-adjusted interest rate margins related to new business and prolongations had a positive effect on income. The fact that total income, at € 235 million, was on the whole lower than that of the previous year (€ 271 million) was in particular attributable to extraordinary income realised during the first quarter of the previous year related to the sale of a real estate equity investment.

Loan loss provisions for individual commitments were subject to a slight reduction on the whole. Portfolio valuation allowances within individual asset classes had a slight negative influence; in the previous year, a higher volume of portfolio valuation allowances were subject to reversal. On the whole, loan loss provisions rose to € –12 million (previous year: € 137 million). For the period January through March 2012, net income before restructuring amounted to € 143 million (previous year: € 303 million).

OUTLOOK CORPORATE AND PRIVATE CLIENTS SEGMENT

Challenging market developments in 2012

Germany's economic situation is significantly better than that of many other countries within the euro zone. A slight increase in growth should provide support to our Corporate Clients business during the course of the year. In particular, this should be spurred on by domestic factors. For example, favourable conditions in the labour market as well as relatively high wage increases give rise to expectations of increasing consumer demand. By contrast, export trends are expected to be less dynamic. This is attributable to the fact that European countries account for 60 % of German exports and demand in Europe is expected to remain low. Sales in emerging markets, Japan and the US are forecast to grow more strongly.

Due to a slowing in economic growth the expansion in space of the German office space markets is expected to be less significant in 2012 than in the previous year which experienced a boom. At the same time, vacancy rates should continue their decline and rents are expected to rise further. Demand remains very high in residential markets in urban conurbations. Thanks to the growth in employment and income, household demand for higher-quality residential properties is rising. Rents should therefore continue to rise in large cities, albeit at a slightly weaker pace following large increases during the previous year.

In the Private Client business we are continuing to focus on the target group of wealthy clients in accordance with the refinement of the strategy completed in 2011 – with a particular focus on foundations and entrepreneurs. The key objectives remain the significant increase in assets under management and the on-going acquisition of new clients.

The growth of renewable energy sources will continue to be aggressively pushed forward in many countries in the coming years. Existing expansion goals notwithstanding, we expect a further decline in subsidised tariffs in many countries. This mainly applies to the comparatively more expensive solar power. However, since at the same time prices for solar equipment are falling, the expansion of capacities is progressing. Sinking equipment prices are primarily attributable to overcapacities on the manufacturing side in both the photovoltaic and wind energy market segments. This trend is pushed by Chinese manufacturers, among other things. Growth in onshore wind power is flattening out in some countries. However, the area of the market is growing. The offshore segment is gaining increasing importance and is thus becoming a growth driver. The electricity grid infrastructure must be extended on a more adequate basis in order to achieve the expansion targets.

The slower economic growth is expected to lead to a weakening demand in passenger and freight air traffic at European airports. In addition, from the beginning of 2012 the airlines have been included in emission trading so that all flights to, within and from Europe must have emission permits.

In tandem with the airports, sea cargo handling and rail freight traffic is also adversely impacted by economic developments in Europe. Against the backdrop of weakened growth rates, a moderate increase in container transhipment is expected in Northern Europe according to the Hamburger Hafen und Logistik AG (HHLA). Furthermore, several governments might attempt to privatise infrastructure facilities and transport companies in order to generate new revenue streams.

Despite weaker global growth in 2012 we are assuming that the demand for maritime transport will develop relatively well, as long as economic growth remains robust in emerging countries and China does not experience a sharper fall. Under this scenario container ship traffic will continue to benefit from trade between emerging markets. Bulk shipping and the oil tanker market are being supported by China's and India's need for raw materials.

However, overcapacity in the shipping market will increase further in 2012 and will not be resolved until 2013 at the earliest. The reason for this is the high number of new ships ordered over the past few years. Accordingly, we are assuming that rates and ship prices will remain under pressure in the near future. Furthermore, this trend could lead to a market consolidation.

Targeted business expansion

Despite market conditions, which remain difficult in part, we want to continue to exploit opportunities which present themselves in the market and are continuing the expansion of new business started during the previous year in a targeted and risk-conscious manner. In addition to expanding our activities on the north German core market we are also targeting business in other regions. We are strengthening the sales of the whole product range of HSH Nordbank by applying an integrated approach and providing comprehensive support in all financial matters. We are focussing on transactions with an appropriate risk profile in order to ensure a balanced portfolio structure.

PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT

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

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

	Q1-2012	– 6
Total income	Q1-2011	19
	Q1-2012	4
Loan loss provisions	Q1-2011	– 14
	Q1-2012	– 38
Administrative expenses	Q1-2011	– 23
	Q1-2012	273
Other operating income	Q1-2011	10
	Q1-2012	**233**
Net income before restructuring	**Q1-2011**	**– 8**
	31.3.2012	34
Segment assets (€ bn)	31.3.2011	34

Customer-oriented business expanded through financing and capital markets products

During the course of the past months, the Products business unit continued to implement its organisational structures in line with the new business model and to tailor its product range to the needs of the entrepreneur target group. Increased product benefits and close linkage with the customer departments should result in easier access on the part of entrepreneurs to the Bank's attractive range of services and an expansion in product sales in connection with the lending business.

Within the Capital Markets division mainly financial instruments adapted to the volatile market conditions were in demand in the customer business. Many customers made use of the opportunity to lock in the low interest rate level at the beginning of 2012 by means of capital markets instruments. Customers continued to be very interested in currency hedging.

On the whole, during the first quarter of 2012 net income from the cross-selling business in the customer departments remained slightly below the previous year's figures. Cross-selling income is expected to be further increased as part of the planned expansion of new business. Income in the Products and Capital Markets divisions is primarily reported in the other segments in line with the business management framework of the Bank.

Within the savings bank business, during the first quarter of 2012 our focus remained on the sale of investment products to customers of the Sparkassenverbund (Savings Bank Association) as well as the acquisition of funding. 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 re-purchase
During the first quarter of 2012, the income situation of the Products, Capital Markets and Corporate Center segment was influenced by income realised on the repurchase of subordinated bonds which resulted from the difference between the nominal amount and the repurchase price of the bonds. As a result, net income before restructuring rose during the first quarter for this segment to € 233 million after a net loss of € –8 million had been reported for the segment in the same period during the previous year.

OUTLOOK PRODUCTS, CAPITAL MARKETS AND CORPORATE CENTER SEGMENT

The year 2012 continues to be dominated by the consistent implementation of the new structure of the Products and Capital Markets division and the development of sustainable solutions tailored to the needs of our customers. The expansion of new business in the core areas and the integrated alignment of the Bank towards enterprises can be expected to result in a higher cross-selling potential for the sales of risk management and investment products.

RESTRUCTURING UNIT SEGMENT

Winding-down process continued on schedule
The winding-down of credit and capital market transactions which are discontinued in the Core Bank was continued during the first quarter of 2012. 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 Restructuring Unit as part of the measures agreed with the EU Commission.

Total assets of this segment amounted to € 54 billion as at 31 March 2012 after taking the additional winding-down portfolios into account. This represented a further and higher than targeted reduction in the portfolio volume compared to 31 December 2011 (€ 58 billion).

In view of the reductions in business already realised and the additional transfers from the Core Bank, the Bank's winding down strategies will be refined during 2012 and any potential for efficiency exploited as part of a reorganisation of the Restructuring Unit. 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
(€ m)

Total income	Q1-2012	248
	Q1-2011	221
Loan loss provisions	Q1-2012	– 163
	Q1-2011	94
Administrative expenses	Q1-2012	–74
	Q1-2011	–76
Other operating income	Q1-2012	7
	Q1-2011	3
Net income before restructuring	**Q1-2012**	**18**
	Q1-2011	**242**
Segment assets (€ bn)	31.3.2012	54
	31.3.2011	58

Lending business reduced by a further € 3 billion
The portfolios in the lending business were reduced as at 31 March 2012 by another € 3 billion to € 34 billion (31 December 2011: € 37 billion). The greatest reductions were achieved in the real estate financing and corporate clients divisions. The winding-down of transactions was made more difficult by the reticence of market participants to purchase certain asset classes due to the sovereign debt crisis. The situation in the relevant markets and the associated success in winding down of significant credit portfolios are currently assessed by the Bank as follows:

The real estate markets in Great Britain, France and Sweden remained stable during the first quarter of 2012 following their recovery during the previous year. The market environment remained positive in the German real estate market. By contrast, the weak markets in Denmark and the Netherlands showed no signs of recovery. Additional downturns are expected in some market segments. The situation in the US real estate market remained difficult at the beginning of this year. In light of unfavourable market conditions, loan loss provisions for real estate exposures within the Restructuring Unit were subject to adjustment during the first quarter.

Within the Restructuring Unit's shipping portfolio, economic and competitive factors continue to make themselves felt. The situation in the shipping markets which has deteriorated over the course of the past few months has led to additional restructuring commitments in the shipping portfolio. Loan loss provisions were increased as a result.

The lending environment remained difficult in the foreign corporate client / LBO business. As a result of increasing pricing pressure and continuing refinancing problems on the part of customers, loan quality declined further during the first quarter of 2012 so that we reported a moderate increase in non-performing loans. In the domestic corporate client business (leasing / retail), repayments continued on schedule.

The winding down of the aircraft loan portfolio transferred from the Core Bank to the Restructuring Unit at the end of 2011 was 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 31 March 2012, the volume of capital market portfolios declined further to € 20 billion (31 December 2011: € 21 billion).

The general upward trend in the securitisation markets bolstered positive developments in the ABS portfolio during the first quarter. However, active and value optimising winding down measures were only implemented on a selective basis. After an initial decrease in tensions in the markets following progress dealing with the European debt crisis, problems in Southern Europe have re-emerged as a concern since the beginning of April. Lasting or increasing uncertainty in the markets may lead to additional negative developments within the credit investment portfolio (CIP).

Bonds and promissory notes issued by the German federal states and municipalities, which comprise the largest share of our public sector financing portfolio, continued to be in demand. As these are seen as secure investments by investors, we have been able to observe positive spread trends since the start of the year.

Increases in loan loss provisions

Net income before restructuring within the Restructuring Unit amounted to € 18 million during the first quarter of 2012 compared to € 242 million during the same period in the previous year. Higher loan loss provisions amounting to € –163 million were the driving force behind this decline (previous year: € 94 million). The largest increases were attributable to restructuring exposures in the shipping, European real estate and energy portfolios in light of the situation in these markets which remains difficult. By contrast, valuation effects related to European government bonds had a very positive effect on the earnings situation at the end of the first quarter. In addition, the sale of a private equity investment is reflected in the income of the Restructuring Unit. Net interest income declined further as a result of continued portfolio wind-downs.

OUTLOOK RESTRUCTURING UNIT SEGMENT

Portfolio reduction affected by market conditions

The winding-down of the portfolio in the Restructuring Unit is driven forward through regular principal repayments and active measures. Success within the Restructuring Unit is largely influenced by the development of the economic environment and financial markets, which should remain volatile as a result of the European debt crisis, particularly. As winding-down measures are continued, the potential burden from the portfolios is further reduced. However a higher need for loan loss provisions is to be anticipated in the case of some portfolios.

In the real estate area further potential for recovery in most European real estate markets should remain initially restricted. Whereas the French and English markets should stabilise further, it is anticipated that the Danish and Dutch markets will remain difficult. The mood among investors in the German market remains positive for all common property categories. By contrast, the recovery in the US real estate market continues to move slowly. The reasons include the merely moderate expansion of the US economy and increasing new construction activity in some markets.

In respect of the shipping portfolio booked in the Restructuring Unit we are expecting that there will be further need for restructuring of commitments as shipping industry problems are likely to remain. This could lead to a further weakening of our shipping portfolio which would require increased loan loss provisions. A quick winding-down of the shipping portfolio can only be expected after a sustainable market recovery which is not to be anticipated at present.

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 wind-downs, the focus of portfolio management will primarily be on the reduction of default risks. In the domestic corporate client business (leasing / retail), we expect further 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 in the secondary market. Loan loss provisions may increase in view of difficult market trends in this industry.

Success in winding-down the capital markets portfolios remains heavily dependent on developments related to the sovereign debt crisis. Still unresolved problems in Europe should continue to create uncertainty and volatility in the capital markets which then impact measurement and success in winding-down assets. Lasting calm in the markets cannot be expected until additional, significant progress in overcoming the crisis is achieved.

Consolidation columns

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

The negative total income in the consolidation column of the Core Bank (€ –129 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 (€ –207 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 from 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 (€ 19 million) this resulted in a relieving effect that is lower than the effect on the loan loss provisions of the Restructuring Unit (€ 109 million).

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

Structural weaknesses stress global economy
In light of sluggish economic activity in many industrialised countries, the global economy is expected to grow only at moderate levels despite comparative high growth dynamics in the most important emerging markets. For example, in the US we expect growth for 2012 to remain again below levels of previous years due to high government and private debt levels.

Within the eurozone, savings efforts related to both private and public budgets, especially in the peripheral countries, will further dampen consumption and investment and will make a stronger economic recovery improbable. The German economy should – supported by comparatively stable consumer and investment demand – develop somewhat more favourably. In addition, German export-oriented companies should continue to disproportionately benefit from demand for investment goods in the emerging markets.

The Fed's monetary policies, similar to those of the ECB, should remain expansive in light of economic risks and moderate inflation. In addition, the European sovereign debt crisis continues to create risks as the debt and structural problems may only be solved gradually and there will likely be repeated setbacks accompanied by increasing uncertainty. Within this environment, US Treasuries and German government bonds should remain in demand in particular because liquidity supply is abundant and offerings of investments with high credit ratings are limited. Yields could be expected to rise moderately in the second half of the year in the event economic activity stabilises and additional progress is made in dealing with the debt crisis. This should also give the euro a slight boost against the US dollar.

In light of low interest rates and moderate valuation levels, securities remain attractive. Starting in the fall at the latest, a new foundation could be laid for increased corporate profits. This bears potential for rising stock prices as a result of global upward economic trends.

Notwithstanding the improved funding situation related to additional central bank liquidity, the situation of European banks remains challenging. In addition to the smouldering debt crisis and weak economic performance, stricter regulatory requirements concerning capital and liquidity as well as the process of balance sheet adjustments for restructuring commitments are also presenting institutions with additional challenges.

ANTICIPATED BUSINESS SITUATION

Focus remains on reorganising the Bank
Since starting the reorganisation process in the preceding year, HSH Nordbank has already made significant progress toward implementing a sustainable and successful realignment. During the further course of the year, one area of focus will continue to be adjusting our internal organisation to fit a bank declining in size. In this regard, a central task is the continuation of the reduction in head count initiated at the start of the year within individual business units in order to achieve planned reductions in personnel costs. A reduction in operating expenses is of equal importance which is being driven by consistent management of all material cost categories.

In addition, focus is being placed on exploiting HSH Nordbank's business potential on the basis of our strong market position, our optimised product offerings and strengthened sales efforts. Progress in winding-down risk positions, the stable capital situation as well the volume of total assets required by the EU Commission provide sufficient space for a targeted expansion of new business in the Core Bank.

However, business performance will continue to be primarily influenced by underlying conditions which will remain challenging in coming months. In particular, Europe's debt situation should continue to cause uncertainty in the economy and the markets which should remain perceptible in the banking sector. Due to difficult circumstances in some markets, e. g. shipping, we continue to expect increased need for loan loss provisions. As long as the utilisation of the second loss guarantee remains above the Bank's first loss piece of € 3.2 billion, the burden on loan loss provisions will be largely offset by the guarantee in the portfolio covered by the guarantee.

At the same time, HSH Nordbank remains confident that, based on the progress achieved and the results generated in the first quarter, the gradual transition to the new business model – primarily with a view to profitability and cost efficiency – 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

Consistent implementation of the funding strategy
During the further course of the year, HSH Nordbank plans to consistently implement its funding strategy using a diversified range of funding instruments. The focus will remain on the very successful orientation toward savings bank customers as well as the placement of both covered and unsecured bonds with domestic institutional investor groups. Deposit business also remains an important pillar that is to be strengthened with the corporate clients of the Bank in particular. Insofar as the capital markets offer attractive conditions, the Bank aspires toward additional public issues on the capital markets. 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 industries. 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 regarding default risk are set out in the Risk Report. Details of developments anticipated within the individual segments are set out in the Segments chapter.

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.

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. Economic risk coverage potential is determined using the net asset value approach. In addition to equity capital for economic purposes (including changes in the net asset value) the net asset value approach 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 31 March 2012, risk coverage potential amounted to € 9.6 billion (31 December 2011: € 9.2 billion). In January 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.

Institution-specific asset correlations were reflected for the first time as at 31 March 2012 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. This methodological enhancement led ceteris paribus to an increase of € 0.2 billion in the capital required as at the reporting date. 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 € 2.1 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 € 1.0 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 was at € 0.5 billion as at 31 March 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 31 March 2012 (31 December 2011: € 0.3 billion).

The overall economic risk as at the reporting date amounted to € 3.9 billion (31 December 2011: € 4.0 billion). The utilisation of risk coverage potential amounted to 40 % (normal case) as at the reporting date. The risk-bearing capacity was accordingly secured.

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

RISK-BEARING CAPACITY OF THE GROUP
(€ bn)

	31.3.2012	31.12.2011
Economic risk coverage potential [1]	9.6	9.2
Economic capital required	3.9	4.0
of which: for default risks [2]	2.1	2.1
for market risks	1.0	1.1
for liquidity risks	0.5	0.5
for operational risks	0.3	0.3
Risk coverage potential buffer	5.7	5.2
Utilisation of risk coverage potential (%)	40	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.

Furthermore, the Bank determines the utilisation of risk coverage potential as at the reporting dates, taking into account stress surcharges for default, market and liquidity risks. As at 31 March 2012, the risk-bearing capacity was ensured even in this economic stress case.

DEFAULT RISK

The total loan loss provisions item amounted to € –43 million in the first quarter compared to € 73 million in the corresponding quarter 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 quarter of 2012. The following table provides an overview by segments. For reasons of comparability, the values for the first quarter of 2011 haven been adjusted in accordance with the organisational changes implemented in the previous year.

CHANGES IN LOAN LOSS PROVISIONS
(€ m)

	January – March 2012				
	Individual valuation allowances / Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Corporate and Private Clients	– 21	– 7	16	0	– 12
Products, Capital Markets and Corporate Center	0	0	4	0	4
Consolidation Core Bank	– 1	2	– 4	22	19
Total Core Bank	**– 22**	**– 5**	**16**	**22**	**11**
Restructuring Unit	– 203	1	39	0	– 163
Consolidation Restructuring Unit	0	0	0	109	109
Total Restructuring Unit	**– 203**	**1**	**39**	**109**	**– 54**
Group	**– 225**	**– 4**	**55**	**131**	**– 43**

CHANGES IN LOAN LOSS PROVISIONS
(€ m)

	January – March 2011				
	Individual valuation allowances / Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Compensation item	**Total**
Corporate and Private Clients	– 28	138	27	0	137
Products, Capital Markets and Corporate Center	0	1	– 15	0	– 14
Consolidation Core Bank	7	1	2	– 115	– 105
Total Core Bank	**– 21**	**140**	**14**	**– 115**	**18**
Restructuring Unit	13	18	63	0	94
Consolidation Restructuring Unit	0	0	0	– 39	– 39
Total Restructuring Unit	**13**	**18**	**63**	**– 39**	**55**
Group	**– 8**	**158**	**77**	**– 154**	**73**

A substantial portion of the expense for loan loss provisions was incurred in the lending departments of the Restructuring Unit. Higher portfolio allowances in the shipping, international real estate and energy portfolios in particular had an adverse impact. In contrast, loan loss provisions for individual counterparties were reduced somewhat in the client business of the Core Bank. Portfolio valuation allowances recognised for individual asset classes had an adverse impact; in the previous year it had been possible to reverse a large portion of portfolio valuation allowances through profit or loss. Detailed information regarding developments within individual business areas as well as our expectations for the year 2012 year 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 due to, inter alia, the critical combination of a high level of public debt and political weaknesses. The EU Member State of Hungary is 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 three months of 2012.

The following table shows in each case the loan amount outstanding and the IFRS carrying amount of sovereign exposure in the aforementioned European countries. The total loan amount outstanding on sovereign exposures was € 1,715 million as at 31 March 2012, of which € 1,314 million is accounted by Portugal, Ireland, Italy, Greece and Spain.

SOVEREIGN EXPOSURE TO SELECTED EUROPEAN COUNTRIES
(€ m)

	Loan amount outstanding		IFRS carrying amount	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011
Portugal	280	297	269	267
Ireland	0	0	0	0
Italy	572	598	589	557
Greece	234	258	45	51
Spain	228	233	176	180
Belgium	339	339	342	347
Hungary	62	62	32	31
Total	**1,715**	**1,787**	**1,453**	**1,433**

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. In the case of derivatives, offsetting transactions with the same counterparty are not netted even where netting agreements are in place.

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 credit linked note (CLN) is reported in full with its loan amount outstanding of € 50 million in the corresponding values for Portugal, Italy, Spain and Belgium. Contrary to this, from a balance sheet perspective, the IFRS carrying amount of this CLN of € 34 million is taken into account for Portugal only, since the worst rating of the countries stated above is assigned to Portugal. Under the same principle a further CLN is reflected in the loan amount outstanding in the amount of € 25 million for Greece and Hungary, respectively, as well as in the IFRS carrying amount in the amount of € 5 million only for Greece.

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 three months of 2012 are presented in the table set out below. As at 31 March 2012, the market risk related to our trading book positions amounted to € 1.3 million and that to our banking book positions amounted to € 45.0 million. Taking correlation effects which reduce risk into account, the aggregated market risk amounted to € 45.6 million, of which € 32.8 million relates to the Core Bank and € 46.4 million to the Restructuring Unit. As part of the risk-bearing capacity management, the VaR of € 45.6 million is scaled up to the amount of € 1.0 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 – March 2012	Jan – Dec 2011	**Jan – March 2012**	Jan – Dec 2011	**Jan – March 2012**	Jan – Dec 2011	**Jan – March 2012**	Jan – Dec 2011	**Jan – March 2012**	Jan – Dec 2011	**Jan – March 2012**	Jan – Dec 2011
Average	14.6	9.7	43.0	37.1	24.4	11.7	2.6	2.4	0.7	0.3	56.1	41.2
Maximum	40.6	13.7	53.6	41.6	27.2	23.4	3.0	3.5	1.5	1.0	65.0	54.5
Minimum	5.7	5.5	37.6	30.4	19.6	4.6	2.0	2.0	0.3	0.1	44.2	33.0
Period end amount	40.5	7.6	49.4	38.2	24.5	23.4	2.0	2.3	0.3	0.6	45.6	54.5
of which: Core Bank	39.8	13.6	7.4	5.9	8.8	2.4	0.8	1.0	0.3	0.6	32.8	14.4
of which: Restructuring Unit	13.5	13.2	47.4	31.2	16.1	25.0	1.4	1.6	0.0	0.0	46.4	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 quarter 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 an increase on 31 January 2012 and a decrease on 29 March 2012 in the overall market risk of approximately € 6 million in each case.

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 developments in a normal market environment, the Bank also compiles the results of a market liquidity stress test on a daily basis in the form of a stressed liquidity development report (stress case assessment) in order to reflect critical market developments.

The good mood in the capital markets in the first quarter 2012 is attributable, amongst other things, to two three-year tenders of the European Central Bank at the end of December 2011 and February 2012, respectively, and the adoption of the rescue package for Greece. The situation also enabled the euro peripheral countries and banks located there to take advantage of refinancing opportunities in the market.

Thanks to the measures implemented by HSH Nordbank the liquidity situation of the Bank was further improved. The measures focussed on increased efforts to obtain new funding. For example, we successfully placed a five-year mortgage Pfandbrief in the amount of € 500 million at the end of March 2012 in the form of a benchmark issue.

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 March 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	
	30.3.2012	30.12.2011	**30.3.2012**	30.12.2011
1st day	5	0	10	6
7th day	0	28	4	48
14th day	9	29	21	39
3rd week	17	50	31	65
4th week	29	54	44	71
8th week	44	66	66	90
3rd month	62	74	89	103
6th month	75	73	115	110
9th month	76	77	126	126
12th month	77	74	138	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 77 % in the 12th month as at the reporting date. All limits within the defined survival case liquidity development report shows that the liquidity potential was not exceeded within the one-month survival period 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 three months. Compared to the end of the year 2011, utilisation levels have been significantly reduced in part due to the measures implemented in the short- and medium-term maturities 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 1.75 and 1.86, 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 three months of 2012 was 1.81 (2011: 1.79).

The liquidity position of HSH Nordbank has stabilised further. Long-term funding in the first three months of 2012 was better than planned on a pro rata temporis basis, while the movement of deposits was stable. The placement of the mortgage Pfandbrief also contributed to this. Despite this success, access to unsecured long-term capital markets remains limited so that the future funding continues to represent one of the significant challenges facing the Bank.

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

The additional risks and rewards faced by the Group presented in detail in the 2011 Annual Report have largely remained unchanged during the course of the year to date.

Hamburg / Kiel, 22 May 2012

Lerbinger   von Oesterreich   Temp

STATEMENT OF COMPREHENSIVE INCOME for the period 1 JANUARY TO 31 MARCH 2012

INCOME STATEMENT

(€ m)

	Note	**January – March 2012**	Following adjustment January – March 2011	Change in %
Interest income		2,615	2,976	– 12
Interest expenses		– 2,307	– 2,612	– 12
Net income from hybrid financial instruments		– 43	– 39	– 10
Net interest income	(5)	**265**	**325**	**– 18**
Net commission income	(6)	24	32	– 25
Result from hedging	(7)	– 6	– 14	57
Net trading income	(8)	– 203	– 34	> – 100
Net income from financial investments	(9)	67	68	– 1
Net income from financial investments accounted for under the equity method	(10)	– 6	– 4	– 50
Total income		**141**	**373**	**– 62**
Loan loss provisions	(11)	– 43	73	> 100
Administrative expenses	(12)	– 199	– 207	– 4
Other operating income	(13)	284	4	> 100
Net income before restructuring		**183**	**243**	**– 25**
Result from restructuring	(14)	– 6	–	–
Expenses for government guarantees	(15)	– 80	– 112	– 29
Net income before taxes		**97**	**131**	**– 26**
Income tax expenses (–) / income (+)		31	– 5	> – 100
Group net income		**128**	**126**	**2**
Group net income attributable to non-controlling interests		–	1	– 100
Group net income attributable to HSH Nordbank shareholders		128	125	2

EARNINGS PER SHARE

(€)

	Note	**January – March 2012**	January – March 2011
Undiluted	(16)	0.46	0.48
Diluted		0.46	0.48
Number of shares (millions)		**281**	**263**

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS
(€ m)

	January – March 2012	January – March 2011
Group net income	**128**	**126**
Changes in:		
Revaluation reserve (before taxes)	122	– 10
of which: from exchange rate effects	– 5	– 9
Income taxes not recognised in the income statement	– 28	1
of which: from exchange rate effects	1	– 1
	94	**– 9**
Currency conversion reserve	– 15	– 18
	– 15	**– 18**
Actuarial gains / losses (before taxes)	– 62	12
Income taxes not recognised in the income statement	20	– 4
	– 42	**8**
Other comprehensive income for the period	**37**	**– 19**
Total comprehensive income	**165**	**107**
Total comprehensive income attributable to non-controlling interests	–	1
Total comprehensive income attributable to HSH Nordbank shareholders	165	106

QUARTERLY REVIEW

INCOME STATEMENT

(€ m)

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

RECONCILIATION WITH TOTAL COMPREHENSIVE INCOME / LOSS
(€ m)

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

STATEMENT OF FINANCIAL POSITION as at 31 MARCH 2012

ASSETS

(€ m)

	Note	**31.3.2012**	31.12.2011	Change in %
Cash reserve	(17)	1,070	1,866	– 43
Loans and advances to banks	(18)	9,610	8,036	20
Loans and advances to customers	(19)	86,662	90,607	– 4
Loan loss provisions	(20)	– 3,522	– 3,603	– 2
Positive fair value of hedging derivatives	(21)	2,027	2,165	– 6
Positive adjustment item from portfolio fair value hedges		299	311	– 4
Trading assets	(22)	12,027	11,981	–
Financial investments	(23)	23,181	22,388	4
Financial investments accounted for under the equity method	(24)	14	41	– 66
Intangible assets	(25)	82	88	– 7
Property, plant and equipment	(26)	233	240	– 3
Investment properties	(27)	118	98	20
Non-current assets held for sale and disposal groups	(28)	65	122	– 47
Current tax assets		198	226	– 12
Deferred tax assets	(29)	1,183	1,156	2
Other assets	(30)	146	184	– 21
Total assets		**133,393**	**135,906**	**– 2**

LIABILITIES
(€ m)

	Note	**31.3.2012**	31.12.2011	Change in %
Liabilities to banks	(31)	28,191	24,685	14
Liabilities to customers	(32)	40,204	40,239	–
Securitised liabilities	(33)	35,825	39,381	– 9
Negative fair values of hedging derivatives	(34)	808	680	19
Negative adjustment item from portfolio fair value hedge		1,357	1,354	–
Trading liabilities	(35)	11,059	12,900	– 14
Provisions	(36)	1,564	1,593	– 2
Current tax liabilities		20	28	– 29
Deferred tax liabilities		17	13	31
Other liabilities	(37)	1,369	1,900	– 28
Subordinated capital	(38)	7,486	8,308	– 10
Equity	(39)	5,493	4,825	14
Share capital		3,018	2,635	15
Capital reserve		925	809	14
Retained earnings		1,613	1,911	– 16
Revaluation reserve		– 116	– 210	– 45
Currency conversion reserve		– 72	– 57	26
Group loss / income		128	– 257	> – 100
Total before non-controlling interests		5,496	4,831	14
Non-controlling interests		– 3	– 6	– 50
Total equity and liabilities		**133,393**	**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 31 March 2011		**–**	**–**
Changes in retained earnings		–	–
Adjusted as at 31 March 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 31 March 2012		**–**	**–**
Capital increases		383	116
Changes in retained earnings		–	–
As at 31 March 2012	(39)	**3,018**	**925**

	Retained earnings	of which actuarial gains / losses as per IAS 19	Currency conversion reserve	Revaluation reserve	Group net income / loss	Total before non-controlling interests	Non-controlling interests	**Total**
	1,724	**135**	**–60**	**–227**	**–3**	**5,097**	**–3**	**5,094**
	–56	–	–	–	56	–	–	**–**
	1,668	**135**	**–60**	**–227**	**53**	**5,097**	**–3**	**5,094**
	–	–	–	–	125	125	1	126
	8	8	–	–6	–	2	–	2
	–	–	–	–7	–	–7	–	–7
	–	–	–18	4	–	–14	–	–14
	8	**8**	**–18**	**–9**	**125**	**106**	**1**	**107**
	53	–	–	–	–53	–	–	–
	1,729	**143**	**–78**	**–236**	**125**	**5,203**	**–2**	**5,201**
	1,911	**104**	**–57**	**–210**	**–257**	**4,831**	**–6**	**4,825**
	–	–	–	–	128	128	–	128
	–42	–42	–	84	–	42	–	42
	–	–	–	9	–	9	–	9
	–	–	–15	1	–	–14	–	–14
	–42	**–42**	**–15**	**94**	**128**	**165**	**–**	**165**
	–	–	–	–	–	499	1	500
	–256	–	–	–	257	1	2	3
	1,613	**62**	**–72**	**–116**	**128**	**5,496**	**–3**	**5,493**

CONDENSED
CASH FLOW STATEMENT

CONDENSED CASH FLOW STATEMENT
(€ m)

	January – March 2012	January – March 2011
Cash and cash equivalents as at 1 January	**1,866**	**1,410**
Cash flow from operating activities	264	– 1,199
Cash flow from investing activities	– 721	1,284
Cash flow from financing activities	– 353	– 132
Change in cash and cash equivalents due to exchange rate fluctuations	14	34
Cash and cash equivalents as at 31 March	**1,070**	**1,397**

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 quarterly 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 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 31 March 12 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 obligations 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.

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 AG 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 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.

Subject to the still-pending transposition into EU law – the amendment needs 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.

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

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 statement on a pro rata basis has been eliminated (see IFRS 11).

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

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 and 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 part of the changes in value needs to be reported in the income statement.

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 transposition 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 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 concept, 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 needs to be applied for the first time in financial years which start on or after 1 January 2013. 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 needs to be applied for the first time in financial years which start on or after 1 January 2013.

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.

Within the framework of application of the German Accounting Standards (DRS), HSH Nordbank Group has, in addition to IFRS, also observed DRS 16 Interim Financial Reporting (excluding DRS 16.15 – 16.33) when preparing the interim consolidated financial statements.

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

These consolidated quarterly financial statements were reviewed by the auditors.

All facts up to 22 May 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 respective guarantee outstanding. 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 became 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 prorata amount of € 68 million was determined for the first quarter 2012. From an economic perspective, this results in an additional premium as at the balance sheet date 31 March 2012 amounting to € 820 million since 1 April 2009.

Since the additional premium is only payable if the guarantee is actually drawn down, HSH Finanzfonds AöR only has the power to dispose of this account in this event. 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 an actual 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.

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 the HSH Nordbank Group 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 € 1,690 million as at 31 March 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 31 March 2012,

€ 1,690 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 31 March 2012 and recognised as an expense in the amount of € 198 million. A claim for compensation of interest of € 0.6 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 Group discloses a netted compensation item in the amount of € 1,491 million which reduces loan loss provisions accordingly (cf. Note [20]).

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 31 March 2012 this led to a disclosure under Trading assets in the amount of € 3 million. An additional premium in the amount of € 0.4 million was allocated to this amount.

Furthermore, HSH Nordbank AG was obliged to make a one off payment in the amount of € 500 million to the guarantor of the second loss guarantee that was 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]).

ADJUSTMENTS 2011
INCOME STATEMENT
(€ m)

	January – March 2011		
	Before adjustment	Adjustment	**Following adjustment**
Loan loss provisions	76	– 3	73
Net income from financial investments	65	3	68
Other items (without adjustment)	– 15	–	– 15
Group net income	**126**	**–**	**126**
Group net income attributable to non-controlling interests	1	–	1
Group net income attributable to HSH Nordbank shareholders	125	–	125

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 € 3 million of interest expense from liabilities to customers to liabilities to banks.

4. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg / Kiel, 84 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 AG:

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.	St. Peter Port	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.	EQUILON GmbH	Hamburg	100.0
29.	Godan GmbH	Hamburg	100.0
30.	Grundstücksgesellschaft Barstraße GbR (GEHAG-Fonds 18) [2)]	Berlin	72.5
31.	Grundstücksgesellschaft Rudow-Süd / Straße 633 GbR (GEHAG-Fonds 20) [2)]	Berlin	67.0
32.	Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG	Bremen	63.7
33.	HGA Capital Grundbesitz und Anlage GmbH [9)]	Hamburg	100.0
34.	HGA Fondsbeteiligung GmbH [9)]	Hamburg	100.0
35.	HGA Objekte Hamburg und Hannover AG & Co. KG [11)]	Hamburg	71.9
36.	HSH Auffang- und Holdinggesellschaft mbH & Co. KG	Hamburg	100.0
37.	HSH Care+Clean GmbH [6)]	Hamburg	51.0
38.	HSH Corporate Finance GmbH	Hamburg	100.0
39.	HSH Debt Advisory ApS	Copenhagen	100.0
40.	HSH Equitypartners GmbH [9)]	Hamburg	100.0
41.	HSH Facility Management GmbH	Hamburg	100.0
42.	HSH Gastro+Event GmbH [6)]	Hamburg	100.0
43.	HSH Kunden- und Kontenservice GmbH	Hamburg	100.0
44.	HSH Move+More GmbH [6)]	Kiel	51.0
45.	HSH N Composits GmbH	Kiel	100.0
46.	HSH N Finance (Guernsey) Limited	St. Peter Port	100.0

FULLY CONSOLIDATED COMPANIES

		Registered office	Share of equity capital (in %)
47.	HSH N Financial Securities LLC	Wilmington	100.0
48.	HSH N Funding I [10]	George Town	66.3
49.	HSH N Funding II	George Town	56.3
50.	HSH N Residual Value Ltd.	Hamilton	100.0
51.	HSH Nordbank Private Banking S.A. [7]	Luxembourg	100.0
52.	HSH Nordbank Securities S.A.	Luxembourg	100.0
53.	HSH Private Equity GmbH	Hamburg	100.0
54.	HSH Real Estate AG	Hamburg	100.0
55.	HSH Real Estate US Invest, LLC [9]	Wilmington	100.0
56.	HSH Rechnungswesen GmbH	Kiel	100.0
57.	HSH Restructuring Advisory ApS	Copenhagen	100.0
58.	HSH Security GmbH	Kiel	100.0
59.	International Fund Services & Asset Management S.A. [7]	Luxembourg	51.5
60.	JANTAR GmbH	Hamburg	100.0
61.	KAPLON GmbH & Co. KG [9]	Hamburg	100.0
62.	Kipper Corporation	Wilmington	100.0
63.	Kontora Family Office GmbH	Hamburg	75.0
64.	Leashold Verwaltungs-GmbH & Co. KG	Hamburg	100.0
65.	Mesitis GmbH	Hamburg	100.0
66.	MINIMOA GmbH	Hamburg	100.0
67.	Neptune Finance Partner S.à.r.l.	Luxembourg	100.0
68.	Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0
69.	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0
70.	Northern Blue 2009 S.A.	Luxembourg	0.0
71.	PREGU GmbH	Hamburg	100.0
72.	RESPARCS Funding Limited Partnership I	Hong Kong	0.0
73.	RESPARCS Funding II Limited Partnership	St. Helier	0.0
74.	SBF II, LLC [12]	Wilmington	100.0
75.	Senior Assured Investment S.A.	Luxembourg	0.0
76.	Senior Preferred Investments S.A.	Luxembourg	0.0
77.	Solar Holding S.à.r.l.	Luxembourg	100.0
78.	Sotis S.à.r.l. [7]	Luxembourg	100.0
79.	Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG	Hamburg	99.8
80.	Teukros GmbH	Hamburg	100.0
81.	THESTOR GmbH	Hamburg	100.0
82.	Turis 1. Beteiligungs GmbH & Co. KG [9]	Hamburg	100.0
83.	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung	Hamburg	100.0
84.	2200 Victory LLC	Dover	100.0

[1] Subsidiaries of AMENTUM CAPITAL LIMITED
[2] Subsidiaries of Avus Fondsbesitz und Management GmbH
[3] Subsidiary of Bu Wi Beteiligungsholding GmbH
[4] Subsidiaries of Capcellence Private Equity Beteiligungen GmbH & Co. KG
[5] Subsidiary of DMS Beteiligungs GmbH
[6] Subsidiaries of HSH Facility Management GmbH
[7] Subsidiaries of HSH Nordbank Securities S.A.
[8] Subsidiary of HSH Private Equity GmbH
[9] Subsidiaries of HSH Real Estate AG
[10] Subsidiary of HSH N Composits GmbH
[11] Subsidiary of KAPLON GmbH & Co. KG
[12] Subsidiary of Kipper Corporation
[13] 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 company included in the scope of consolidation as at 31 December 2011 is no longer consolidated:

- Nubes GmbH, Lockstedt

The company was merged with HSH Auffang- und Holding-gesellschaft mbH & Co. KG with effect from 1 January 2012.

As at the 31 March 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	Mönchenglad-bach	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

Due to the intention to sell the shares held in ALIDA Grundstücksgesellschaft mbH & Co. KG, Hamburg, in the short-term, they are reported in accordance with IFRS 5 as at the reporting date. 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 unter Notes [10] and [24].

NOTES ON THE INCOME STATEMENT

5. NET INTEREST INCOME

NET INTEREST INCOME
(€ m)

	January – March 2012	January – March 2011
Interest income from		
Lending and money market transactions	669	769
Fixed-interest securities	161	154
Trading transactions	8	6
Derivative financial instruments	1,709	1,987
Unwinding	58	46
Current income from		
Equities and other non-fixed-interest securities	3	4
Associated companies	4	1
Equity holdings	1	7
Other holdings	2	2
Interest income	**2,615**	**2,976**
of which attributable to financial instruments not classified as HfT or DFV	867	944
Interest expenses for		
Liabilities to banks	141	158
Liabilities to customers	280	319
Securitised liabilities	237	268
Subordinated capital	64	64
Other liabilities	1	1
Disposal of receivables	6	3
Derivative financial instruments	1,578	1,799
Interest expenses	**2,307**	**2,612**
of which attributable to financial instruments not classified as HfT or DFV	619	698
Net income from reestimating interest and repayment cash flows	–	–
Net income from discounting and compounding	–43	–39
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	**–43**	**–39**
of which attributable to financial instruments not classified as HfT or DFV	–43	–39
Total	**265**	**325**

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.

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 € 200 million (previous year: € 173 million). € 790 million are attributable to the result from the reassessment of interest and repayment cash flows (previous year: € 602 million) and € –590 million are attributable to the income / loss from discounting and compounding (previous year: € –429 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 € 5 million (previous year: € 4 million deferred tax assets).

6. NET COMMISSION INCOME

NET COMMISSION INCOME
(€ m)

	January – March 2012	January – March 2011
Commission income from		
Lending business	15	20
Securities business	15	19
Guarantee business	5	8
Payments and account transactions as well as documentary business	5	6
Other commission income	5	3
Commission income	**45**	**56**
Commission expenses from		
Lending business	3	4
Securities business	12	16
Payments and account transactions as well as documentary business	1	2
Other commission expenses	5	2
Commission expenses	**21**	**24**
Total	**24**	**32**

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 € 25 million (previous year: € 34 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
(€ m)

	January – March 2012	January – March 2011
Fair value changes from hedging transactions	65	–385
Micro fair value hedge	–8	–76
Portfolio fair value hedge	73	–309
Fair value changes from underlyings	–71	371
Micro fair value hedge	2	72
Portfolio fair value hedge	–73	299
Total	**–6**	**–14**

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.

Income from foreign exchange transactions, credit derivatives and commodities is stated under Other products. 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.

NET TRADING INCOME
(€ m)

	Bonds and interest rate derivatives		Equities and equity derivatives		Other products		**Total**	
	Jan – March 2012	Jan – March 2011	**Jan – March 2012**	Jan – March 2011	**Jan – March 2012**	Jan – March 2011	**Jan – March 2012**	Jan – March 2011
Realised net income								
Held for trading	44	– 11	– 2	– 8	4	23	46	4
Designated at fair value	– 17	23	–	–	–	– 1	– 17	22
Subtotal	**27**	**12**	**– 2**	**– 8**	**4**	**22**	**29**	**26**
Valuation result								
Held for trading	– 154	– 196	75	13	– 9	– 26	– 88	– 209
Designated at fair value	– 68	168	– 76	– 20	–	1	– 144	149
Subtotal	**– 222**	**– 28**	**– 1**	**– 7**	**– 9**	**– 25**	**– 232**	**– 60**
Total	**– 195**	**– 16**	**– 3**	**– 15**	**– 5**	**– 3**	**– 203**	**– 34**

Net trading income includes net income from foreign currency of € –1 million (previous year: € 6 million).

In the period under review, € 112 million (previous year: € 76 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 € –864 million (previous year: € –622 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 € –68 million (previous year: € –8 million). In cumulative terms, a total of € 189 million (previous year: € 341 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.

NET INCOME FROM FINANCIAL INVESTMENTS
(€ m)

	January – March 2012	January – March 2011
Classified as AfS		
+ Realised gains / losses (–)	50	46
– Write-downs	2	3
Subtotal	**48**	**43**
Classified as LaR		
+ Realised gains / losses (–)	4	12
– Write-downs	4	12
+ Write-ups	19	31
Subtotal	**19**	**31**
– Additions to portfolio valuation allowances	–	6
Subtotal	**–**	**– 6**
Total	**67**	**68**

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

As at the 31 March 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 (cf. Note [4]).

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

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

	January – March 2012	January – March 2011
Pro rata net income for the period	– 1	–
Net income from financial investments accounted for under the equity method	– 5	– 4
Impairments	–	–
Total	**– 6**	**– 4**

The total net income from financial investments accounted for under the equity method amounted to € –6 million (previous year: € –4 million). The loss of disposal of € –5 million included in this net income as at 31 March 2012 is attributable to the deconsolidation of ALIDA Grundstücksgesellschaft mbH & Co. KG within the framework of the intended short-term sale and the necessary disclosure as at the reporting date in accordance with IFRS 5. Deconsolidation of the shares in Relacom Management AB disclosed 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 € –3 million, was no longer recorded in the current period. The accumulated non-recognised pro rata share in the losses of these companies amounts to € –28 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 – March 2012	January – March 2011
– Expenses from allocations to loan loss provisions	554	333
+ Income from reversal of loan loss provisions	272	466
Subtotal	**– 282**	**133**
– Expenses from allocations to provisions in the lending business	24	21
+ Income from reversal of provisions in the lending business	55	19
Subtotal	**31**	**– 2**
– Direct write-downs	9	5
+ Payments received on loans and advances previously written down	31	24
Subtotal	**22**	**19**
+ Foreign currency income from loan loss provisions denominated in foreign currency	55	77
Total before compensation	**– 174**	**227**
+ Compensation item	131	– 154
Total	**– 43**	**73**

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

Direct write-downs of € 9 million (previous year: € 5 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 – March 2012	January – March 2011
Individual valuation allowances	– 281	– 35
Portfolio valuation allowances	– 1	168
Subtotal	**– 282**	**133**
Compensation item	131	– 154
Total	**– 151**	**– 21**

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 – March 2012	January – March 2011
Individual loan loss provisions		
for contingent liabilities	30	13
for loan commitments	5	– 5
Subtotal	**35**	**8**
Portfolio valuation allowances		
for contingent liabilities	1	– 5
for loan commitments	– 5	– 5
Subtotal	**– 4**	**– 10**
Total	**31**	**– 2**

12. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES
(€ m)

	January – March 2012	January – March 2011
Personnel expenses	94	93
Operating expenses	89	105
Depreciation on property, plant and equipment, leasing assets, investment properties and amortisation on intangible assets	16	9
Total	**199**	**207**

Depreciation includes € 3 million of unscheduled depreciation of investment properties resulting from the Victory LLC, Dover, being included in the scope of consolidation for the first time in the period under review.

13. OTHER OPERATING INCOME

OTHER OPERATING INCOME
(€ m)

	January – March 2012	January – March 2011
Other operating income	303	15
Other operating expenses	19	11
Total	**284**	**4**

Other operating income includes gains of € 261 million on the redemption of subordinated bearer debentures.

14. RESULT FROM RESTRUCTURING

RESULT FROM RESTRUCTURING
(€ m)

	January – March 2012	January – March 2011
Personnel expenses	1	7
Operating expenses	7	4
Income from the reversal of provisions and the release of liabilities	2	11
Total	**–6**	**–**

15. EXPENSES FOR GOVERNMENT GUARANTEES

EXPENSES FOR GOVERNMENT GUARANTEES
(€ m)

	January – March 2012	January – March 2011
Financial Market Stabilisation Fund (SoFFin)	9	22
HSH Finanzfonds AöR	71	90
Total	**80**	**112**

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 € 9 billion as at 31 March of the previous year.

Furthermore the guarantee facility issued by SoFFin, the bank rescue fund, was reduced by € 6 billion from € 9 billion as at 31 March 2011 to € 3 billion today.

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 – March 2012	January – March 2011
Attributable Group net income (€ m) – undiluted / diluted	128	125
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted / diluted	281	263
Earnings per share (€)		
Undiluted	0.46	0.48
Diluted	0.46	0.48

NOTES ON THE STATEMENT OF FINANCIAL POSITION

17. CASH RESERVE

CASH RESERVE
(€ m)

	31.3.2012	31.12.2011
Cash on hand	10	10
Balances at central banks	706	1,505
of which: At the Deutsche Bundesbank	124	761
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	354	351
of which: Eligible for refinancing at the Deutsche Bundesbank	351	342
Total	**1,070**	**1,866**

18. LOANS AND ADVANCES TO BANKS

LOANS AND ADVANCES TO BANKS
(€ m)

	31.3.2012	31.12.2011
Payable on demand	4,102	5,286
Other loans and advances	5,508	2,750
Total before loan loss provisions	**9,610**	**8,036**
Loan loss provisions	177	188
Total after loan loss provisions	**9,433**	**7,848**

19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS
(€ m)

	31.3.2012	31.12.2011
Retail customers	1,496	1,583
Corporate clients	78,679	82,412
Public authorities	6,487	6,612
Total before loan loss provisions	**86,662**	**90,607**
Loan loss provisions	4,836	4,776
Total after loan loss provisions	**81,826**	**85,831**

20. LOAN LOSS PROVISIONS

LOAN LOSS PROVISIONS
(€ m)

	31.3.2012	31.12.2011
Loans and advances to banks	177	188
Loans and advances to customers	4,836	4,776
Loan loss provisions for items in the statement of financial position	**5,013**	**4,964**
Provisions in the lending business	358	393
Subtotal	**5,371**	**5,357**
Compensation item	– 1,491	– 1,361
Total	**3,880**	**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	
	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	31.12.2011
As at 1 January	**187**	**191**	**1**	**3**	**188**	**194**
Additions	–	4	2	4	2	8
Reversals	11	5	–	6	11	11
Utilisation	–	3	–	–	–	3
Unwinding	– 1	– 1	–	–	– 1	– 1
Exchange rate changes	– 1	1	–	–	– 1	1
As at 31 March 2012 / 31 December 2011	**174**	**187**	**3**	**1**	**177**	**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	
	31.3.2012	31.12.2011	31.3.2012	31.12.2011	31.3.2012	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	552	2,216	–	23	552	2,239
Reversals	260	1,220	1	288	261	1,508
Utilisation	109	528	–	–	109	528
Unwinding	– 58	– 191	–	–	– 58	– 191
Exchange rate changes	– 55	59	– 9	2	– 64	61
As at 31 March 2012 / 31 December 2011	**4,282**	**4,212**	**554**	**564**	**4,836**	**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)

	31.3.2012	31.12.2011
Positive fair value of derivatives used in micro fair value hedges	334	318
Positive fair value of derivatives used in portfolio fair value hedges	1,693	1,847
Total	**2,027**	**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)

	31.3.2012	31.12.2011
Bonds and other fixed-interest securities	1,262	1,380
Shares and other non-fixed-interest securities	9	10
Positive fair values of financial derivatives	10,753	10,579
Other trading assets	3	12
Total	**12,027**	**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-interest 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)

	31.3.2012	31.12.2011
Bonds and other fixed-interest securities	22,496	21,672
Shares and other non-fixed-interest securities	433	446
Equity holdings	204	205
Interests in affiliated companies	48	65
Total	**23,181**	**22,388**

24. FINANCIAL INVESTMENTS MEASURED UNDER THE EQUITY METHOD

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

As at the 31 March 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 31 March 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 Group no longer has 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. The equity holding in the company was therefore no longer measured at equity in the present interim financial statements as at 31 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 results 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 under the equity method were deconsolidated as well as at 31 March 2012 due to the intention to sell these shares in the short term. These shares are disclosed in accordance with IFRS 5 as at the reporting date.

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 31 March 2012 is presented here:

ASSOCIATED COMPANIES CONSOLIDATED UNDER THE EQUITY METHOD – FINANCIAL INFORMATION

(€ m)

	31.3.2012	31.12.2011
Total assets	446	1,236
Total liabilities	– 444	– 826
Sales revenue	5	67
Net income / loss	– 1	– 27

JOINT VENTURES CONSOLIDATED UNDER THE EQUITY METHOD – FINANCIAL INFORMATION
(€ m)

	31.3.2012	31.12.2011
Total current assets	6	6
Total non-current assets	13	14
Total current liabilities	–	–
Total non-current liabilities	–9	–9
Sales revenue	–	13
Expenses	–	–10

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

Belgravia Shipping Ltd. made available its most recent financial statements as at 31 December 2011. This was used for consolidation as at 31 March 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 Group. Both end three months earlier on 30 September of the respective year. Therefore the financial statements of the first three months of the financial year as at the 31 December 2011 reporting date were used for applying the equity method as at 31 March 2012. There were no material transactions that would have required an adjustment to the Group reporting date.

As at 31 March 2012, five 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)

	31.3.2012	31.12.2011
Software	79	85
Developed in-house	49	53
Acquired	30	32
Software in development	3	3
Developed in-house	2	2
Acquired	1	1
Total	**82**	**88**

26. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT
(€ m)

	31.3.2012	31.12.2011
Land and buildings	17	17
Plant and equipment	64	65
Leased assets	149	156
Technical equipment and machinery	3	2
Total	**233**	**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)

	31.3.2012	31.12.2011
Investment property	118	98
Total	**118**	**98**

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

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

	31.3.2012	31.12.2011
Loans and advances to customers	12	24
Financial investments	33	80
Investment property	20	18
Total	**65**	**122**

The assets reported here relate to financial instruments amounting to € 45 million (31 December 2011: € 104 million).

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.

29. DEFERRED TAX ASSETS

Of the deferred tax assets amounting to € 1,183 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 adjustments 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)

	31.3.2012	31.12.2011
Tenant loans	18	17
Prepaid expenses	12	12
Receivables from fund transactions	7	7
Receivables from other taxes	5	6
Receivables from participations and affiliated companies	2	2
Other assets	102	140
Total	**146**	**184**

31. LIABILITIES TO BANKS

LIABILITIES TO BANKS

(€ m)

	31.3.2012	31.12.2011
Payable on demand	1,029	874
Other term liabilities	27,162	23,811
Total	**28,191**	**24,685**

32. LIABILITIES TO CUSTOMERS

LIABILITIES TO CUSTOMERS

(€ m)

	31.3.2012	31.12.2011
Savings deposits	61	63
Other liabilities		
Payable on demand	7,495	7,693
Other term liabilities	32,648	32,483
Total	**40,204**	**40,239**

33. SECURITISED LIABILITIES

SECURITISED LIABILITIES
(€ m)

	31.3.2012	31.12.2011
Bonds issued	35,689	39,204
Money market securities issued	136	177
Total	**35,825**	**39,381**

Under the item Securitised liabilities own bonds repurchased – in part for the purpose of market support – in the amount of € 5,709 million (31 December 2011: € 5,834 million) were deducted. As at the reporting date bonds issued in the amount of € 3 billion are guaranteed by the Financial Market Stabilisation Fund (SoFFin) (31 December 2011: € 6 billion).

As was the case at the year-end of 2011 HSH Nordbank AG 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.

NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES
(€ m)

	31.3.2012	31.12.2011
Negative fair value of derivatives used in micro fair value hedges	190	205
Negative fair value of derivatives used in portfolio fair value hedges	618	475
Total	**808**	**680**

Changes in this item are directly related to changes in the item Positive fair values 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.

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)

	31.3.2012	31.12.2011
Negative fair values from derivative financial instruments		
Interest rate-related business	9,979	11,346
Currency-related business	384	838
Other business	696	716
Total	**11,059**	**12,900**

36. PROVISIONS

PROVISIONS
(€ m)

	31.3.2012	31.12.2011
Provisions for pension obligations and similar obligations	707	644
Other provisions		
Provisions in the lending business	358	393
Provisions for restructuring	254	276
Provisions for litigation risks and costs	107	108
Provisions for personnel expenses	33	66
Other provisions	105	106
Total	**1,564**	**1,593**

The net change in pension obligations of € 63 million comprises the payments for pension obligations in the amount of € 8 million and additions in the amount of € 71 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)

	31.3.2012	31.12.2011
Specific loan loss provisions for		
Contingent liabilities	57	90
Irrevocable loan commitments	215	217
Other credit risks	13	16
Subtotal	**285**	**323**
Portfolio loan loss provisions for		
Contingent liabilities	49	50
Irrevocable loan commitments	24	20
Subtotal	**73**	**70**
Total	**358**	**393**

37. OTHER LIABILITIES

OTHER LIABILITIES
(€ m)

	31.3.2012	31.12.2011
Collateral provided for guarantees given	1,051	1,096
Personnel liabilities	53	21
Liabilities for outstanding invoices	39	46
Deferred income	35	38
Liabilities for restructuring	14	8
Other tax liabilities	8	10
Liability to HSH Finanzfonds AöR	–	500
Other	169	181
Total	**1,369**	**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)

	31.3.2012	31.12.2011
Subordinated liabilities	4,316	5,175
Silent participations	1,461	1,442
Profit participation capital	1,709	1,691
Total	**7,486**	**8,308**

The decrease in subordinated capital is mainly due to the fact that HSH Nordbank AG repurchased two subordinated bonds with a total volume of € 821 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)

	31.3.2012	31.12.2011
Share capital	3,018	2,635
Capital reserve	925	809
Retained earnings	1,613	1,911
Gains on pension obligations and similar obligations not recognised in the income statement	94	156
Deferred taxes on gains from pension obligations and similar obligations not recognised in the income statement	– 32	– 52
Revaluation reserve	– 116	– 210
Currency conversion reserve	– 72	– 57
Group net income / loss	128	– 257
Total before non-controlling interests	**5,496**	**4,831**
Non-controlling interests	– 3	– 6
Total	**5,493**	**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 is increased by between a minimum amount of € 383,141,760.00 and a maximum amount of € 639,419,820.00 to between a minimum amount of € 3,018,224,530.00 and a maximum amount of € 3,274,502,590.00 through the issue of a minimum of 38,314,176 up to a maximum of 63,941,982 new registered shares with each share representing € 10.00 of the share capital. A total of 38,314,176 of the new registered shares in a nominal amount of € 383,141,760.00 are issued to HSH Finanzfonds AöR. HSH Finanzfonds AöR transfers 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 becomes 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 is 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 in 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)

	31.3.2012	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	
	31.3. 2012	31.3. 2011	**31.3. 2012**	31.3. 2011	**31.3. 2012**	31.3. 2011	**31.3. 2012**	31.3. 2011
Net interest income	197	200	– 38	– 96	10	104	169	208
Net commission income	20	19	–	2	– 5	– 4	15	17
Result from hedging	–	–	–	–	– 6	– 14	– 6	– 14
Net trading income	19	32	27	100	– 127	– 120	– 81	12
Net income from financial investments	–1	20	5	13	– 1	1	3	34
Total income	**235**	**271**	**– 6**	**19**	**– 129**	**– 33**	**100**	**257**
Loan loss provisions	– 12	137	4	– 14	19	– 105	11	18
Administrative expenses	– 85	– 107	– 38	– 23	– 2	– 1	– 125	– 131
Other operating income	5	2	273	10	– 1	– 11	277	1
Net income before restructuring	**143**	**303**	**233**	**– 8**	**– 113**	**– 150**	**263**	**145**
Result from restructuring	–	–	–	–	– 4	2	– 4	2
Expenses for government guarantees	–	–	–	–	– 31	– 46	– 31	– 46
Net income before taxes	**143**	**303**	**233**	**– 8**	**– 148**	**– 194**	**228**	**101**
Cost / Income Ratio (CIR)	36 %	39 %					125 %	51 %
Return on equity before tax and restructuring expenses	43 %	92 %					37 %	17 %
Average equity	1,331	1,318	396	387	725	625	2,452	2,330
Segment assets (€ bn)	**41**	**43**	**34**	**34**	**1**	**–**	**76**	**77**

(€ m / %)

	Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
	31.3. 2012	31.3. 2011	**31.3. 2012**	31.3. 2011	**31.3. 2012**	31.3. 2011	**31.3. 2012**	31.3. 2011
Net interest income	99	118	– 3	– 1	96	117	265	325
Net commission income	9	15	–	–	9	15	24	32
Result from hedging	–	–	–	–	–	–	– 6	– 14
Net trading income	82	58	– 204	– 104	– 122	– 46	– 203	– 34
Net income from financial investments	58	30	–	–	58	30	61	64
Total income	**248**	**221**	**– 207**	**– 105**	**41**	**116**	**141**	**373**
Loan loss provisions	– 163	94	109	– 39	– 54	55	– 43	73
Administrative expenses	– 74	– 76	–	–	– 74	– 76	– 199	– 207
Other operating income	7	3	–	–	7	3	284	4
Net income before restructuring	**18**	**242**	**98**	**– 144**	**– 80**	**98**	**183**	**243**
Result from restructuring	–	–	– 2	– 2	– 2	– 2	– 6	–
Expenses for government guarantees	–	–	– 49	– 66	– 49	– 66	– 80	– 112
Net income before taxes	**18**	**242**	**– 149**	**– 212**	**– 131**	**30**	**97**	**131**
Cost / Income Ratio (CIR)							141 %	55 %
Return on equity before tax and restructuring expenses							8 %	10 %
Average equity	2,707	2,818	–	–	2,707	2,818	5,159	5,148
Segment assets (€ bn)	**54**	**58**	**3**	**1**	**57**	**59**	**133**	**136**

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.

In accordance with IFRS 8.32 and 8.33, neither geographical information nor information on products and services is disclosed.

The cost / income ratio and return on equity are not shown in the segment report for the segments 'Products, Capital Markets and Corporate Center' and 'Restructuring Unit'. The segment 'Products, Capital Market and Corporate Center' is a summary in accordance with IFRS 8.16. The ratios are not shown for this segment as a joint ratio for the 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 derivates 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)

							31.3.2012
	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	**Total**
Assets							
Cash reserve	716	354	–	–	–	–	1,070
Loans and advances to banks	9,453	38	119	–	–	–	9,610
Loans and advances to customers	85,283	–	1,216	–	–	–	86,499
Receivables under finance leases	–	–	–	–	–	163	163
Positive fair values of hedging derivatives	–	–	–	–	–	2,027	2,027
Trading assets	–	–	–	12,027	–	–	12,027
Financial investments	12,245	8,832	2,104	–	–	–	23,181
Non-current assets held for sale and disposal groups	12	33	–	–	–	–	45
Other assets	146	–	–	–	–	–	146
Total assets	**107,855**	**9,257**	**3,439**	**12,027**	**-**	**2,190**	**134,768**
Liabilities							
Liabilities to banks	–	–	307	–	27,884	–	28,191
Liabilities to customers	–	–	3,440	–	36,764	–	40,204
Securitised liabilities	–	–	5,032	–	30,793	–	35,825
Negative fair values of hedging derivatives	–	–	–	–	–	808	808
Trading liabilities	–	–	–	11,059	–	–	11,059
Subordinated capital	–	–	1,786	–	5,700	–	7,486
Other liabilities	–	–	–	–	1,369	–	1,369
Total liabilities	**-**	**-**	**10,565**	**11,059**	**102,510**	**808**	**124,942**

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
Non-current assets held for sale and disposal groups	24	80	–	–	–	–	104
Other assets	184	–	–	–	–	–	184
Total assets	**111,502**	**8,024**	**3,482**	**11,981**	**–**	**2,342**	**137,331**
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, which 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 is 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)

		31.3.2012		31.12.2011	
	Carrying amount as at the time of reclassification	Carrying amount	Fair value	Carrying amount	Fair value
Reclassified from HfT to LaR	1,020	154	143	156	136
Reclassified from AfS to LaR	1,841	35	35	78	77
Total financial assets reclassified as LaR	**2,861**	**189**	**178**	**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)

		31.3.2012		31.12.2011	
	Carrying amount as at the time of reclassification	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	5,169	5,177	5,322	5,296
Total financial assets reclassified as LaR	**6,735**	**5,454**	**5,470**	**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 € 961 million and the carrying amount of assets classified as AfS was € 2,948 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 € 10 million (previous year: € 13 million) for the financial instruments reclassified in the 2008 financial year and € 2 million (previous year: € –4 million) for the financial instruments reclassified in the 2009 financial year.

For financial instruments reclassified from AfS the valuation result in the revaluation reserve for the current reporting period would have been € 0 million (previous year: € –4 million) for the financial instruments reclassified in the 2008 financial year and € 39 million (previous year: € –52 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 – March 2012			January – March 2011		
	From HfT	From AfS	**Total**	From HfT	From AfS	**Total**
Net interest income	4	40	44	4	40	44
Net trading income	– 2	– 17	– 19	– 4	– 17	– 21
Net income from financial investments	2	6	8	– 2	–	– 2
Total	**4**	**29**	**33**	**– 2**	**23**	**21**

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 € 275 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 their high level of public debt the EU Member States Belgium and Hungary are classified as high risk countries by HSH Nordbank Group and reported (together with the comparative figure for 2011) as at reporting date 31 March 2012 for the first time 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.

ASSETS CLASSIFIED AS LAR

(€ m)

						31.3.2012
	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	215	200	203	–	203	127
Ireland	–	–	–	–	–	–
Italy	63	63	63	–	63	55
Greece	100	100	101	–77	24	24
Spain	180	172	176	–	176	139
Other countries	44	42	42	–	42	44
Total	**602**	**577**	**585**	**–77**	**508**	**389**

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)

						31.3.2012
	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	45	–	–7	38
Greece	21	20	18	–15	–	3
Spain	–	–	–	–	–	–
Other countries	32	32	32	–	–2	30
Total	**94**	**93**	**95**	**–15**	**–9**	**71**

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)

					31.3.2012
	Nominal values	Acquisition costs	Gross carrying amount of financial assets	Accumulated valuation affecting P&L	Fair value of assets
Portugal	100	100	100	–34	66
Ireland	–	–	–	–	–
Italy	416	418	428	60	488
Greece	120	116	116	–98	18
Spain	–	–	–	–	–
Other countries	250	250	254	48	302
Total	**886**	**884**	**898**	**–24**	**874**

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)

	31.3.2012	31.12.2011
	Fair value of assets	Fair value of assets
Portugal	–	6
Ireland	–	–
Italy	–	4
Greece	–	–
Spain	–	–
Other countries	–	–
Total	**–**	**10**

In the case of Greece, the assets are already written down to market values. The only exception to this are the new bonds which the HSH Nordbank Group has received in the course of the restructuring of the old Greece bonds. These items are not written down, since they were initially recognised at market value at the date of initial recognition.

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	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Held for trading (HfT)						
Trading assets	3,002	3,169	4,639	4,998	1,930	1,365
Designated at fair value (DFV)						
Loans and advances to banks	42	46	–	–	77	77
Loans and advances to customers	1,173	1,167	–	–	10	12
Financial investments	408	567	854	822	574	453
Non-current assets held for sale and disposal groups	–	–	–	–	–	–
Available for Sale (AfS)						
Cash reserve	354	351	–	–	–	–
Loans and advances to banks	21	20	14	13	3	4
Financial investments	4,751	3,827	3,064	2,620	637	699
Non-current assets held for sale and disposal groups	19	41	12	29	2	8
Loans and Receivables (LaR)						
Cash reserve	417	1,020	299	495	–	–
Loans and advances to banks	2,607	3,231	3,020	3,960	823	367
Loans and advances to customers	6,081	6,454	6,541	7,849	18,779	19,772
Financial investments	6,479	6,856	2,578	2,857	1,482	1,351
Non-current assets held for sale and disposal groups	1	2	1	3	3	6
Other assets	–	–	–	–	–	–
No IAS 39 category						
Positive fair values of hedging derivatives	776	895	1,050	1,098	142	166
Receivables under finance leases	14	15	15	19	44	47
Total	**26,145**	**27,661**	**22,087**	**24,763**	**24,506**	**24,327**

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
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
	1,107	1,183	328	512	559	416	462	338
	–	–	–	–	–	–	–	–
	–	–	33	27	–	–	–	–
	–	3	106	143	42	33	121	132
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	–	–
	52	49	65	60	36	29	13	19
	–	1	–	1	–	–	–	–
	–	–	–	–	–	–	–	–
	2,712	12	3	3	–	1	48	60
	18,640	20,130	6,563	8,886	9,277	6,750	3,697	4,743
	440	362	147	117	383	408	125	97
	3	6	1	3	2	2	1	2
	146	184	–	–	–	–	–	–
	29	5	–	–	30	1	–	–
	43	48	15	21	22	16	9	11
	23,172	**21,983**	**7,261**	**9,773**	**10,351**	**7,656**	**4,476**	**5,402**

CARRYING AMOUNTS OF OVERDUE, UNIMPAIRED FINANCIAL ASSETS
(€ m)

	Overdue < 3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	31.3. 2012	31.12. 2011	**31.3. 2012**	31.12. 2011	**31.3. 2012**	31.12. 2011	**31.3. 2012**	31.12. 2011
Loans and Receivables (LaR)								
Loans and advances to banks	19	5	–	–	10	10	–	–
Loans and advances to customers	1,190	959	237	252	221	162	664	749
Total	**1,209**	**964**	**237**	**252**	**231**	**172**	**664**	**749**

Payments of € 62 million on transactions with a carrying amount volume of € 273 million were received up to ten days after the reporting date of 31 March 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	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Loans and Receivables (LaR)						
Loans and advances to banks	211	227	174	187	37	40
Loans and advances to customers	13,394	12,518	4,282	4,212	9,111	8,306
Financial investments [1]	1,177	1,244	565	613	612	631
Available for Sale (AfS)						
Financial investments [1]	550	610	338	357	212	253
Total	**15,332**	**14,599**	**5,359**	**5,369**	**9,972**	**9,230**

[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 instrument as well as the value of collateral that reduces default risk.

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL
(€ m)

				31.3.2012
		Value of collateral received		
	Carrying amount	Real estate liens and registered liens	Sureties and guarantees	Other collaterals
Held for Trading (HfT)				
Trading assets	12,027	120	5	786
Non-current assets held for sale and disposal groups	–	–	–	–
Designated at Fair Value (DFV)		–	–	–
Loans and advances to banks	119	–	111	1
Loans and advances to customers	1,216	–	–	–
Financial investments	2,104	–	–	–
Non-current assets held for sale and disposal groups	–	–	–	–
Available for Sale (AfS)		–	–	–
Cash reserve	354	–	–	–
Loans and advances to banks	38	–	–	–
Financial investments	8,832	–	–	–
Non-current assets held for sale and disposal groups	33	–	–	–
Loans and Receivables (LaR)		–	–	–
Cash reserve	716	–	–	–
Loans and advances to banks	9,453	–	1,648	2,581
Loans and advances to customers	85,283	28,955	1,772	5,296
Financial investments	12,245	–	–	–
Non-current assets held for sale and disposal groups	12	–	–	–
Other assets	146	1	–	–
No IAS 39 category		–	–	–
Positive fair values of hedging derivatives	2,027	–	–	–
Receivables from finance lease transactions	163	–	–	–
Contingent liabilities	2,478	263	250	159
Irrevocable loan commitments	6,684	491	58	367
Total assets	**143,930**	**29,830**	**3,844**	**9,190**

FINANCIAL ASSETS AND ASSOCIATED COLLATERAL
(€ m)

	31.12.2011			
		Value of collateral received		
	Carrying amount	Real estate liens and registered liens	Sureties and guarantees	Other collaterals
Held for Trading (HfT)				
Trading assets	11,981	603	76	531
Non-current assets held for sale and disposal groups	–	–	–	–
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
Non-current assets held for sale and disposal groups	–	–	–	–
Available for Sale (AfS)		–	–	–
Cash reserve	351	–	–	–
Loans and advances to banks	37	–	–	–
Financial investments	7,556	–	–	–
Non-current assets held for sale and disposal groups	80	–	–	–
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
Non-current assets held for sale and disposal groups	24	–	–	–
Other assets	184	1	–	–
No IAS 39 category		–	–	–
Positive fair values of hedging derivatives	2,165	–	–	–
Receivables from finance lease transactions	177	–	–	–
Contingent liabilities	2,741	262	261	196
Irrevocable loan commitments	6,767	735	208	606
Total assets	**146,839**	**32,960**	**4,273**	**7,357**

Above and beyond the collateral values shown in the table above, a sub-portfolio is secured by means of the guarantee facility provided by the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR at the beginning of the realignment of the Bank. 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.

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 € 5,760 million (31 December 2011: € 3,031 million). The collateral received is split up as follows: € 847 million (31 December 2011: € 916 million) related to OTC derivatives and structured transactions. The Group received collateral in the amount of € 4,913 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 € 666 million (31 December 2011: € 394 million). Of the collateral received, an amount of € 1,815 million (31 December 2011: € 1,818 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank Group is obliged to return all collateral resold or pledged to the guarantor without exception.

The HSH Nordbank Group carries out securities repurchase and lending transactions as well as tri-party repo transactions under standard master agreements with selected counterparties. The same conditions and collateralisation methods apply as for collateral transferred and received.

C) Other collateral received

In the period under review, no assets (previous year: € 0 million) were recognised from the realisation of collateral that are still disclosed on the face of the balance sheet.

In November 2008, HSH Nordbank AG received a guarantee facility for up to a maximum of € 30 billion from Sonderfonds Finanzmarktstabilisierung (SoFFin). This was reduced to € 17 billion in coordination with SoFFin with effect from the end of the year 2009. The guarantee facility expired as agreed on 31 December 2010. The guarantees for the existing issues remain in force. As at 31 March 2012 issues of € 3 billion (31 December 2011: € 6 billion) are still outstanding.

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)

	31.3.2012	31.12.2011
Contingent liabilities	2,478	2,741
Irrevocable loan commitments	6,684	6,767
Total	**9,162**	**9,508**

OTHER DISCLOSURES

47. REPORT ON BUSINESS IN DERIVATIVES

Derivative financial instruments are used to a considerable degree in order to hedge risk efficiently, to take advantage of market opportunities and to cover special customer financing needs. The derivatives business of HSH Nordbank Group is predominantly transacted with banks based in OECD countries.

I. VOLUMES

DERIVATIVE TRANSACTIONS WITH INTEREST RATE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Interest rate swaps	275,292	287,813	8,108	8,319	9,122	9,627
FRAs	3,551	2,842	1	2	–	2
Swaptions						
Long positions	1,361	1,279	81	89	2	1
Short positions	2,077	1,979	3	2	204	218
Caps, floors	11,909	13,292	159	174	106	127
Exchange-traded contracts	1,886	2,204	–	–	–	–
Other forward interest rate transactions	8,351	6,929	44	41	137	181
Total	**304,427**	**316,338**	**8,396**	**8,627**	**9,571**	**10,156**

DERIVATIVE TRANSACTIONS WITH INTEREST RATE AND FOREIGN EXCHANGE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Cross currency interest rate swaps	34,093	37,701	1,046	604	408	1,190
Total	**34,093**	**37,701**	**1,046**	**604**	**408**	**1,190**

DERIVATIVE TRANSACTIONS WITH FOREIGN EXCHANGE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Forward exchange transactions	14,829	16,761	107	161	178	578
Currency options						
Long positions	861	931	68	80	–	–
Short positions	1,166	1,281	–	–	206	260
Total	**16,856**	**18,973**	**175**	**241**	**384**	**838**

DERIVATIVE TRANSACTIONS WITH EQUITY AND OTHER PRICE RISKS
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Equity options						
Long positions	151	344	27	30	–	1
Short positions	95	125	–	–	25	28
Forward equity transactions	–	–	–	–	–	–
Exchange-traded contracts	12	11	2	3	–	–
Equity / Index-based swaps	201	198	3	2	46	52
Commodity-based transactions	1,341	1,369	61	47	74	51
Total	**1,800**	**2,047**	**93**	**82**	**145**	**132**

CREDIT DERIVATIVES
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Guarantor position	251	255	1	–	5	7
Collateral taker position	906	808	20	27	–	1
Total	**1,157**	**1,063**	**21**	**27**	**5**	**8**

DERIVATIVE TRANSACTIONS WITH STRUCTURED PRODUCTS
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Structured products	11,374	11,678	1,022	998	546	576
Total	**11,374**	**11,678**	**1,022**	**998**	**546**	**576**

The derivatives reported under this item include interest rate, credit, currency and price risks. From the first quarter of 2011 onwards, these transactions are no longer disclosed under derivative transactions with interest rate risks, but under a separate item. Due to the reclassification, the comparative figures from the previous year for derivative transactions with interest rate risks are changed accordingly.

DERIVATIVE TRANSACTIONS IN FAIR VALUE HEDGE ACCOUNTING
(€ m)

	Nominal values		Positive market values		Negative market values	
	31.3.2012	31.12.2011	**31.3.2012**	31.12.2011	**31.3.2012**	31.12.2011
Fair value hedges						
Interest rate swaps	31,747	30,723	1,989	2,136	771	657
Cross currency interest rate swaps	421	342	38	29	37	23
Total	**32,168**	**31,065**	**2,027**	**2,165**	**808**	**680**

II. MATURITIES

MATURITIES
(€ m)

	Positive market values of derivatives		Positive market values of derivatives from fair value hedging		Negative market values of derivatives		Negative market values of derivatives from fair value hedging	
	31.3. 2012	31.12. 2011	**31.3. 2012**	31.12. 2011	**31.3. 2012**	31.12. 2011	**31.3. 2012**	31.12. 2011
Residual maturity								
Up to 3 months	219	319	–	–	250	761	–	2
3 months to 1 year	629	515	131	113	661	1,004	25	5
1 year to 5 years	3,403	3,347	1,123	1,082	3,538	3,758	388	339
Over 5 years	6,502	6,398	773	970	6,610	7,377	395	334
Total	**10,753**	**10,579**	**2,027**	**2,165**	**11,059**	**12,900**	**808**	**680**

48. RELATED PARTIES

The HSH Nordbank Group 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, sight and term deposits, derivatives and securities transactions.

I. THE PARENT COMPANY AND COMPANIES WITH JOINT MANAGEMENT OR SIGNIFICANT INFLUENCE ON THE COMPANY

For transactions with HSH Finanzfonds AöR as well as with the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50 % the Bank makes use of IAS 24.25. According to IAS 24.25 the HSH Nordbank Group is exempt from the disclosure requirement regarding public authorities, unless transactions are involved that have a significant impact on the consolidated financial statements.

The guarantee amount with regard to the guarantee facility provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR is identified as a significant transaction within the meaning of IAS 24. Please refer to Note [2] and [15] for more details.

II. SUBSIDIARIES

The transactions with unconsolidated subsidiaries are shown below:

SUBSIDIARIES – ASSETS
(€ m)

	31.3.2012	31.12.2011
Loans and advances to customers	127	120
Loan loss provisions	– 16	– 15
Financial investments	48	65
Other assets	2	2
Total	**161**	**172**

SUBSIDIARIES – LIABILITIES
(€ m)

	31.3.2012	31.12.2011
Liabilities to customers	55	60
Provisions in the lending business	2	8
Other liabilities	1	1
Total	**58**	**69**

SUBSIDIARIES – INCOME STATEMENT
(€ m)

	January – March 2012	January – March 2011
Net interest income	1	3
Loan loss provisions	4	3
Other operating income	–	– 1
Total	**5**	**5**

Furthermore there are contingent liabilities to subsidiaries of € 6 million (31 December 2011: € 6 million) and € 11 million (31 December 2011: € 8 million) of irrevocable loan commitments.

There are 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)

	31.3.2012	31.12.2011
Loans and advances to customers	693	717
Loan loss provisions	– 43	– 42
Trading assets	9	9
Financial investments	245	245
Other assets	–	1
Total	**904**	**930**

ASSOCIATED COMPANIES – LIABILITIES
(€ m)

	31.3.2012	31.12.2011
Liabilities to customers	41	39
Other liabilities	1	1
Total	**42**	**40**

ASSOCIATED COMPANIES – INCOME STATEMENT
(€ m)

	January – March 2012	January – March 2011
Net interest income	7	9
Loan loss provisions	– 1	–
Net trading income	–	– 3
Net income from financial investments	10	– 1
Total	**16**	**5**

In addition, there are € 3 million (31 December 2011: € 9 million) of contingent liabilities to associated companies and € 58 million (31 December 2011: € 52 million) of irrevocable loan commitments.

Other financial liabilities to associated companies amount to € 177 million (31 December 2011: € 182 million).

IV. JOINT VENTURES

The following table shows the transactions with joint ventures:

JOINT VENTURES – ASSETS
(€ m)

	31.3.2012	31.12.2011
Loans and advances to customers	128	132
Loan loss provisions	– 3	– 3
Trading assets	11	13
Total	**136**	**142**

JOINT VENTURES – INCOME STATEMENT
(€ m)

	January – March 2012	January – March 2011
Net interest income	1	3
Net trading income	– 1	– 1
Total	**-**	**2**

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)

	31.3.2012	31.12.2011
Liabilities to customers	1	1
Total	**1**	**1**

49. OTHER FINANCIAL OBLIGATIONS DUE TO THE BANK LEVY (BANKENABGABE)

The German Restructuring Fund Regulation (Restrukturierungsfonds-Verordnung) provides for the retrospective charges with respect to the so-called bank levy (Bankenabgabe). Here the difference between the actual bank levy (minimum amount) and the standard amount calculated for the contribution years 2011 to 2019 can be charged subsequently within a period of two years. The obligation to pay the amount charged subsequently only comes into effect once profits in later financial years are obtained up to a level stipulated as reasonable in the Restructuring Fund Regulation. The obligation to pay and the amount of the additional charge is therefore dependent on profit generation in the years to follow. HSH Nordbank will probably have to pay the bank levy in 2014 for the first time. The bank levy is likely to amount to an eight-figure sum according to the Bank's internal current calculations inclusive of the amounts to be charged additionally.

NAMES OF BOARD MEMBERS AND DIRECTORSHIPS HELD

I. THE SUPERVISORY BOARD OF THE HSH NORDBANK GROUP

Hilmar Kopper, Rothenbach
Former spokesperson of the Management Board of Deutsche Bank AG
Chairman

Olaf Behm, Tangstedt
Employee of HSH Nordbank AG
Deputy Chairman

Stefanie Arp, Norderstedt
(from 1 March 2012)
Employee of HSH Nordbank AG

Sabine-Almut Auerbach, Neumünster
District manager, ver.di Southern Holstein district

Astrid Balduin, Kiel
Employee of HSH Nordbank AG

Hans-Werner Blöcker, Helmstorf
Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG

Berthold Bose, Hamburg
Regional financial services representative, ver.di Hamburg district

Detlev Bremkamp, Munich
Former member of the Management Board, Allianz AG Holding

Dr. Alexander Erdland, Stuttgart-Degerloch
Chairman of the Management Board of Wüstenrot & Württembergische AG

Jürgen Friedland, Kiel
Employee of HSH Nordbank AG

Jens-Peter Gotthardt, Moorrege
(until 29 February 2012)
Employee of HSH Nordbank AG

Torsten Heick, Rellingen
Employee of HSH Nordbank AG

Oke Heuer, Kiel
Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein

Dr. Rainer Klemmt-Nissen, Hamburg
Managing Director of HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH

Lutz Koopmann, Altenholz
Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein

Dr. Joachim Lemppenau, Korschenbroich
Former Chairman of the Management Board, Volksfürsorge Versicherung

Manfred Lener, Kiel
Employee of HSH Nordbank AG

Rieka Meetz-Schawaller, Kiel
Employee of HSH Nordbank AG

Dr. David Morgan, London
Managing Director of J.C. Flowers & Co. UK Ltd

Edda Redeker, Kiel
ver.di, Northern district

Bernd Wrede, Hamburg
Former Chairman of the Management Board of Hapag Lloyd AG

II. MEMBERS OF THE RISK COMMITTEE

Dr. Alexander Erdland
Chairman

Dr. David Morgan
Deputy Chairman

Astrid Balduin

Olaf Behm

Jürgen Friedland

Torsten Heick

Dr. Rainer Klemmt-Nissen

Hilmar Kopper

Manfred Lener

Bernd Wrede

III. MEMBERS OF THE AUDIT COMMITTEE

Dr. Joachim Lemppenau
Chairman

Lutz Koopmann
Deputy Chairman

Stefanie Arp
(from 22 March 2012)

Olaf Behm

Jürgen Friedland

Jens-Peter Gotthardt
(until 29 February 2012)

Oke Heuer

Hilmar Kopper

Rieka Meetz-Schawaller

IV. MEMBERS OF THE GENERAL COMMITTEE

Hilmar Kopper
Chairman

Olaf Behm

Oke Heuer

Dr. Rainer Klemmt-Nissen

Lutz Koopmann

Rieka Meetz-Schawaller

Dr. David Morgan

V. MEMBERS OF THE MEDIATION COMMITTEE

Hilmar Kopper
Chairman

Olaf Behm

Dr. Rainer Klemmt-Nissen

Manfred Lener

VI. THE MANAGEMENT BOARD OF THE HSH NORDBANK GROUP

Dr. Paul Lerbinger
Born in 1955
Chairman
Products and Capital Markets (on a temporary basis)

Constantin von Oesterreich
Born in 1953
Chief Financial Officer and Chief Risk Officer

Torsten Temp
Born in 1960
Corporate and Private Clients

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, 22 May 2012

Lerbinger von Oesterreich Temp

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 31 March, 2012. 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 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 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 applicable to interim group management reports.

Hamburg, dated 23 May 2012
KPMG AG
Wirtschaftsprüfungsgesellschaft

Madsen	König
Wirtschaftsprüfer	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, 22 May 2012

Lerbinger von Oesterreich Temp

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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.

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