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Financial Report 2008

of HSH Nordbank AG (HGB)

HSH NORDBANK

Content

HSH NORDBANK AG MANAGEMENT REPORT

Business and underlying conditions

UNDERLYING CONDITIONS

Global economy slides into recession

The overall economic conditions deteriorated drastically in the course of last year. While there was much hope at the beginning of the year that a large part of the global economy could decouple itself from the US recession, the sharp increase in the price of commodities in the spring suggested that there was a clear risk of stagflation. Since then, the inflation fears have subsided at least concerning 2009 and the global economy cooled off considerably in the second half of 2008. The economies of nearly all the industrialised countries contracted at the end of the year. While the emerging markets continued to expand, they nevertheless likewise experienced a noticeable slowdown in growth. This was not least the case in China and India, both of which suffered as a result of a slump in their export markets. All in all, the global economy only grew by about 3% in 2008 (2007: 5%). The US economy continued to feel the strain of the recession in its real estate market, and other areas of the economy were increasingly likewise affected, resulting in a sharp drop in the gross domestic product in the second half of the year.

After a positive start to the year in the euro zone and in Germany, the economic situation went on to deteriorate here too. This was due to the decline in external demand, the sharp rise in commodity prices that lasted until July, hitting private consumption especially hard, and the turmoil in the financial markets. Other euro zone countries such as Spain and Ireland also suffered when the bubble burst in their respective property markets. Germany's gross domestic product increased by 1%, in comparison to a euro zone GDP increase of 0.7%. The rate at which the euro zone economy slowed down was therefore surprisingly high.

The intensification of the financial crisis and the drastic deterioration in the economic situation had a notable impact on the industries and sectors that are important to HSH Nordbank:

Shipping affected by downturn

The unusually strong economic boom which had prevailed almost without interruption in the shipping sector since 2003 petered out in 2008 and the industry slid into a downturn, the speed and severity of which had never been seen before. This was in spite of the fact that it looked likely in the first half of the year that the economic crisis would remain limited to the financial markets and would have little impact on growth rates in Europe and Asia in particular. The crisis then spread to the real economy in the wake of the collapse of Lehman Brothers, and shipping was one of the first sectors to be hit. Trade financing business dried up, and this had far-reaching consequences in particular on the demand for container consignments and the shipment of bulk goods. The slump in demand and the fundamentally changed market expectations affected all industry sectors with only a few exceptions, and only oil tankers were able to partially resist the downward trend. The crisis also affected the number of new orders for ships being placed, and across all the industry sectors considerably fewer newbuildings were commissioned in 2008 than in 2007. This constituted the first year-on-year downturn in ship orders since 2005.

Aviation capacity adjustments

Following comparatively robust growth in the first half of 2008, the airlines were confronted with a steady decline in passenger numbers and cargo volume in the second half-year, due to the drastic slowdown in the economy. At the same time, however, when fuel prices fell markedly from their high point in the summer, this helped the industry to compensate for at least some of the economic lull. The high price of oil up to the mid-year point and the possibility that any future growth in the aviation industry could be accompanied by permanently higher fuel prices have already prompted many airlines – especially in the USA – to take less efficient aircraft out of service. These capacity adjustments should help to stabilise the sector in the current phase.

Developments in the infrastructure market reined in

On the whole, the infrastructure market continued to benefit from privatisation trends and internationally there was a high demand for investments, in airports for example. This resulted in a wide variety of financing options for banks. As the banks were being reticent about lending in the prevailing climate, many transactions were postponed until 2009, however. Likewise in the railway sector, many capital-intensive investments in rolling stock were shelved in the year under review because of the economic crisis.

In addition, many companies are focusing on the development of carriage rental business in Europe. HSH Nordbank set up an asset management platform together with KfW in 2008 in order to position itself in this business segment and thus benefit from this trend.

Fewer investments in the renewable energy sector

The expansion of production capacities in the renewable energy sector continued at a good rate well into 2008, thanks to attractive political conditions for this in many countries and, above all, due to the sharp rise in energy prices. This sector also experienced a downturn towards the end of the year, however. This was triggered by poorer financing opportunities and the uncertainty on the markets, both of which dampened demand for new energy plants. Demand nevertheless remained high.

Significant price adjustments in the international property markets

From a global perspective, the property markets suffered a downturn in 2008 which particularly gathered pace in the second half-year as a result of the worsening financial crisis and the economic slump. The underlying conditions for real estate investments changed around the world on the back of the crisis in the financial markets and transaction volumes plummeted as a result of more restrictive lending.

Following the sustained collapse of prices on the residential property market in the USA, the office segment likewise came under increasing pressure in the course of the year as the volume of available office space increased on the back of large staff reductions in many companies. The European property markets each fared differently. The markets in which there had been very high price rises in previous years experienced significant price adjustments. As a financial hub, London in particular felt the full impact of the crisis, and Paris suffered to a certain extent too. In comparison, the German market for office space proved to be quite robust thanks to its decentralised structure and posted high take-up of rental space up to and including the third quarter of 2008. The effects on the real economy made themselves felt in the second half-year, however, and both take-up and transaction volume fell in what would normally be a very strong fourth quarter.

Financial crisis increasingly taking its toll on companies

The market environment developed in two stages in 2008. While there was little sign of the economic crisis having any effect on the market in the first three quarters of the year, the globally expanding recession dramatically gathered pace in the fourth quarter. Businesses with a very export-oriented focus and companies in the automotive industry were hardest hit by this development. The only industries to buck the trend were health care and food retail, and we registered unwaveringly high demand for loans in these areas. Furthermore, the combination of the sharp increase in energy and commodity prices in the first half-year and the ensuing drastic economic slump impacted heavily on the cash flows of our medium-sized clients, who were then forced to rethink their investments.

Private banking market development

In 2008, the private banking market was characterised by intensive competition and increasingly also by the effects of the financial crisis. Many German banks that refinance themselves using the deposits of their retail customers tried to acquire new customers with attractive interest rates on call deposit and time deposit accounts. Some banks also posted sizable increases in deposits due to the lack of willingness among investors to invest in securities. Although relatively high in the first half of the year, commission revenues from securities business dropped dramatically in the second half-year as the financial market crisis worsened.

The stock, bond and foreign currency markets experienced some turbulence in 2008 because of the challenges they faced:

Heavy losses on the stock markets

The stock markets around the world were unable to evade the prevalent negativity. While trading got off to a relatively stable start at the beginning of the year, the increasing recession woes resulted in sizeable losses in the course of the year. The downward trend in share prices accelerated following the collapse of Lehman. In view of the recession in the established economic zones, in the case of many market participants, their economic concerns developed into expectations of a serious global economic crisis. A little respite was afforded at the end of the year by the large-scale state interventions, announcements of stimulus packages and, not least, the dramatically lowered prime rates. All the major indices without exception nevertheless posted considerable losses: in Europe, the German benchmark index DAX lost 40.4% down to 4,810 points and the EURO STOXX 50 fell by 44.4% to 2,448 points. In the USA, the Dow Jones Industrial suffered a loss of 33.8% down to 8,776 points, while the Japanese Nikkei 225 fell by 42.1% to 8,860 points.

Bond market: yields considerably down

There was a two-pronged development in the international bond markets. While yields of 10-year government bonds rose to just under 4.7% (Bundesanleihen) and over 4.3% (Treasuries) in the first half-year in the light of bullish commodity prices and increasing concerns about inflation, this was replaced by a marked downturn as of July and at the end of the year, yields were down to just under 3% (Germany) and approximately 2% (USA). The yield curve in the euro zone initially levelled off by summer, and the yields on two-year bonds even outstripped the yields on ten-year bonds for a time. From July, the interest rate cuts introduced by the central banks then caused short-term yields to nosedive, thus making the interest rate differential between bonds with a two-year and a ten-year maturity increase to more than 100 basis points by the end of the year. In the USA, the relatively early prime rate cuts up to the summer prevented the yield curve there from levelling off to any great extent. The sharp decline in yields on short-term bonds temporarily pushed the interest rate difference between two-year and ten-year bonds up to 262 basis points.

Stark fluctuations in the foreign currency markets

Developments in the foreign currency markets of relevance to us were also highly volatile. The euro was able to strengthen against the US dollar up to the summer, on the back of the euro zone's seemingly comparatively robust economy and due to the widening of the gap between the prime rates in the euro zone and the USA. This temporarily took the exchange rate to an historic high of more than 1.60 USD/EUR. As the economic crisis increasingly spread to Europe later in the summer, however, confidence in the development of the euro zone dwindled and the value of the euro was temporarily down by 20%, albeit recovering to an exchange rate of 1.40 USD/EUR by the end of the year.

Central banks introduce interest rate cuts

Faced with the extent of the financial crisis, the bodies in charge of fiscal and monetary policy resorted to drastic measures. For one thing, in the USA large aid programmes were implemented to revitalise the economy and the finance sector. In addition, as the USA's central bank, the Federal Reserve cut the prime rate from 4.25% at the beginning of the year to a margin of between 0 and 0.25% and implemented various programmes designed to replenish the financial system with sufficient cash resources after the interbank markets dried up.

After increasing its interest rate to 4.25% in July, the European Central Bank subsequently switched to a course of interest rate cuts in just three months. Like many other central banks, the ECB slashed its prime rate to 2.5% between the beginning of October and the end of December, thus flanking the measures already implemented for boosting liquidity within the banking system. National governments also increasingly began to prioritise stimulus packages in the autumn.

Bank sector suffering due to financial crisis

The banking industry had an extremely difficult year in 2008 and the subprime/financial crisis that started in the summer of 2007 led to further write-downs and losses of more than USD 1,200 billion, according to Bloomberg data in the year under review. US institutions accounted for more than two thirds of this. The value adjustments were not limited to mortgage-backed claims, and products that had diminished in value as a result of investors being less willing to take risks, such as loans for M&A transactions, were likewise affected. The losses were partially offset by fresh capital being raised. In addition, these heavy losses and the deterioration in the economic outlook prompted banks to tighten their lending conditions. As a result, loan growth began to slow in the euro zone in the spring.

Having initially peaked in March with the difficulties experienced by the investment bank Bear Stearns, the US subprime crisis went on to become even more serious in the summer. The Lehman Brothers bankruptcy resulted in a major loss of confidence among banks, and various US and European institutions received government aid or were taken over by other banks.

Government intruments to shore up the banking sector

In addition to monetary and fiscal measures, as part of an internationally coordinated endeavour in October 2008, the major industrialised countries also passed legislation designed to stabilise the financial sector. The aim of this legislation is to restore confidence among the market participants and to stabilise the markets. One of the key elements of the German stabilisation package is state guarantees on issued debt instruments which the financial institutions can apply for if they meet certain conditions, in particular having adequate capital stock and a workable business model. The expectation is that this will clear any liquidity bottlenecks for the benefiting institutions and will support their refinancing on the capital market. To strengthen capital, the stabilisation fund can also be used for a limited period to capitalise banks. A third instrument is the provision of risk-weighted assets. A number of banks had requested government guarantee assurances by the end of 2008.

EFFECTS OF THE CRISIS ON HSH NORDBANK

HSH Nordbank increasingly affected by financial crisis developments

The (subprime) crisis which started in the US real estate market had already resulted in substantial write-downs in the previous year due to lower market prices for subprime bonds and structured securities. An increasing lack of confidence among investors since mid-2007 also affected two of HSH Nordbank Group's investment companies. It became increasingly difficult to refinance these companies, so HSH Nordbank injected them with the necessary liquidity itself and also transferred the assets of one of these companies to the Bank.

Procuring capital in the financial markets became increasingly problematic for HSH Nordbank in the wake of the subprime crisis. Given the shortage of liquidity that this created, the Bank was forced to adopt a more restrictive lending policy at the end of 2007. The Bank also had to absorb large burdens relating to credit investment business.

After a further comparatively moderate value adjustment in the first half of 2008, HSH Nordbank's situation was exacerbated after the US investment bank Lehman Brothers collapsed and the Icelandic banks defaulted. The increasing loss of confidence in banks posed a threat to the liquidity of HSH Nordbank. In November 2008, this situation, which posed a threat to the existence of the Bank, was alleviated when a framework guarantee was made available by the Special Fund Financial Market Stabilization The Bank consequently availed itself of EUR 10 billion from the fund in December 2008.

The increasingly serious financial market situation in the third and fourth quarters resulted in the Bank posting high write-downs and downward valuation adjustments on financial instruments. In addition, in view of the gloomier economic outlook and greater default risks, much larger appropriations to loan loss provisions were necessary. As a result of these developments, the Bank posted a loss after tax of EUR 3,093 million for the financial year (previous year: annual net income of EUR 531 million). The target of achieving a higher year-on-year net income in 2008 was therefore very much missed. Despite the noticeably felt effects of the economic crisis, it is important to stress that, as in previous years, HSH Nordbank was once again successful with its financing activities und services in its client business in 2008 and managed to achieve high revenues in its strongly positioned core areas. Details of the business performance of HSH Nordbank are set out below.

Business performance

EARNINGS POSITION

Income statement In € m	2008	2007	Change absolute	Change in %
Net interest income	1,912	1,856	56	3.0
Net commission income	293	360	-67	-18.6
Net trading income	-252	69	-321	-
Administrative expenses	-824	-886	62	-7.0
Personnel expenses	-380	-454	74	-16.3
Other operating expenses	-444	-432	-12	2.8
Other operating income	16	68	-52	-76.5
Operating result before risk provision/valuation	1,145	1,467	-322	-21.9
Risk provisions/valuation	-4,324	-742	-3,582	>100
Loans	-2,473	-166	-2,307	>100
Securities	-1,276	-418	-858	>100
Equity holdings	-575	-90	-485	>100
Reserves	0	-68	68	-100
Operating result after risk provisions/valuation	-3,179	725	-3,904	-
Extraordinary result	-164	0	-164	-
Income tax expense	-101	99	-200	-
Partial profit transfers	0	-293	293	-100
Income from transfer to losses	351	0	351	-
Annual net income	-3,093	531	-3,624	-

Earnings under pressure

Total earnings amounted to EUR 1,968 million. This constitutes a year-on-year decline of EUR 385 million (previous year: EUR 2,353 million), which can be primarily attributed to negative net trading result. The individual earnings situations were as follows:

The Bank's biggest earnings item, its net interest income, exceeded the previous year's figure by EUR 56 million and totalled EUR 1,912 million. Disregarding the lower earnings from profit and loss transfer agreements with subsidiaries (effect: EUR –72 million), net interest income actually increased year-on-year, by EUR 128 million. A positive effect came from the expansion of lending business in a number of divisions. As in previous years, the Bank also generated earnings from arbitrage transactions. The non-servicing of profit participation shares also had a positive influence on the net interest income and the Bank additionally profited from the development of foreign currency exchange rates in 2008, especially the exchange rate of the US dollar to the euro.

Net commission income fell by EUR 67 million to EUR 293 million. This was first and foremost due to commissions paid for risk-weighted asset relief transactions effected at the end of 2007 that caused expenses in the first few months of the year under review. Furthermore, the Bank collected fewer fees for international financing projects. This essentially related to syndication business, which declined noticeably in the year under review.

Net trading result totalled EUR –252 million, in comparison to the previous year's positive result of EUR 69 million. The main reasons for this substantial negative development were a higher risk premium to evaluate the trading portfolios as a result of the crisis in the financial markets, the market-related adjustment of valuation parameters in dealing with derivatives, and unrealised losses on interest rate swaps due to the decline in interest rates. Net trading income was also negatively affected by valuation losses on Danish mortgage bonds. Furthermore, expenses were incurred on arbitrage transactions, the earnings counterpart of which had a positive effect on net interest income.

Costs reduced

Personnel expenses fell for the first time in years, by EUR 74 million to EUR 380 million. This was most significantly influenced by the suspension of voluntary special payments to employees. Factors counteracting the decline were an increase in the average number of employees over the year and general increases in salaries.

Other operating expenses rose by EUR 12 million to EUR 444 million. This increase came from higher general administrative expenses such as auditing expenses, legal advice, fees and other administrative expenditure. Other operating expenses were eased by lower depreciation on land and buildings and on intangible assets.

The operating result before risk provisions and valuation amounted to EUR 1,145 million (previous year: EUR 1,467 million).

Risk provision requirements significantly higher

Risk provisions rose considerably year-on-year, by EUR -3,582 million to EUR -4,324 million (previous year: EUR -742 million). Of the total risk provision expenses EUR -2,473 million can be ascribed to lending business (previous year: EUR -166 million), EUR -1,276 million to securities business (previous year: EUR -418 million), and EUR -575 million to net income from equity holdings (previous year: EUR -90 million). In contrast to 2007, no additions were made to the HGB reserves. This resulted in a year-on-year decline in expenditure of EUR 68 million.

One of the main reasons for the increase in loan loss provisions in lending business is HSH Nordbank's write-off of a loan (EUR 400 million) to the subsidiary HSH Nordbank Securities, which engages in credit investment business. This became necessary in order to comply with the subsidiary's solvency regulations. Other reasons for the increase in risk provisioning were higher loan loss provision and increased write-down requirements, in particular in relation to transactions pertaining to Iceland and to the collapsed US investment bank Lehman Brothers, and other provisions and country-specific general loan loss provisions. The negative developments in the economic situations of the borrowers led to a substantial increase in loan loss provisions in the various Bank divisions.

In the securities business, the Bank increased its loan loss provisions in comparison to the previous year by EUR -858 million to EUR -1,276 million. This was primarily as a result of burdens generated by credit investment business.

Loan loss provisions in the area of equity holdings increased by EUR -485 million to EUR -575 million. The main factor influencing this was write-downs on equity holding companies. The biggest equity holding write-downs related to HSH Nordbank Securities (EUR 300 million) and GLB/DEKA (EUR 70 million). Furthermore, the Bank was in particular hit by the absorption of the losses of HSH Real Estate, a subsidiary of the Bank which specialises in real estate business.

The operating result after risk provisions and valuation was far below the previous year's positive figure (EUR 725 million) at EUR -3,179 million, due to the burdens incurred in the financial year.

Restructuring expenses of EUR 164 million were posted in relation to the Bank's realignment. This specifically related to the cost of the planned reduction of personnel numbers and to other operating expenses such as legal and advisory expenses.

Based on the net loss for the year and insufficient distributable profit, the silent and profit participations were not serviced in the year under review.

The Bank receives compensation of EUR 351 million for losses from the participation in the Bank's net loss for the year for the silent participations held by the Bank's shareholders.

To balance out the net loss for the year, capital reserves of EUR 3 billion and retained earnings of EUR 0.1 billion were released as at 31 December 2008.

NET ASSETS AND FINANCIAL SITUATION

Balance sheet in € m	2008	2007	Change absolute	Change in %
Assets				
Cash reserve, debts intruments issued by public sector institutions, bills of exchange egible for refinancing	1,412	1,213	199	16.4
Loans and advances to banks	37,070	44,421	-7,351	-16.5
Loans and advances to customers	119,020	108,380	10,640	9.8
Securities (total)	46,407	38,909	7,498	19.3
Holdings and shares in affiliated companies	2,726	4,642	-1,916	-41.3
Trust assets	364	390	-26	-6.7
Other assets	5,477	4,296	1,181	27.5
Balance sheet total	212,476	202,251	10,225	5.1
Liabilities				
Liabilities to banks	70,615	63,935	6,680	10.4
Liabilities to customers	57,587	53,700	3,887	7.2
Securitised liabilities	66,720	64,148	2,572	4.0
Trust liabilities	364	390	-26	-6.7
Subordinated liabilities	5,303	5,324	-21	-0.4
Profit participation capital	966	1,141	-175	-15.3
Funds for general banking risks	1,052	1,052	0	0
Equity capital	5,024	7,369	-2,345	-31.8
Other liabilities	4,845	5,192	-347	-6.7
Balance sheet total	212,476	202,251	10,225	5.1
Contingent liabilities	12,163	13,085	-922	-7.0
Other obligations	24,163	34,683	-10,520	-30.3
Derivatives (credit risk equivalents)	25,648	14,585	11,063	75.9
Business volume	274,450	264,604	9,846	3.7
Lending volume	256,971	256,446	525	0.2

Balance sheet development dictated by financial crisis

The financial market crisis is also reflected in the development of the HSH Nordbank's main balance sheet items. Overall, the Bank's total assets increased by EUR 10 billion to EUR 212 billion in the year under review. While loans and advances to banks fell by EUR 7 billion, loans and advances to customers – the biggest balance sheet item on the asset side – increased by no less than EUR 11 billion to EUR 119 billion. This rise can be attributed to greater lending in the Bank's regional and international lines of business. The securities portfolio totalled EUR 46 billion, which was up by EUR 7 billion year-on-year primarily due to two own issues (together worth 10 billion) guaranteed by the SoFFin, which were placed with the European Central Bank for refinancing purposes. Shares in affiliated subsidiaries declined by EUR 2 billion to EUR 2 billion, of which EUR 0.3 billion were ascribed to write-downs relating to HSH Nordbank Securities. The value of investment of this Luxembourg-based subsidiary, which specialises in credit investment business, fell on the back of the economic crisis. Further declines were triggered by the disposal of equity holdings.

The biggest item on the liabilities side of the HSH Nordbank AG balance sheet was liabilities to banks. This increased by EUR 7 billion to EUR 71 billion due to greater borrowing from the Bundesbank, while deposits made by banks declined as the interbank market ground to a halt. Institutional investors likewise furnished the Bank with greater resources in the 2008 financial year, thus boosting the volume of liabilities to customers by EUR 4 billion to EUR 58 billion. Securitised liabilities increased by EUR 3 billion to EUR 67 billion, based on two contradictory effects. On the one hand, the inventory of issued bonds increased by EUR 7 billion on the back of the

Bank's issuing activities, while on the other hand, the volume of other securitised liabilities dropped, especially in relation to money market instruments. Within the framework of the SoFFin guarantee, the Bank issued two short-dated bonds which are ECB-eligible and which will serve as a liquidity reserve.

Other liabilities fell by EUR 1 billion to EUR 3 billion because of fewer delivery commitments for securities transactions. The provisions item went up by EUR 0.8 billion to EUR 2 billion due to a number of factors. Higher loan loss provision expenses were recorded as a result of the economic slump and downgraded credit ratings for customers. Furthermore, provisions of EUR 0.2 billion were posted for the restructuring of HSH Nordbank. HSH Nordbank AG's equity capital dwindled by EUR 2.3 billion to EUR 5 billion, in spite of the capital increase of EUR 1.3 billion effected in 2008. This drastic decline is a result of the burdens of the financial crisis. To balance out the net loss for the year, capital reserves of EUR 3 billion and retained earnings of EUR 0.1 billion were released as at 31 December 2008. The Bank's equity capital structure had therefore changed at the balance sheet date, but this had no bearing on the volume of equity capital as at 31 December 2008.

Risk-weighted assets reduced

Since the beginning of 2008, HSH Nordbank has been reporting regulatory capital and its utilisation in line with the German Solvency Regulation (SolvV), in accordance with the requirements of Basel II. Up to 31 December 2007, the Bank had based its calculations on the interim regulation of Section 339 (9) SolvV and applied the Principle I rules.

Tier 1 capital increased to EUR 9.3 billion as at 31 December 2008 (31.12.2007: EUR 7.7 billion) as a result of the capitalisation measures half way through 2008, while regulatory capital rose to EUR 13.0 billion, as in the previous year. The Tier 1 capital ratio (including market risk positions) reached 7.7% (31.12.2007: 6.4%) and the equity funds ratio was 11.9% (31.12.2007: 10.7%). The 2008 annual deficit has not yet been included in the figures. Following approval of annual accounts, the Tier 1 capital ratio falls to approximately 5.2% and the equity funds ratio falls to around 8.6%. The planned capitalisation of EUR 3 billion for the Bank boosts the Tier 1 capital ratio to approximately 7.9% and the equity funds ratio to around 12.6% (following approval of annual accounts).

Regulatory capital in accordance with the German Banking Act (KWG) for solvency purposes*)

€ m	12/31/2008	12/31/2007
Tier I capital	8,596	7,705
Thereof: Silent participations	3,254	3,051
Tier II capital	4,141	4,392
Thereof:		
Profit participation capital	139	494
Subordinated debt (regulatory)	4,662	3,865
Modified available equity capital	12,737	12,097
Tier III capital	490	870
Regulatory capital in accordance with Section 2 (6) sentence 1 of the German Solvency Regulation	13,227	12,967

1) Taking deduction items into account in accordance with Section 10 (6) and (6a) of the German Banking Act (KWG)

Regulatory capital requirements in accordance with the German Solvency Regulation (SolvV)

€ m	12/31/2008	12/31/2007
Equity capital requirements for default risks	7,798	8,468
Equity capital requirements for operational risks*)	256	-
Regulatory capital requirements for market risk positions	853	1,218
Total regulatory capital requirements	8,907	9,686

*) New in accordance with the stipulations of the German Solvency Regulation (SolvV).

Regulatory figures*)

%	12/31/2008	12/31/2007
Regulatory capital ratio	12.7	11.4
Equity funds ratio	11.9	10.7
Tier I capital ratio	8.5	7.3
Tier I capital ratio (including market risk positions)	7.7	6.4

*) Since 1 January 2008, HSH Nordbank has been calculating the ratios in accordance with the stipulations of the German Solvency Regulation and Basel II. The ratios on 31 December 2007 are in accordance with Principle I and Basel I.

Borrowing more difficult

The conditions for refinancing were exceptionally difficult in the year under review. Borrowing was virtually impossible in the money and capital markets, especially after the US investment bank Lehman Brothers went into administration. In spite of the endeavours of central banks and governments around the world in the fourth quarter of 2008, the prevailing mood failed to show any noticeable improvement, and there was a continued lack of confidence in banks and between banks right into 2009. Short-term funds were predominantly offered on a secured basis. The situation deteriorated in the long term too, and it became all but impossible to interest investors in unsecured bonds and Pfandbriefs. In Germany, as in many other countries, the liquidity of the banking industry could only be secured with the aid of comprehensive support packages from the central banks and governments.

Framework guarantee for bond issues

The German federal government set up the Special Fund Financial Market Stabilization (SoFFin) in the fourth quarter of 2008, so as to stabilise the markets and facilitate the issuing of bank bonds once more. The SoFFin gave HSH Nordbank the promise of a guarantee for the issue of debt instruments in November 2008. With this guarantee, HSH Nordbank can secure negotiable liabilities with a term of up to three years.

Early in 2009, the Bank used this guarantee to successfully issue an initial benchmark bond on the capital market worth EUR 3 billion and with a term of three years. At upward of EUR 9 billion, the bond was more than three times oversubscribed. This bolstered the liquidity of HSH Nordbank.

HSH Nordbank's additional refinancing activities

In spite of the difficult conditions, the Bank was able to essentially achieve its long-term refinancing objectives, especially on the back of its increased activities in the first half of the year. In the second half of the year, in contrast, especially following the collapse of Lehman Brothers, the Bank was only able to effect very limited loan notes and private placements with institutional investors in the German market. By issuing longer-term, uncovered debt instruments, we were able to collect just under EUR 6 billion worth of funds in the course of the year. In addition, we capitalised on our position as a Pfandbrief issuer by placing covered financial instruments with a volume of approximately EUR 5 billion. Measured against the spreads, the performance of the German Pfandbrief was relatively stable in comparison to other covered bonds. Pfandbriefs are an important part of HSH Nordbank's refinancing strategy and at the beginning of 2008, HSH Nordbank issued the world's first jumbo ship Pfandbrief with a Moody's rating of Aaa.

As the economic crisis intensified in the second half of the year, we limited our refinancing activities primarily to short terms. Our business partners' deposits varied – while the deposits of other banks fell overall, deposits from non-banks continued to grow in 2008, thanks to good customer relations.

The Bank took additional action to manage its liquidity in 2008. This included increasing the potential for central bank refinancing by restructuring illiquid assets, increasing the cover pool volume in order to make secured issuances, disposing of assets such as in the credit investment portfolio, and restructuring the portfolios. In the year under review, the Bank continuously expanded and developed its collateral pool, i.e. its deposit accounts with securities and loans with central banks.

For more information on the liquidity situation and liquidity management, see the risk report.

EMPLOYEES

Staff reduction to be made

At the end of 2008, HSH Nordbank AG had a total of 4,105 permanent employees (previous year: 3,873). This increase in comparison to 31. December 2007 first and foremost stems from the recruitment of experts for client and centralised divisions of HSH Nordbank in Germany and at a handful of the Bank's locations abroad. The table that follows also includes details of employee numbers for the Group, as this is very much shaped by the figures for the parent company. Another reason for the increase in Group employee numbers was the expansion of the scope of consolidation, especially in relation to the real estate fund company LB Immo Invest GmbH, Hamburg. The vast majority of new employees were hired by HSH Nordbank in the first half-year. Faced with the worsening financial crisis in the second half of the year, the Bank then decided to focus its business model and implement cost-cutting measures, including staff reductions. The Bank plans to reduce the number of full-time positions to 3,250 by 2012 due to a decline in the number of tasks to be performed and the implementation of more efficient workflows. At the end of 2008, the Bank had a total of 4,325 full-time employees. At the beginning of March 2009, the main points of a settlement of interests were negotiated with the general works council. A severance scheme that adequately takes the interests of the em-ployees into account is set to be passed in the course of 2009.

Headcount

	12/31/2008	12/31/2007
Total employees in Group*), of whom:	5,070	4,756
Women	2,240	2,122
Men	2,830	2,634
Employees in Germany	4,087	3,830
Employees abroad	983	926
Permanent group employees**)	4,750	4,463
Full-time equivalents (FTE) in Group	4,325	4,067
Permanent employees, HSH Nordbank AG	4,105	3,873
Key figures:		
Maternity and parental leave***)	175	170
Pensioners and surviving dependents/early retired	1,743	1,741
Part-time employees (%)	17.2	17
Turnover rate***) (%)	4.8	7.1
Sickness rate***) (%)	3.4	3.3
Average age***) (years)	39	39
New hirings***)	309	225

*) Per capita figures.

**) Total number of employees excluding trainees, temporary staff and interns.

***) Head office only (HSH Nordbank AG excluding branches).

Outlook

UNDERLYING CONDITIONS

Very weak growth in 2009

Taking the notable decline in the majority of economic data in the past few months into account, it can be assumed that 2009 will prove to be another difficult year for the global economy. The economic performance of most industrialised countries is expected to dwindle, as is growth in the emerging markets once again. Around the world, gross domestic product is likely to shrink. We expect to see the economy stabilise gradually in the second half-year, not least on the back of the massive monetary and fiscal support measures implemented. There are not likely to be any tangible signs of a growth trend in 2010 either, however, due to the ongoing adjustment for imbalances that developed over a period of many years. The global economy will thus probably only record a moderate growth rate of around 2% in 2010.

The gross domestic product is set to take a hefty slide both in the USA and the euro zone this year. The US housebuilding sector may not contract quite as rapidly as last year, but both private consumption and investments are likely to be very muted due to the deterioration of the labour market, the gloomy outlook for sales both in the US and abroad, and more restrictive lending policies. US exports are also expected to diminish on the back of dwindling demand from abroad. The outlook for the euro zone economy is similar and while the euro zone on the whole and Germany in particular are not having to struggle with a recession in the property market, the economy will nevertheless be hard hit by a slump in exports.

With capacity utilisation falling around the world and with dwindling inflation, the central banks will ease up monetary policy once again this year because of the weak economy. Some of them still have the option of further prime rate reductions, while others – in particular the US Federal Reserve – will pursue unconventional measures in an attempt to ease up financing conditions. We nevertheless anticipate that investors will demand higher risk premiums as a result of the US administration's escalating accumulation of debt, thus significantly boosting the yields of ten-year Treasuries in the course of the year. Yields in the euro zone should also increase, albeit to a lesser extent than in the US.

We do not believe that we have seen the end of the increase in corporate spreads just yet. This is first and foremost influenced by the unclear economic development in the medium term, the increasing probability of state defaults and the soaring default rates in the corporate sector.

Exchange rates are set to remain relatively volatile due to the ongoing uncertainty regarding the future development of the global economy. The euro is likely to strengthen against the US dollar once more as soon as awareness of the pronounced structural problems that the USA faces returns.

The stabilisation of the economy in the second half of the year is likely to also contribute to the stabilisation of the stock markets. Uncertainty is likely to remain pronounced, however, and the profit trends of many companies will manifest clear signs of recession. We are reckoning with a more perceptible recovery in 2010, but the markets are not expected to get back to their previous record highs yet.

While the banks have thus far mainly experienced write-downs due to depreciation on the back of the economic crisis, they will probably now increasingly suffer from loan losses triggered by the economic slump. In view of the contracted market for (high-yield) bank business and the anticipated pressure on profitability, pressure on the banking sector to further consolidate is also likely to remain.

HSH NORDBANK STRATECTIC REALIGNMENT

In the light of the significant burdens created by the global financial crisis, HSH Nordbank has initiated a far-reaching strategic realignment in order to maintain the Bank as a going concern. The aim is to strategically focus on sustainably strong business areas in the home region of Hamburg/Schleswig-Holstein and on attractive international sectors.

The structural amendments that this constitutes are being made in four main areas:

a) Creation of a core bank with sustainable business areas
b) Hiving off non-strategic portfolios and portfolios to be wound down
c) Targeted risk shielding and adequate capitalisation
d) Implementation of a comprehensive restructuring plan

a) Creation of a core bank with sustainable business areas

HSH Nordbank plays an important role in the regional economy of Hamburg and Schleswig-Holstein and in this region's key industries through the business areas that are pooled in the core bank. Our firm foundations in this core region are evinced by our many sustainable customer relations, some of which go back decades. These long-standing clients appreciate HSH Nordbank as a reliable business partner which is there to assist them with first-class banking products and expertise throughout all the different economic cycles.

Additionally, the core areas secure an attractive risk/earnings ratio for HSH Nordbank thanks to their diversification and earning power based on the combination of regional and international business.

The Bank is the market leader in the area of high-end corporate clients in its home region and therefore plays a substantial part in providing medium-sized businesses with loans. Corporate clients are an attractive and sustainable line of business for the Bank thanks to its high level of close customer relations in a wide array of industry sectors and thanks to the widespread use of our product portfolio by such clients. In future, the Corporate Clients division will focus even more heavily on Hamburg and Schleswig-Holstein, including through difficult business cycles, as before.

As the world's leading ship financier, the Bank is largely responsible for financing northern Germany's maritime industry. Regional businesses account for approximately 50% of the Bank's overall shipping loans portfolio. As a strategic partner to the shipping industry, the Bank can look back on many years of sustainable customer relations and a proven track record of market and product expertise. Based on the global networking of the industry, we anticipate that global trade will begin to grow again in the medium to long term, thus leading to an increase in earnings once more.

With its activities as one of the world's leading aircraft financiers, the Bank's Transportation division has very close relations with Hamburg's aviation industry. Hamburg is the second largest aviation hub in Europe and is a major employer in northern Germany. Drawing on our many years of industry expertise, we are also involved in financing seaport and airport projects. We expect the transportation sector to remain on a positive course of growth in the medium to long term.

In the field of renewable energy, the Bank is a top provider of financing for wind power and solar energy projects in Europe and is leading in this important northern German industry. Having entered the market very early on, the Bank has been able to garner a thorough grounding in this sector based on its many years of experience. The Bank is therefore well equipped to maintain its competitive edge in Europe.

In the real estate sector, the Bank has the potential to realise attractive new business transactions in the current market situation, thus further contributing to the diversification of the Bank's loan portfolio. This potential stems from its leading market position and its longstanding relations with the SME-based real estate sector. The Bank will focus on German real estate markets in the future, in particular its core region of Hamburg and Schleswig-Holstein.

The Bank's Private Banking division is one of the core region's leading providers with a broad customer base. A large proportion of the division's clients are directly linked to other divisions within the Bank. Its private banking activities are therefore an important addition to the Bank's holistic account management services and allow the Bank to tap additional business potential. In addition, this division boasts an attractive earnings/risk ratio thanks to limited business risk and a low level of capital drawdowns.

The Savings Banks division supports savings banks, in particular in Schleswig-Holstein, on the basis of close cooperation founded on partnership. Its activities include joint syndicated lending business in the region. We also intend to henceforth provide greater assistance to the 200 plus German savings banks with which we have business links.

The Bank's Financial Markets Division first and foremost serves to secure refinancing and manage the Bank's liquidity. It also supports the Bank's client activities with needs-based products such as interest rate, currency and commodity price hedging. This allows the market divisions to generate substantial additional earnings. With its headquarters in Kiel, the Financial Markets Division contributes to the local economy as a major employer.

In summary, the activities of the core bank are structured as follows:

Regional focus	Corporate clients
	Real estate clients
	Private Banking
	Savings banks
Sector focus	Shipping
	Transport:in particular aviation, transportation infrastructure
	Renewable energy
Capital market activities	Auxiliary capital market business, in particular for the core areas and for institutional clients

b) Hinving off non-strategic portfolios and portfolios to be wound down

The Bank will reduce its balance sheet volume and will discontinue certain business activities in order to secure a suitable level of capital stock in the long term and establish firm foundations for refinancing. As part of its strategic realignment, HSH Nordbank has identified non-strategic lines of business that will no longer be a part of the long-term core of the Bank. These include its commodity finance activities with foreign clients, its corporate clients business in Asia and Scandinavia, its refinancing of leasing companies, its capital market activities not directly relating to clients, and the portfolios that entail too much risk potential for the smaller core bank (e.g. credit investment portfolio, leveraged finance business, real estate in the USA). These are all to be separated from the Bank's core areas. In addition to gradually winding down portfolios by loan redemptions and significantly downsizing new business, the Bank is also exploring the options of selling or transferring portfolios.

c) Targeted risk shielding and adequate capitalisation

The shareholders Hamburg and Schleswig-Holstein have spoken in favour of increasing the share capital of HSH Nordbank AG by EUR 3 billion and shielding the Bank against risks, to give the core bank firm foundations and to meet capital requirements – especially those of the Special Fund Financial Market Stabilization (SoFFin). The Bank's major assets (reference portfolio) are expected to be shielded by the capital increase and by a secured financial guarantee of EUR 10 billion through a public-law institution to be established specifically for the purpose.

The financial guarantee comes into effect should the risks in this portfolio exceed a deductible planned for the Bank based on loan loss provisions to be created. This deductible encompasses the losses anticipated by HSH Nordbank on the basis of its financial plans for the years to come. In these plans, the Bank assumes that the difficult economic environment will prevail until the end of 2010. A slight recovery is then forecast for 2011 and it is expected that the underlying conditions will return to normal in 2012. Should the loan loss provisions created on the basis of these assumptions prove to be insufficient to cover any risks, the financial guarantee of EUR 10 billion shall take effect. The volumes planned for capitalisation and risk shielding purposes would meet the capital requirements of the SoFFin on the basis of the assumptions up to 2012.

d) Implementation of a comprehensive restructuring plan

Based on the key elements of its new business concept, HSH Nordbank devised a restructuring plan in the first quarter to take the necessary steps towards implementing the measures in the various Bank divisions. The Bank's realignment goes hand in hand with measures to improve its primary banking functions and steering and risk management processes.

Agreement reached with Special Fund Financial Market Stabilization

The realignment required to maintain HSH Nordbank as a going concern was preceded by an understanding being met with the Special Fund Financial Market Stabilization (SoFFin) at the end of 2008. The escalation of the financial market crisis, in particular following the insolvency of the US investment bank Lehman Brothers in September 2008, hit a number of major banks in both the private and regional bank sectors in Germany. In view of the internationally dwindling refinancing opportunities in the interbank market, HSH Nordbank applied to the SoFFin for a guarantee on bond placements in November, in order to overcome a liquidity situation that posed a threat to the Bank's existence. Of the granted guarantee sum of up to EUR 30 billion for which the Bank applied, an initial sum of EUR 10 billion was approved in 2008. SoFFin liquidity guarantees are issued with the proviso that the shareholders make sure that HSH Nordbank has sufficient equity capitalisation and that they implement restructuring to liberate the Bank of its existing burdens.

The parliaments in Hamburg and Schleswig-Holstein had already spoken in favour of the new business concept in February 2009. In conjunction with a capital increase, the Bank is set to be furnished with EUR 3 billion worth of capital and a financial guarantee of approximately EUR 10 billion to shield against risks. The continued existence of HSH Nordbank AG hinges on sufficient measures to bolster the equity capital being implemented, so that regulatory capital requirements can be met and that the contractual obligations towards the SoFFin relating to the Tier 1 capital ratio can be fulfilled. In particular, this calls for the following:

- The Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein must realise the equity-boosting measures that have been arranged (capital increase of EUR 3 billion and a subordinate default guarantee of EUR 10 billion). This rests in particular on the two regional parliaments approving the bills, EU regulatory approval, a resolution being passed at the annual general meeting (by a qualified majority) and the conclusion of a guarantee contract.
- The German Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank do not take any regulatory action in the meantime.
- The SoFFin upholds the framework guarantee and makes it available to the extent necessary

The state parliaments are due to reach a decision on the new business concept at the beginning of April 2009. A resolution is also expected to be passed on the capitalisation measures at the HSH Nordbank annual general meeting in April 2009.

The SoFFin accepted HSH Nordbank's new business model on 7 March 2009.

On 24 March 2009, HSH Nordbank applied to the SoFFin for the short-term provision of additional liquidity guarantees of EUR 10 billion from the EUR 30 billion already approved. In the context of an inspection it had already initiated, the European Commission granted its approval of the strategic realignment and of HSH Nordbank's recapitalisation package with the clearly expressed expectation that, in a divergence from its previous plans for the 2008 financial year, the Bank would not distribute any pay-outs on profit participation capital and silent participations. HSH Nordbank therefore considers it to be unavoidable for the bank not to furnish the profit participation capital and silent participations with pay-outs, in order to avoid endangering the prospect of recapitalisation.

This relates to distributions on participation certificates and silent participations worth approximately EUR 194 million, which are dependent on the distributable profit. The Management Board assumes that dividends of EUR 64 million to the bearers of silent participations, which were passed in December and which are dependent on the annual net income, are now also not permitted to be distributed. Not paying out on profit participation and hybrid capital may result in the Bank having its liquidity withdrawn. The Management Board took provisions for this eventuality and contacted to the SoFFin.

The SoFFin confirmed to HSH Nordbank that the framework guarantee would be made available in full upon presentation of the parliamentary resolutions.

ANTICIPATED HSH NORDBANK PERFORMANCE

Total assets down

The total assets of the Group are to be reduced from EUR 209 billion at the end of 2008 to approximately EUR 187 billion by the end of 2009. The core bank's total assets will be lowered to approximately EUR 105 billion by the end of 2009 due to a reduction in new business. A moderate increase in new business in the core business area from 2010 to 2012 is feasible if the market conditions improve. We assume that there will be moderate growth in the balance sheet total of around 3% per annum. The total assets of business areas that are no longer to be pursued are expected to amount to EUR 82 billion in 2009, which is equivalent to around 44% of the HSH Nordbank balance sheet volume. Total assets are set to be drastically reduced even further up to 2012. The planned reduction in the business volume is also having a similar effect on the total assets of HSH Nordbank AG (individual entity).

Significant staff reductions up to 2012

The strategic realignment entails a significant reduction of costs for the HSH Nordbank Group. In addition to the curtailment of operating expenses, staff reductions are also on the agenda. Location amendments, downsizing of the market and corporate divisions by reducing the business volume, reorganisation of the service divisions, and improved cost management are all planned in order to reduce the Bank's administrative expenses to EUR 850 million by 2012. The number of full-time equivalents (FTE) in the overall bank is set to be reduced to around 3,250, constituting a decline of 1,075 in comparison to the FTE total at the end of 2008 (4,325). In the core bank, the FTE figure will be reduced from approximately 3,335 at the end of 2008 to roughly 2,750 FTE by 2012. The Bank approved a programme to reduce its operating and personnel expenses already in September 2008.

Tier 1 capital strengthened

Following the implementation of the planned capitalisation measures and risk shielding, the Bank's Tier 1 capital ratio will rise significantly. The guarantee put up by the federal states of Hamburg and Schleswig-Holstein protects the Bank from the risk of defaults in the primary existing loan and securities portfolios that are not anticipated in the planned budget. The aim is to meet the capital requirements of the SoFFin up to 2012, in spite of additional burdens. Another drastic deterioration of the global economic crisis or its prolongation beyond 2010 would result in further loss risks and income reductions for HSH Nordbank. In such an unforeseen scenario, further capitalisation measures to secure the required capital ratio could not be ruled out.

Challenging business conditons until 2010

Taking the global economic downturn and financial market tension into account, HSH Nordbank is anticipating a difficult earnings situation in 2009 and 2010. Assuming the market environment remains critical, the Bank is reckoning with high loan loss provision requirements and losses once again in 2009 and 2010. The Bank is endeavouring to significantly reduce its volume of credit investment business. While further write-downs can nevertheless be expected, these should be significantly smaller than last year, thanks to the ongoing reduction in risk positions. We are not expecting to see any signs of notable reversal of write-downs that could have a positive effect on the earnings situation in these two years. In addition, with the cap placed on new business in 2009 and 2010, an increase in the income from client business is not to be expected.

A significant improvement in the earnings situation is not expected until after 2010, assuming the underlying conditions have then normalised. Thanks to its leading market positions and solid customer relations in its regional corporate clients, savings banks and private banking business and in the sectors of shipping, transportation, renewable energy and real estate, the Bank is well positioned to considerably increase its revenues in the future. The implemented cost reduction measures should increasingly have an unburdening effect. After successfully negotiating the difficult period of adjustment, we expect to be able to achieve positive annual results once again from 2011 onwards.

Considering the measures implemented to maintain the Bank as a going concern, we assume that HSH Nordbank's issuer ratings will remain basically unchanged, with the result that the refinancing of the business model can be realised according to plan.

As the crisis was ongoing at the beginning of 2009, further burdens for the net income from HSH Nordbank's securities and loan portfolios are anticipated in the first quarter of 2009.

ANTICIPATED REFINANCING SITUATION

Refinancing mostly government-backed for the time being

As at March 2009, there were still no discernible signs of a recovery of investor confidence in the financial markets. In view of the significant deterioration of the financial markets since September 2008, for many banks the raising of funds through government-guaranteed bonds and by secured refinancing is likely to remain important in 2009.

HSH Nordbank has readied itself for the prospect that the interbank market may recover only very slowly, in spite of state intervention, and that refinancing via unsecured issues and Pfandbriefs may continue to be extremely difficult for the time being. To raise funds in the short term, we want to continue to acquire institutional investors for the private placement of covered and uncovered debt instruments. We also want to contribute to building up confidence in the market by strengthening our long-standing investor relations. Since the end of 2008, we have had to draw on the framework guarantee made available to HSH Nordbank by the Special Fund Financial Market Stabilization, to cover our longer-term funding needs. And at the beginning of 2009, the Bank successfully issued a SoFFin-guaranteed bond worth EUR 3 billion on the capital market for the first time. We will need to avail ourselves of this instrument to a greater extent in the short term.

ANTICIPATED PERFORMANCE OF THE DIVISIONS

The anticipated performance of the individual divisions is heavily influenced by the overall economic conditions, albeit to widely varying extents depending on the market. In the context of the new HSH Nordbank business concept, we used our comprehensive market expertise and long-standing customer relations within the various business divisions to analyse the opportunities and risks of their anticipated performances in detail. We take specific market conditions and our position in the individual business areas into account in order to estimate their probable courses of development.

Shipping markets face challenges

The sharp decline in charter rates, especially for container ships and bulk carriers in the fourth quarter of 2008, resulted in substantial increases in the risk costs for ship financing. Based on the ongoing difficult market conditions, we anticipate a further increase in loan loss provisions. The long-term attractiveness of this division nevertheless remains unaffected.

Fleets will continue to expand for the time being, in spite of the unexpectedly weak development in demand. We assume that shipping companies are responding to the changes in the economic outlook by cancelling some of their new orders. But this will probably not have a significant impact on the markets until 2010 because the building of ships to be delivered in 2009 as well as their financing is already well advanced. However, an increase in ship breaking will have some stabilising effects for the markets of bulk carriers in particular. This only applies to a certain extent to container ships as the fleet is still relatively new, resulting in a significantly larger surplus accumulating here. Accordingly, the charter rates for container ships are likely to remain under considerably more pressure than the rates for dry and liquid bulk goods. Another challenge faced by the market is the ongoing reluctance of banks to engage in commercial financing.

We are systematically continuing with our activities in our target markets in order to consolidate our position as the world's leading provider of ship financing. To do so, we will make use of our network of locations in the major shipping countries, which we have pointedly expanded through investments in the past few years. We shall continue to serve as a reliable partner to our clients through all the different shipping market cycles. We increase the benefits of our numerous customer relations with an attractive array of services that we are able to offer our clients on the basis of our many years of expertise in all shipping asset classes and by dovetailing with other divisions such as Financial Markets. In this respect, we will continue to focus in particular on instruments to hedge against market price risks.

Transportation: market presence remains strong

Financing opportunities continue to be plentiful in the long-term growth market of transportation, in spite of the current weak economic environment. Although the demand for financing continues unabated, the number of financing participants has now fallen. In this vein, aircraft manufacturers, for example, continue to have plenty of job orders that require financing.

The airlines are currently able to make substantial cost savings as a result of much lower kerosene prices, in spite of the global economic downturn which has resulted in a decline in passenger numbers and cargo volumes. However, since fuel costs are likely to rise again in the future, the focus of capacity corrections is on decommissioning older and inefficient aircraft. In addition, the need for fuel-efficient technology can be expected to increase further in the future. Consequently, HSH Nordbank is anticipating attractive business opportunities in spite of the economic slump.

We expect that there will once again be sustainable growth in the aviation industry in the long term. We cannot rule out the possibility, however, that a temporary decline in demand due to the overall development of the economy may trigger the need for additional risk provisioning.

The infrastructure market continues to be characterised by privatisation and high investment requirements. It became difficult to realise quite a number of larger projects in 2008 due to the reticence of many banks, and many projects were consequently postponed until the years ahead. At the same time, the infrastructure sector has been buoyed up by the investment programmes implemented by a number of governments in order to attenuate the impact of the economic downturn.

The Transportation division, which focuses on the areas of aviation, infrastructure and asset management, is gearing itself up for challenges in the future. Pooling all its entities means the division can exploit synergies and effect cost savings. We hope to consolidate our strong global positioning in the aviation sector, which is based on our firm regional roots, in attractive markets, while our sights in the infrastructure sector will first and foremost be set on Europe and Asia. In addition to supplying financing solutions for airlines, leasing companies and manufacturers, we are also active in the seaport and airport segment. In addition, we see a lot of market potential in the rental of rolling stock in Europe, and HSH Nordbank has already firmly positioned itself in this line of business by establishing an asset management platform together with KfW IPEX-Bank, in order to benefit from this trend.

Energy: focus on wind and solar power

With the prevailing sentiment of uncertainty in the markets and limited financing opportunities, investments in new facilities are not likely to increase quite as much in 2009 as in the last few years. This will only be a temporary state of affairs, however. Once the economic crisis has been overcome, expansion in this field will rapidly pick up pace once more, as the market continues to be governed by high demand for energy, limited fossil fuel resources and the political advancement of technologies that exploit renewable energy in many countries.

In the future, HSH Nordbank will increasingly focus on European markets in relation to its activities in this area. Being the leading financier of renewable energies, we can expect to more than benefit from the opportunities of the future in this sector. Among other things, this will happen through our activities as an arranger of financing packages and our expertise in other areas such as risk management and M&A consultancy.

The portfolio of the Energy division primarily comprises projects relating to renewable energy, which is the only subsection of the energy sector in which new business is currently being effected. Wind energy projects account for the largest share of this business, although solar energy projects are steadily increasing in importance.

The financing of projects in the field of renewable energy entails different risks to that of more conventional forms of energy, such as forecast, technology and regulation risks. The Bank therefore takes precautions such as basing its forecasts for wind and solar resources on surveys of several years and choosing conservative approaches. The resources risk is reduced by means of regional portfolio diversification in particular. And we limit our technology risks by only financing tried-and-tested technologies.

The regulatory sector is currently a driver of growth. However, possible changes in the regulatory environment represent a risk factor, and this is thoroughly checked before any new business is concluded. To prevent concentration risks from arising, when entering into new business, we make sure we do not acquire any major underwriting risks from larger financing volumes and we spread financing packages between a number of banks through club deals.

Real Estate Clients: focus on the German market

Considering the ongoing financial crisis and the steep global economic downturn, we are expecting problematic developments in the traditionally more volatile real estate markets of the USA und the UK in 2009 in particular. We expect rents and real estate prices to continue to fall in these markets, in which we have invested 20% and 14% of our portfolio, respectively. The recession will also make itself felt in the German market, which takes up the largest share of our portfolio at 41%, and in the other European markets. This will, however, enable investors with sufficient equity to exploit what are to some extent much lower prices than usual and effect a market entry. This will open up business potential to HSH Nordbank and to our subsidiary HSH Real Estate AG that will be used selectively.

We will henceforth focus our real estate business on the German market, and in particular on our home market of northern Germany. In addition, we will use our branches throughout the domestic market to consolidate our business activities in other regions of Germany. We aim to maintain one of the leading real estate financiers in Germany. We continue to be active in all asset classes and will focus on residential and office properties.

We are withdrawing from real estate business in western Europe in the medium term considering the current market developments, but will continue to maintain our own local teams in the UK, France, the Netherlands and the Nordic region for the time being. In contrast, we plan to wind down our US loan portfolio comparatively briskly.

As an international investment and asset manager, HSH Real Estate AG is aiming to significantly increase its assets under management. Its national and international fund-based business is set to be further expanded. The company's project development division will focus on medium-sized projects with clients and partners. In addition to asset management, the company's successful advisory business will also continue to be very important. In this respect, the currently volatile markets are being seen as an opportunity for new advisory approaches.

Corporate Clients: cosolidation of market leadership in northern Germany

The financial market crisis and the accompanying refinancing difficulties and higher financing costs will limit the Bank's new business opportunities again in 2009. New business should then pick up once more in 2010 if the economy manages to stabilise and the refinancing conditions for banks improve.

In spite of the unfavourable underlying conditions, we intend to further consolidate our business with medium-sized corporate clients in 2009, on the basis of our market leadership in northern Germany. Our business model aims to establish and maintain long-lasting customer relations. We want to reliably assist our clients, even through the difficult economic climate that is prevailing at present. With our sound market knowledge and comprehensive advisory expertise, we can continue to offer our clients tailor-made solutions in the future, including capital structure optimisation, liquidity management and risk management.

In traditional corporate clients business, risk costs have soared in spite of good portfolio diversification, due to increased probabilities of default. We expect the risk situation to deteriorate further in 2009. We anticipate varying risk developments in the portfolios to be wound down. There is a relatively low level of risk in the refinancing of leasing companies, while we anticipate a disproportionally high increase in burdens in the LBO portfolio as the crisis continues and also in view of its concentration on only a few sectors in 2009.

Private Banking: systematic orientation towards high-end market segment

In view of the ongoing financial crisis, investments in current accounts and in call and time deposits will probably be favoured as a secure form of investment in contrast to securities investments for the time being in 2009. The banks are likely to experience increasing pressure on margins due to falling interest rates. In addition, it is to be expected that the quality requirements relating to advisory services will continue to increase.

We intend to further strengthen our position in the high-end private banking market in 2009 by systematically orienting our services towards the shareholders and managing directors of northern German corporate clients and towards foundations. In the past few years, we have significantly expanded our sales activities and professionalised our advisory processes in order to fully exploit the potential that these client groups offer. We are also broadening our services portfolio to include target group-oriented products, which increasingly feature retail investment funds such as "VIA Stiftungsfonds UI". This fund is designed with sustainability and revenue security in mind and has been offered by the Private Banking division primarily to foundations and security-oriented investors since the end of 2008.

Savings Banks: deepening customer relations

The business models of the savings banks proved their worth in the financial crisis, and the banks were able to increase their market shares of the corporate clients and retail customer business areas. We assume that there will be a slight increase in the demand from savings bank clients for attractive services and products in 2009, going hand in hand with higher quality expectations too.

We intend to support the 200 plus savings banks in Germany to which HSH Nordbank has business ties. We will do this even more thoroughly by using solution-based advisory services, so as to mutually exploit the market potential. Some key focal areas for 2009 will be the savings banks' loan portfolio management, investment products for retail customers, and syndicated lending in relation to financing business with small to medium-sized enterprises.

Financial Markets: greater focus on the Bank's client areas

In addition to focusing on refinancing the Bank and on the balance sheet turnover, the Bank's Capital Markets division has streamlined its product portfolio as a consequence of the financial crisis. The focus of client business will henceforth be supporting the Bank's core regional and sectoral areas and its institutional clients. We shall continue to offer these clients a needs-based range of capital market solutions, not least including investment products, hedging instruments and corporate finance advisory services. By strengthening this cross-selling business, which has enjoyed an increasing amount of success in recent years, we are greatly contributing to the boosting and diversification of the Bank's operating income generated by client business. The Bank's credit investment business, which has been the responsibility of the centralised Group Risk Management division since the end of 2008, will gradually be wound up to reduce risks. For more details on this, see the risk report.

Risk Report 2008

RISKS WITHIN THE HSH NORDBANK GROUP

HSH Nordbank manages all its risks according to the global head principle. All of its risk management tools, including risk reporting to the Management Board and to the Risk Committee, a committee of the Supervisory Board, are founded on this principle. In the same way, maintenance of our risk-bearing capacity focuses on the Group. As the risks relevant to HSH Nordbank cannot reasonably be broken down according to the individual legal entities within the Group, this report examines the risks relating to the Group, i.e. HSH Nordbank AG and its subsidiaries that are identified as being relevant to risk management. As a departure from this, the risk provisioning described relates not to the Group, but to the corporation (AG).

FINANCIAL MARKET CRISIS AND ECONOMIC DOWNTURN

The crisis within the financial markets and the global economic downturn had a significant impact on the risk situation of HSH Nordbank in the year under review. The high degree of risk aversion towards banks, especially following the insolvency of the US investment bank Lehman Brothers and the defaulting of Icelandic banks, put considerable pressure on the Bank's liquidity situation. To attenuate a liquidity situation that posed a threat to the Bank's existence, in November 2008 HSH Nordbank applied for a framework guarantee from the German Government's Special Fund Financial Market Stabilization (SoFFin) in order to bolster its issuing activities. On the basis of the guarantee provided by the SoFFin, the Bank effected two liquidity transactions to increase its collateral pool, i.e. its portfolios with securities and loans with central banks, at the end of 2008. In addition, in January 2009, HSH Nordbank was one of the first German banks to issue successfully a benchmark bond guaranteed by the SoFFin, with a maturity of three years.

The SoFFin guarantee comes with the proviso that the Bank initiates restructuring and provides for an adequate level of capital stock. In February 2009, the Bank's shareholders Hamburg and Schleswig-Holstein spoke in favour of the new business model developed by the Bank and a capital increase of EUR 3 billion tied in with a financial guarantee of EUR 10 billion to shield the bank from unforeseen losses. The new business model, which entails strategically focusing on sustainably strong business activities in the Bank's home region and on certain international sectors, was accepted by the SoFFin in March 2009. Once all the other prerequisites for the implementation of the necessary capitalisation measures have been met, the Bank will be able to avail itself of the full EUR 30 billion worth of liquidity guarantees granted.

The Bank's risk coverage potential dwindled considerably at the end of 2008, in particular due to the write-downs of the credit investment portfolio (credit investment business), additional burdens triggered by the financial crisis (e.g. Lehman and Iceland) and increased risk provisioning in the lending business in comparison to 2007. In the year under review, risk provisioning in the lending business amounted to EUR –2.5 billion. No less than EUR –1.9 billion of this related to the fourth quarter, when the financial market crisis increasingly took hold in the real economy too. In addition to value adjustments in the client segments, we declared a EUR 0.4 billion loan write-off in order to shore up our subsidiary HSH Nordbank Securities S.A. The far-reaching capitalisation measures that are planned should improve our critical regulatory capital situation to such an extent that our risk-bearing capacity will be restored.

Credit investment portfolio wound down

HSH Nordbank's credit investment portfolio led to considerable strain for the Bank in the course of the financial market crisis. In September 2008, the Bank therefore decided to wind down its credit investment portfolio as market conditions permit and in such a way as to minimise the ensuing losses. Total exposure in the portfolio was reduced by around 27% in 2008 by taking advantage of market opportunities. As at 31 December 2008, the portfolio had a total volume of EUR 21,836 million (previous year: EUR 29,968 million).

After recognising a burden in the Group income statement of EUR 1.3 billion in the financial year 2007, further burdens became apparent in 2008, which were recognised in the income statement as EUR 1,6 billion and in the revaluation reserve as EUR 0.3 billion.

In addition, unrealised losses of EUR 1.8 billion (previous year: EUR 0.3 billion) were recorded in the Group's overall credit investment portfolio.

The biggest burden for the income statement came from the synthetic CDO portfolio, which was particularly exposed. In the third quarter, losses were also recorded in bank bonds as a direct and indirect result of the Lehman insolvency. The additional market dislocations in the fourth quarter, including the indirect effects of the bank defaults in Iceland and other countries, impacted on most asset classes and resulted in further considerable losses within the credit investment portfolio.

In accordance with a recommendation of the Financial Stability Forum on behalf of the finance ministers and the central bank governors of the G7 countries, additional information[1] on the credit investment portfolio and leveraged loans is available in a special publication under "Investor Relations" on our website at www.hsh-nordbank.de.

[1] Not part of the management report of the audit of the financial statements.

RISK MANAGEMENT SYSTEM

Principles of risk management

The financial market crisis highlighted how the professional and responsible handling of risks is a key success factor for a bank. HSH Nordbank sees active risk management as a fundamental component of its overall bank management. In view of this, in the year under review, the Bank began to systematically work through the starting points to further develop a risk culture as identified during the economic crisis, such as strengthening the back-office functions.

- HSH Nordbank defines risk to mean unfavourable future developments that may have an adverse impact on the Bank's asset, earnings or liquidity situation. Distinctions are made between default risks, market risks, operational risks, liquidity risks and other risks. Together, the individual elements of risk management constitute a system that ensures the identification, analysis, evaluation, management and ongoing monitoring and reporting of risks.
- Responsibility for risk management is clearly assigned within the Bank. The Management Board bears overall responsibility for the Bank's risk management activities, including the methods and procedures to be applied in measuring, managing and monitoring risk.
- Taking into account all significant risk types, the risk strategy represents the organisational and strategic focus of risk management. It includes the planned development of all key business activities taking account of risk strategy factors and, in particular, taking the risk-bearing capacity into consideration.
- A Risk Manual, which is published throughout the Bank, sets out the methods and instruments used in risk management.
- Both the Management Board and the Risk Committee of the Supervisory Board are informed about the Group's risk situation in a comprehensive quarterly risk report.

Risk-bearing capacity

To monitor its risk-bearing capacity and to safeguard it in a sustainable way, HSH Nordbank has integrated a capital adequacy process into its risk management. The management of risk-bearing capacity is closely related to equity capital and value added management.

- The economic capital required to protect against unexpected losses (overall risk) is regularly compared with the available risk coverage potential.
- This comparison takes place within an integrated limit system which forms the basis for economic risk limitation across the Group.
- In addition to ensuring economic management and limitation, the regulatory requirements relating to equity capital backing are also met.
- Risk coverage potential is derived on the basis of the net asset value approach. In addition to equity capital (including changes in the net asset value), the net asset value also includes unrealised gains and losses on securities, equity holdings and lending activities, and negative effects on the income statement. A global limit for the overall risk is derived from the planned risk coverage potential for the year; individual limits for default, market, operational and liquidity risks are then determined on this basis. As not all of the risk coverage potential is allocated to the fundamental risk types, a buffer remains that is used to cover other risks.
- The overall risk takes into account the default risk, market risk, operational risk and liquidity risk. The different types of risk are aggregated using a consistent method on the basis of a value-at-risk approach to determine the overall economic risk. The overall risk represents the level of aggregated unexpected losses within a period of one year that, with a probability of 99.9% in normal market conditions, is not expected to be exceeded. During the aggregation of the various risk types to determine the overall risk, no risk-reducing correlations are applied.
- The analysis of the risk-bearing capacity is carried out quarterly at HSH Nordbank and also as part of the annual planning process.

The following table shows the economic risk coverage potential for the Group, the risk limits and the economic capital required for individual types of risk, and the remaining risk coverage potential buffer.

Risk-bearing capacity of the Group (€ m)	In absolute terms 2008	2007	in % of risk coverage potential 2008	2007
Economic risk coverage potential	9,862	13,001	100	100
Risk limits				
Default risk	9,163	9,982	93	77
Market risk	1,086	1,139	11	9
Liquidity risk	750	100	8	1
Operational Risk	420	405	4	3
Total	11,419	11,626	116	90
Economic capital required				
Default risk	6,629	5,966	67	46
Market risk	328	669	3	5
Liquidity risk	1,768	100	18	1
Operational Risk	291	353	3	3
Total	9,016	7,088	91	55
Risk coverage potential buffer	846	5,913	9	45
Target buffer according to risk strategy			>41	>28

For losses related to default risk, we make a distinction between expected and unexpected loss. Expected loss is default or impairment as a result of changes in credit rating expected to occur within one year and is compensated for by the calculated risk costs. The maximum amount by which an actual loss can exceed the expected loss with a certain degree of probability within a certain period of time is known as unexpected loss. Risk parameters used to determine unexpected loss include probability of default (PD), loss given default (LGD) and exposure at default (EaD). EaD includes both the loan amount outstanding and the anticipated call on provisions for contingent liabilities and commitments. Unexpected losses must be covered by the risk coverage potential.

- The market risk fell by EUR 341 million to EUR 328 million in comparison to 31 December 2007. When scaling the market risk that is calculated on a daily basis (value-at-risk) on the basis of a confidence level of 99.0% and a holding period of one day to economic capital required for market risk positions in order to manage the risk-bearing capacity (confidence level: 99.9%, holding period: 1 year), we include a safety premium for portfolios which do not have the daily trading income added to their respective limit. The quantity of these portfolios respectively the limit amounts on these portfolios was significantly reduced in the year under review, such that the economic capital required for the main items contributing to market risk fell on the back of the reduced premium. The scaling factors are set to be adjusted in 2009 as a result of the reduced market liquidity observed in the course of the financial market crisis.
- In response to the shortage of liquidity in the markets, at the end of 2007 HSH Nordbank had already developed a value-at-risk approach to quantify the liquidity maturity transformation risk and implemented it on 1 January 2008. This long-term/structural liquidity risk represents the risk of a rise in the refinancing costs due to the liquidity exposure. The changeover of methods resulted in the limit being considerably increased, from EUR 100 million on 31 December 2007 to EUR 750 million at the reporting date. As the financial market crisis continued to deteriorate in the fourth quarter of 2008, the liquidity-value-at-risk (LVaR) rose to EUR 1,768 million at the end of the year, due to increased long- and short-term liquidity requirements and a sharp rise in spread volatility.[2] The limit was thus exceeded by 136%. As scheduled, the LVaR calculation method was refined at the beginning of 2009 on the basis of the data gleaned in the course of the

[2] For liquidity-value-at-risk in the course of 2008, see "Liquidity risk" (pp. 38-42).

year under review. Our analyses demonstrated that the liquidity maturity transformation risk was overestimated in the year under review because of the conservative LVaR approach used. The calculation adjustments will result in the Bank's actual risk situation being reflected much more accurately. Applying the new method reduces the LVaR as at 31 December 2008 by approximately half, to EUR 905 million. The limit would thus have only been exceeded by 21%. Until the end of 2007 as part of risk-bearing capacity management, liquidity risk was only taken into account as a blanket sum in the amount of the determined limit. As such, a comparison of this figure as at the balance sheet date with the value as at 31 December 2007 is not meaningful. The insolvency risk, which, from the Bank's perspective in view of the current financial market crisis, is the more significant representation of the liquidity risk in comparison to the maturity transformation risk, is not backed by risk coverage potential as it is not a quantifiable loss. Details relating to the management of the insolvency risk can be found under "Liquidity risk".

- Since the beginning of 2008, operational risks have been calculated using the standard approach as stipulated by the German Solvency Ordinance.
- The positive effect of the capital increase of EUR 1.3 billion instigated by our shareholders in July 2008 on the risk coverage potential was more than reversed by the development of the balance from unrealised gains and losses and by negative income statement effects in the year under review. The risk coverage potential had fallen to EUR 9,862 million at the reporting date, in comparison to EUR 13,001 million at the end of 2007. The risk coverage potential was 91% utilised in the net income. The drop in risk coverage potential resulted in a buffer of EUR 0.8 billion to cover other risks at the end of 2008. The risk coverage potential buffer of 9% was 32 percentage points behind the targeted buffer of 41% for 2008.
- In order to be able to better estimate the effects of potential crises on the overall risk situation of HSH Nordbank above and beyond considering the risk coverage potential utilisation at the balance sheet date, we introduced regular stress tests in 2008, which simulate the increase in economic capital required in special default, market and liquidity risk scenarios. A corresponding reduction in the risk coverage potential and in the global limit derived from this potential is also imputed. At the reporting date, the overall Group risk as determined under these stress conditions exceeded the reduced global limit. The risk coverage potential buffer was entirely used up.
- There was virtually no more risk-bearing capacity at the end of 2008 due to the accumulated annual deficit. Although the banking group's equity funds ratio of 11.6% was still considerably higher than the regulatory minimum of 8%, there was a real risk that this loss situation would result in the regulatory minimum not being met. Moreover, the utilisation of the guarantee already approved by the SoFFin is tied to, among other things, the requirement that the Bank guarantees a minimum Tier 1 capital ratio of 7% (including market risk items). Taking the capitalisation measures and restructuring measures approved of by the shareholders into account, the Supervisory Authority chose not to consider the losses accumulated in the year under review. For these reasons, and taking into account our assessment of the Bank's future development, the Bank entered into talks on equity-related measures with its shareholders in the fourth quarter of 2008. The planned capital increase of EUR 3 billion will be considered in full within the Bank's 2009 risk coverage potential. In addition, the financial guarantee of EUR 10 billion planned within this context will significantly bolster our regulatory capital ratio and will strengthen the Bank's risk-bearing capacity.
- HSH Nordbank uses recognised risk management instruments, both for its regulatory and its economic risk management. The Bank was one of the first financial institutions to be granted the approval of the Supervisory Authority to employ the advanced IRB approach to calculate equity capital backing for default risks. The current crisis is highlighting the limitations of such statistical risk management instruments, as they are founded on market conditions that do not consider the current extreme situation. HSH Nordbank therefore also manages its risks according to a more traditional approach. In this respect, the Bank implemented a thorough review of its credit risks in 2008, in particular towards the end of the year. On the one hand, the aim was to initiate any necessary risk management processes without delay, e.g. when an exposure is being transferred to intensive supervision. On the other hand, the analysis carried out meant it was possible to impute evaluations for the financial statements which were commensurate to the actual situation. Looking ahead, the bank's capitalisation concept presented is also based on these individual case analyses. A validation of the valuations in the planned scenario and in a stress case was carried out with the help of econometric methods, including ones based on the Basel II variables of PD and LGD.
- HSH Nordbank uses regular portfolio analyses to identify potential risk provisioning requirements and possible RWA changes. It makes a distinction between loss risks processed in the planned income statement (planned losses) and additional loss risks emanating from supplementary stress assumptions.

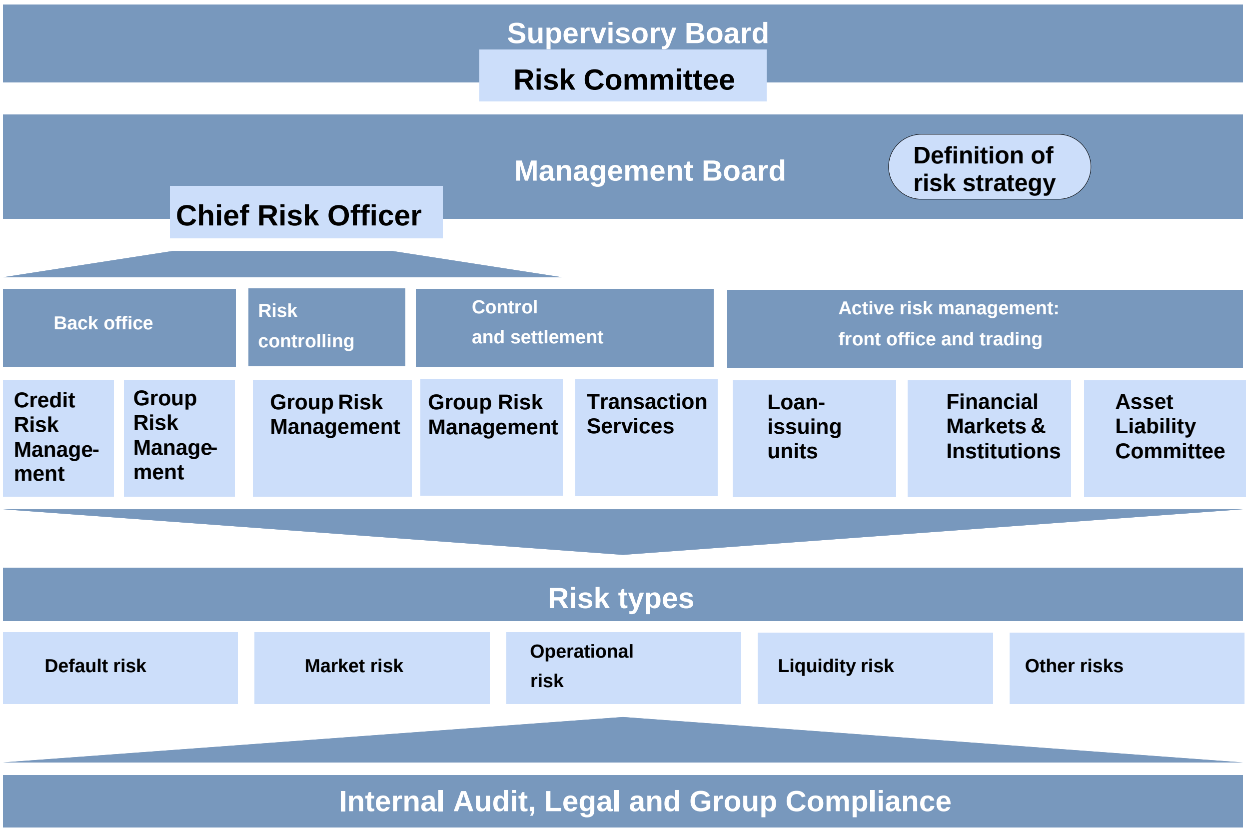
RWA changes are considered on the basis of both planned and stress assumptions. The client lending business is analysed on the basis of the internal strategy and planning process and differential PD/LGD analyses. In addition, the credit investment portfolio is examined by internal experts using a market value analysis. Single-event risks, i.e. risks from exposures with a low probability of default but a large volume, are also analysed under stress conditions. The results of these analyses served as the foundations for determining the volume of HSH Nordbank's recapitalisation and the corresponding understanding with the shareholders and the SoFFin.

Organisation of risk management

The organisation of risk management at HSH Nordbank is geared towards the requirements of the business model. Regulatory requirements are also taken into account. The responsibilities of the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO) were once more assigned to a single member of the Management Board in the year under review.

- The Management Board defines the Bank's risk strategy on an annual basis as part of its overall responsibility. The involvement of the Supervisory Board ensures that the risk strategy is aligned with the interests of our shareholders.
- As a member of the Management Board, the CRO is responsible for risk controlling, including risk monitoring and back-office functions in the Bank's lending business. Accordingly, he is responsible for the Group Risk Management and Credit Risk Management divisions. The CRO makes decisions independently of the Management Board members responsible for front-office and trading units. This ensures the functional separation of front-office and trading activities, on the one hand, and risk controlling, settlement and control and back-office activities, on the other, at all organisational levels of the Bank, as stipulated by the relevant regulatory requirements.
- The CRO regularly reports to the Management Board and the Supervisory Board's Risk Committee on the Group's risk situation.
- The methods and instruments for measuring, managing and monitoring risk are developed centrally by Risk Controlling within the Group Risk Management division. It ensures that the main risks to which the Group is exposed remain transparent and manageable. In September 2008, the Bank resolved to wind down its credit investment portfolio as market conditions permit and in such a way as to minimise the ensuing losses. Since October 2008, the Group Risk Management division has been centrally responsible for overseeing the wind-down.
- The Transaction Services division is responsible for the settlement and control of transactions.
- Credit Risk Management covers all the independent back-office credit risk function. These include preparing a second risk assessment, examining and determining the rating, calculating the value of collateral and defining the processes and rules for the Bank's lending activities.
- Active risk management is carried out in particular in the front-office and trading units whose business activities mean they are directly responsible for risks and results. The risks are analysed and monitored decentrally by portfolio managers within the division in question.
- The Asset Liability Committee is responsible not only for managing the Bank's overall strategic positions, but also for managing its risk-bearing capacity during the course of the year and for equity-related measures. It is made up of the CFO/CRO, the Board Member responsible for the Capital Markets segment, the head of Group Treasury, the heads of the Finance and Group Risk Management divisions and the head of a front-office unit granting the loan.
- Internal Audit is an instrument established by the Management Board and is required to report directly to that body. It performs risk-oriented, process-independent audits of the effectiveness and suitability of risk management. Internal Audit plays a supporting role in key projects, whilst maintaining its independence and avoiding any conflicts of interest.
- Legal and Group Compliance is an independent unit which monitors the Bank's legal and compliance risks.
- The global head principle helps to ensure uniform management of the divisions around the world. In line with this principle, the global heads – who are primarily directors of corporate divisions – assume responsibility for the global management of the business segments, administrative functions and services that are assigned to them. The global head principle is also applied to risk controlling, thus guaranteeing the ongoing evolution of uniform, Group-wide risk controlling.
- The Bank has stipulated rules according to which any transactions involving new products or new markets must be subject to a formal auditing process, with a view to ensuring that any such products can be mapped in the relevant systems and in line with the relevant processes. Transactions of this nature may only be concluded with the approval of the Management Board.
- As part of Group-wide risk management, we take into account each of the relevant subsidiaries when managing and controlling individual types of risk.

Organisation of risk management



- The Bank began to significantly develop its risk management at the end of 2007. The first step it took was to establish the Group Risk Management division in October 2007, which has assumed responsibility for managing HSH Nordbank's risky exposures independently of the market segments. Since October 2008, this has also included credit investment business. The effects of the crisis on the Bank were to some extent attenuated in the year under review through the Bank limiting its market activities for the duration of 2008. HSH Nordbank's systems, processes and organisation were defined anew, in particular for risk management in the area of capital markets. There are plans to implement the corresponding changes in 2009. In addition, since October 2008, the Credit Risk Management division has been developing the Bank's loan approval process.[3] The objective is to strengthen the back-office activities, which should maintain a balance between risk and targeted revenue in cyclical transactions in particular. All in all, these measures will play a major part in further developing the Bank's risk culture.

[3] Cf. "Organisation of default risk management (pp. 30-35).

Regulatory equity capital backing / Implementation of Basel II

Since the beginning of 2008, the Bank has been determining the level of equity capital backing necessary for default, market and operational risks on the basis of the German Solvency Ordinance. Following the approval of the Supervisory Board, we have been using the advanced IRB approach in relation to default risks. The Bank is therefore using the same parameters for regulatory reporting as the parameters which it already uses internally for general and default risk management, and is using the corresponding equity capital relief. We calculate the capital eligible for market risk positions using the required or optional standard procedures. We apply the standard approach when taking operational risks into consideration. None of the limits applicable in this respect were exceeded at any time.[4] Amongst other effects, the capital increase of EUR 3 billion and the financial guarantee of EUR 10 billion, both of which were pledged by the shareholders Hamburg and Schleswig-Holstein in a joint senate and cabinet session in February 2009 subject to the approval of the regional parliaments and the shareholders, will sustainably consolidate the Bank's Tier 1 capital ratio.

In compliance with the stipulations of Section 26a of the German Banking Act (KWG) and of the German Solvency Ordinance, we published important qualitative and quantitative information pertaining to equity capital, the risks taken, the risk measuring methods and risk management for the first time in a special publication as at the reporting date of 31 December 2008. As a banking institution using the advanced IRB approach, HSH Nordbank is subject to specific requirements in this respect. The content of this document goes above and beyond the disclosure necessitated by the statutory accounting requirements applied to this annual report, as it gives a comprehensive insight into the underlying regulatory conditions and the Bank's current risk situation based on regulatory figures. The Bank intends to publish this Basel II document every six months. It will be made available on our website www.hsh-nordbank.de under "Investor Relations". In publishing such a document, HSH Nordbank is implementing the requirements of the third pillar of the Basel Accord (market discipline).

As part of its efforts to analyse, monitor and report on risks, HSH Nordbank has a centralised data storage system that takes into account the requirements of the German Solvency Ordinance. This includes in particular the provision of data and information for regulatory reporting and disclosure in accordance with Basel II. We completed the development of a system for calculating the regulatory equity capital backing for HSH Nordbank in the year under review. Both systems were audited and accepted by the Supervisory Authority in 2008.

[4] Regulatory ratios: see "Net Assets and financial situation" (pp. 09-11).

DEFAULT RISK

In view of HSH Nordbank's strong orientation towards the lending business, entering into, managing and limiting default risks represents one of the Bank's key competencies. The default risk is broken down into credit, country, equity holding and settlement risks. In addition to traditional credit risk, credit risk also includes counterparty and issuer risk. Settlement risk consists of advance payment risk and processing risk. All the elements of default risk referred to are taken into account within the context of the management of equity capital. Additional management measures are in place for concentration risks (in particular at the borrower/country level) and equity holding risks.

The structure and the methods for managing default risks are constantly optimised to reflect changes in market conditions and new regulatory requirements.

Organisation of default risk management

The organisational structure of HSH Nordbank means that, for the lending business, it is possible to separate front-office from back-office and risk controlling functions at all levels up to the Management Board.

- To ensure uniform lending policies and a high degree of quality of risk assessment in the lending business, all independent back-office tasks are bundled together and assigned to Credit Risk Management: this includes preparing a second risk assessment, examining and determining the rating, calculating the value of collateral, defining the processes and rules for the Bank's lending activities, carrying out quality assurance for loans intended for the cover fund in accordance with the German Pfandbrief Act, and supervising trustees.
- The model chosen by HSH Nordbank for the separation of functions in the loan approval process reflects its strategic orientation as a client-driven bank focusing on special-purpose finance business. Any loan approval requires a high-quality risk analysis as part of the front-office unit assessment as well as a second risk assessment on the part of the back-office unit. The back-office unit is therefore responsible for performing independent, uniform quality assurance for risk assessment within the Bank's loan approval process. In the event of any discrepancy between the front-office and back-office assessments, a decision is reached by means of an escalation process. The Bank's loan approval process was thoroughly analysed as part of the measures implemented by the Bank as a result of the financial market crisis. To strengthen its back-office activities, the Management Board decided that the most important procedural and organisational measures to further develop this process would be implemented in 2009.
- HSH Nordbank makes use of the option to dispense with front-office risk assessment for all lending business classified as non-risk-relevant that involves certain transaction types and for loans below certain amounts, as set out by the opening clause in the Minimum Requirements for Risk Management (MaRisk). Like the competency levels for assessment and loan approval, the definition of non-risk-relevant lending is in accordance with the "economic capital required" parameter.
- Operations in the lending area are based on the rules and internal guidelines set out in the HSH Nordbank Credit Manual, particularly the lending, competence, risk assessment, rating, collateral and LGD guidelines and the guidelines on the monitoring of exposure, the value calculation guidelines and the guideline on the definition of default, which describes the main principles of the Bank's lending and credit monitoring activities. Under these principles, credit risks recorded in accordance with the extended definition as set out in Section 19 (1) of the German Banking Act (KWG) are viewed and treated individually according to the collateral provided, the type of loan, the rating class and the particular type of credit risk. This is based on the aggregate exposure of the HSH Nordbank Group to the borrower unit in accordance with Section 19 (2) of the German Banking Act (KWG). For this purpose, the relevant borrower is always the economic risk bearer.
- With regard to the distinction between secured and unsecured loans, the types of collateral considered acceptable by the Bank are set out in the Bank's collateral and LGD guidelines. Compliance with the requirements of the German Solvency Ordinance (e.g. identifiable market value, ability to realise collateral value, no correlation with secured loan, legal enforceability, matching of maturities) is taken into account. The list of recognised forms of collateral may be expanded by means of a review by a market-independent team of specialists from the Credit Risk Management, Group Risk Management and Legal and Group Compliance divisions.
- Management of individual credit risks is supplemented

in particular by rules governing the monitoring of exposure and the early detection of risks.

- Group Risk Management is responsible for the independent monitoring of risks at the portfolio level, independent reporting, managing problem loans and country risks, the processing and management of cases of restructuring and liquidation, and risk provisioning.
- To ensure Group-wide controlling of default risks, the relevant subsidiaries HSH Nordbank Securities S.A., HSH Real Estate AG and HSH Nordbank Private Banking S.A. are included in risk reporting.

Management default risk

Default risks account for the largest part of the risk potential of HSH Nordbank. The Bank has developed an advanced range of instruments to enable it to analyse, evaluate and actively manage these risks.

In the course of the financial market crisis, the expected losses in 2008 were taken into account through value adjustments or impairments to profit or equity. As a gauge of unexpected losses, the economic capital required increased as a result of the rating downgrades in the shipping, industry and credit investment portfolios.

Default risk exposure

The loan amount outstanding indicates the volume of loans, securities, equity holdings, derivative financial instruments, other off-balance-sheet business and irrevocable, undrawn credit commitments that are at risk. As at 31 December 2008, the loan amount outstanding totalled EUR 249,910 million.

The loan amount outstanding is shown broken down by the Bank's internal rating classes in the following table. The loan amount outstanding with an investment grade rating (rating classes 1 [AAAA] to 5) stood at EUR 183,493 million (previous year: EUR 176,881 million).

		Loan amount outstanding
Default risk structure by rating (€ m)	**2008**	**2007**
1 (AAAA) to 1 (AA-)	87,236	92,885
1 (A+) to 1 (A-)	36,723	30,584
2 to 5	59,534	53,412
6 to 9	47,064	52,319
10 to 12	7,099	5,493
13 to 15	6,390	1,954
16 to 18	5,864	2,277
Total	**249,910**	**238,924**

The following table lists the loan amount outstanding by the Bank's main sectors.

		Loan amount outstanding
Default risk structure by sector(€ m)	**2008**	**2007**
Industry	22,461	19,614
Shipping	40,763	33,964
Trade and transportation	15,725	15,313
Credit institutions	55,563	58,121
Other financial institutions	39,636	35,562
Real estate and property	39,168	37,697
Other services	8,918	9,528
Public sektor	23,638	24,502
Private households	4,031	4,616
Other	7	7
Total	**249,910**	**238,924**

The following table lists the loan amount outstanding by residual maturities.

Default risk structure by maturity (€ m)	Loan amount outstanding 2008	2007
Up to 3 months	23,230	24,001
> 3 month to 6 months	8,457	10,270
> 6 month to 1 year	28,806	31,498
> 1 year to 5 years	94,935	81,827
> 5 years to 10 years	56,981	55,827
> 10 years	37,501	35,501
Total	249,910	238,924

Rating procedures/LGD

During the initial development of various internal rating modules and during their further development and ongoing validation, HSH Nordbank collaborates closely with other banks. This takes place via RSU Rating Service Unit GmbH & Co. KG within the association of Landesbanks and also in collaboration with Sparkassen Rating und Risikosysteme GmbH (SR), a subsidiary of the German Savings Bank Association (DSGV).

RSU, which was founded in 2003 as a result of a cooperation between Landesbanks aimed at developing internal rating procedures, is a subsidiary of the nine participating banks and is responsible for the creation, uniform management and development of rating systems complying with banking regulatory quality requirements and for the operation of the rating modules in a uniform IT environment. In its activities, RSU is provided with methodological and technical support by specialists from the participating banks. In addition to the rating modules managed by RSU, HSH Nordbank also makes use of rating methods which are provided, managed and developed by SR.

HSH Nordbank plays a leading role in the management of the Shipping, Leasing and Leveraged Finance modules and is internal management within HSH Nordbank in January 2009.

In the year under review, the predictive quality of the rating modules with regard to the forecast probabilities of default was examined jointly on the basis of the anonymous pooled data in a validation process. Following this process, the suitability of the modules for the Bank's portfolio and the transferability of the results were analysed and confirmed within the Bank by providing proof of representativeness.
Credit conversion factors (CCF) are empirically calculated and applied to determine the contingent liabilities and commitments anticipated in the event of a default. The loan amount outstanding weighted with a CCF is called exposure at default (EaD). To forecast the loss given default, HSH Nordbank has developed a differentiated LGD method for lending and trading transactions for all business segments. Item-specific collateral recovery rates and borrower-specific recovery rates are estimated on the basis of historical loss information. The default amount is calculated on the basis of the EaD using the LGD. The LGD and CCF procedures were assessed and further developed as part of the annual validation process in the year under review.

The Banks, Corporates, International Authorities, Country and Transfer Risk, Insurance Companies, Leveraged Finance and Leasing rating modules used within HSH Nordbank and the standard rating used for smaller domestic corporate clients are based on the scorecard approach. Using this approach, quantitative and qualitative characteristics and factors are identified which are used to assign borrowers to various credit rating classes. A scorecard approach can only be used if there is a sufficient number of relatively homogeneous borrowers.

As this condition is often not fulfilled for special lending, simulation-based rating techniques are predominantly used. Special-purpose financing for shipping, real estate and projects, for example, is valued with the help of cash flow simulation models. The primary source for the debt service is the income generated from the financed asset or property. The cash flow of the asset or property is simulated in various scenarios reflecting different macroeconomic and industry-specific conditions and the future development of factors such as rental levels, vacancy rates and charter rates. As a result, an individual probability of default (PD) is obtained for each borrower, enabling assignment to a specific credit rating class.

To ensure the comparability of the various portfolio segments, the Bank uses an identical rating master scale for all modules, against which external ratings can also be mapped. The internal guidelines are continuously adapted in the course of the development and validation of methods.

The Bank pursues an approach of ensuring that the methods newly developed and refined with Basel II in mind are not only applied to determine the regulatory capital required, but are also incorporated in full at an early stage into the internal management system. This means that all of the parameters relating to Basel II form the basis for the integrated approach to overall bank management and risk management at HSH Nordbank. For example, the results of the rating and LGD estimates are used in preliminary costing calculations and in determining competencies. They are also factored into the Bank's integrated risk limitation system and its planning and strategy processes.

Managing equity capital (pricing/post pricing)

HSH Nordbank applies a uniform method throughout the Bank for the preliminary costing of lending transactions, including a present-value calculation of the expected and unexpected losses from default risk positions, taking into account any currency transfer risks. This calculation reflects the entire contribution margin, up to the value added after cost of capital/tax effects. The risk parameters rating, LGD and CCF calculated internally for each transaction are used in the preliminary costing.

Similarly, regular postpricing (profit centre calculation) of the transactions is also carried out. The costs and the value added based on them are calculated using the current risk parameters of the individual transactions.

Stress tests

HSH Nordbank regularly carries out stress tests to determine the economic capital required for default risks. The risk parameters that are relevant to the calculation of the economic capital required are varied, e.g. the expected probabilities of default and default rates are altered. It can then be ascertained whether the risk limit budgeted for the default risks is complied with, by considering the relevant stress scenarios. These stress tests also serve to meet the regulatory requirements of the German Solvency Ordinance.

Concentration risk

Concentration risks must be effectively limited for both regulatory and economic reasons. To manage and monitor concentration risk effectively at the borrower and country level, corresponding upper limits for economic capital have been set. These upper limits were determined on the basis of the risk coverage potential using a credit portfolio model which considers the portfolio granularity. At least once a year, the upper limits are examined on the basis of the Bank's risk-bearing capacity and approved by the Management Board in accordance with the risk strategy. Sector and rating class-specific concentration risks are monitored within an integrated limit system. This allows for early identification of unwelcome developments and the implementation of corresponding countermeasures.

With regard to the limiting of concentration risks at the borrower level, the decision on any new lending business which would result in the upper limit being exceeded lies with the Management Board. The Management Board and the Risk Committee were informed about all cases where upper limits had been exceeded in new and existing business, as well as about any measures introduced, as part of the quarterly risk report.

A further limitation of the concentration risks is effected at the regulatory borrower entity level (in accordance with Section 19 [2] of the German Banking Act [KWG]) as part of the internal large risk management. The process used for managing large risks ensures compliance with the regulatory limits for large loans at both the bank and banking group level, and allows the Bank to detect potentially excessively large loans at an early stage and take suitable precautionary measures before they actually arise. Conventional lending and trading activities are also subject to limitations.

Country risk

HSH Nordbank considers country risk to mean the risk of agreed payments either not being made at all or only made in part or with a delay on account of state restrictions on cross-border payments (transfer risk). The risk is not related to the debtor's rating.

The limitation of country risk represents an additional management dimension within the context of managing concentration risks. The risks of foreign lending transactions are managed using economic capital. Fundamental risk drivers taken into account in the measurement of the country risk include the rating and LGD of the country where an economic risk applies. The country ratings and country LGDs are based on a method that was developed as part of the joint project by the regional banks/RSU. Furthermore, portfolio granularity aspects are taken into account in order to correctly represent cluster effects.

The concentration risks for all countries at the Group level are limited by the country upper limits for economic capital derived from the risk-bearing capacity. In addition, for countries in which the Bank has its core business areas, limits are also defined by the Management Board at the global head level, taking strategic importance into account. The utilisation of limits is monitored centrally on an ongoing basis by the division responsible for country risk management.

In view of the worsening of the financial market crisis, country risk management identified high-risk countries that are expected to be particularly hard hit by the negative macroeconomic effects of the crisis. Strict limitations have been implemented for these high-risk countries and these are subject to ongoing examination. The country risk concept of this limitation comprises all country risks, and is therefore more extensive than the consideration of the transfer risk described.

The following table provides an overview of country exposure by region, which reached a level of EUR 144,071 million as at 31 December 2008. Country exposure is defined as the nominal exposure relating to lending and trading transactions, taking into account transfer risk-relevant collateral.

Country exposure by region (€ m)		Country exposure
	2008	2007
Western Europe	76,669.9	82,336.7
Euro zone countries	35,958.3	34,050.5
Central and eastern Europe	3,776.2	3,708.1
Euro zone countries	357.0	345.4
African countries	2,319.3	2,097.6
North America	32,888.5	26,125.5
Latin America	5,228.8	5,034.8
Middle East	1,623.6	1,109.7
Asien-Pacific region	19,469.9	17,029.8
International organisations	77.4	157.6
Special-purpose companies	2,017.4	1,945.8
Total	**144,071.0**	**139,545.6**

Securisation

The securitisation of loan portfolios is a fundamental component of HSH Nordbank's risk management. There was very limited scope for effecting such transactions for the whole of 2008, since the securitisation markets were as good as illiquid. The principal aim of transactions carried out by the Bank since 2004 was risk transfer. This was achieved by means of synthetic securitisation through entering into credit default swaps (CDS) and issuing and placing credit-linked notes (CLN). The receivables underlying these securitisation transactions were commercial real estate loans in the USA (Pure Mortgages 2004) and shipping loans (Ocean Star 2004 and Ocean Star 2005). The risk relief resulting from these transactions served to manage risk concentration in the loan portfolio in terms of individual borrowers and sectors. The Pure Mortgages 2004, Ocean Star 2004 and 2005, and Förde 2000-1 (private construction financing) transactions were terminated in the year million at its disposal at the end of 2008. This transaction has a legal maturity date of 2042.

Equity holding risk

Equity holding risk is understood to mean the danger of a financial loss due to value impairments on equity holdings.

Under regulatory requirements, equity holdings must either be consolidated, deducted from equity capital or backed with equity as an asset in the equity holdings class. In this context, regulatory law regards equity holding risk as a subcategory of default risk.

Equity holding controlling therefore focuses on the continuous monitoring and management of risks arising from equity investments, as well as the ongoing review of profitability in terms of the return on investment and RAROC in particular. The new regulatory requirements (Basel II) are applied for this purpose. In the course of the KPI-based analysis of profitability, a uniform calculation of the return from individual equity investments is used as an early warning indicator.

Investment guidelines are applied in order to ensure that quantitative targets are already in place when a participation is acquired, and that compliance with these targets is monitored continuously. In addition, the strategies of the companies in which equity interests are held are examined to ensure that they are consistent with the Bank's own strategic objectives. Furthermore, due diligence reviews are conducted as part of an examination of the equity interest to analyse the opportunities and risks intensively.

Regular reporting on the development of business and the economic position of the companies is carried out at varying intervals and intensities, according to the importance of this information for the Bank. In addition, partnership agreements are formulated in such a way as to ensure that the Bank can assert as much management influence as possible over its equity holdings. The Bank also takes steps to ensure that it is represented in the supervisory bodies of particularly important companies.

Loan loss provisions

Within the scope of risk management, the Bank pays very great attention to default risks. Borrower credit risk is hedged in accordance with uniform Group-wide principles by recognising specific loan loss provisions on receivables and provisions on contingent liabilities in the amount of the potential default. In addition, the Bank generates general loan loss provisions for the receivables portfolios that are not assigned any risk provisioning, but that entail latent risks. A general country loan loss provision is generated for loans to borrowers with an increased country risk, based on the corresponding internal country rating and the collateralisation.

For risk provisioning, we calculate the exposure at default less the present value of all expected incoming payments. The expected incoming payments comprise in particular all expected interest and redemption payments as well as payments from the liquidation of collateral, taking any utilisation costs that arise into consideration.

The basis for calculating the amount of possible loan loss provisions in the case of problem loans – which include both workout and restructuring exposure – is the unsecured part of the loan drawdown following a revaluation of the collateral. The revaluation of collateral takes into account the Bank's experience in the realisation of collateral value and appropriate individual risk premiums. The suitability of loan loss provisions is constantly monitored throughout the problem loan administration process. The loan loss provisions expected to be recognised in the financial year are determined on a quarterly basis and reported to the Management Board.

While loans and advances to customers increased in the year under review due to greater lending in the Bank's regional and international segments, loans and advances to banks dwindled due to the limited functionality of the interbank trading sector. The increased need for risk provisioning stems on the one hand from the financial market crisis, and on the other hand from the negative development of the economy. The following table provides an overview of loan loss provisions:

Loan loss provisions (€ m)	12/31/2008	12/31/2007
Loans and advances to customers	119,019.5	108,380.0
Loans and advances to banks	37,070.3	44,420.8
Impaired loan portfolio	7,498.3	2,332.5
Specific loan loss provisions on loans and advances	3.384.2	1,497.5

In the year under review, the Bank's loss ratio amounted to 0.31% (previous year: 0.10%). The Bank's loss ratio is calculated as the ratio of actual defaults incurred (specific loan loss provision utilisation and direct write-downs on loans less income from recoveries on loans and advances previously written down) to the total loan volume. The default total for 2008 was EUR 800 million (previous year: EUR 260 million) and the total loan volume was EUR 256,971 million (previous year: EUR 256,446 million).

The Bank's loan loss provisions in the form of specific loan loss provisions and provisions for default risks totalled EUR 3,736 million as at 31 December 2008 (previous year: EUR 1,606 million), which was equivalent to 1.45% of the total loan volume (previous year: 0.63%). General loan loss provisions (including general country loan loss provisions) amounted to EUR 361 million (previous year: EUR 233 million).

MARKET RISK

Market risks entail potential losses that may result from detrimental changes in the market value of our positions in the trading and banking book. Among the market movements of relevance to the Bank are fluctuations in interest rates and credit spreads (interest rate risks), exchange rates (foreign exchange risks), stock prices, indices and fund prices (equity risks), and commodity prices (commodity risks), including the volatility of these.

Organisation of market risk management

- The Management Board stipulates the methods and processes for measuring, limiting and managing market risk, and budgets an overall share of the global limit for market risks. As part of this loss ceiling, the risk arising from all transactions exposed to market risk is restricted by means of a dynamic system of loss and risk limits.
- Market risk is managed directly in the Financial Markets & Institutions segment. Selected strategic positions exposed to market risks are managed by the Asset Liability Committee.
- Daily market risk reports ensure that the Management Board and the trading units are kept constantly informed of the level of exposure to market risks and the current limit utilisation.
- In accordance with MaRisk requirements, the organisational separation of market risk controlling, settlement and monitoring on the one hand and the trading units responsible for the positions on the other is ensured at all levels. All the key methodological and operational tasks relating to risk measurement and monitoring are grouped together under the auspices of the Group Risk Management division.
- HSH Nordbank Securities S.A. is identified as a subsidiary that must be included in the Group-wide market risk controlling process. The process of limiting and monitoring risks is carried out centrally by HSH Nordbank AG. Until the beginning of 2008, market risk was measured locally in the subsidiary's risk controlling unit. Since February 2008, the market risks of HSH Nordbank Securities S.A. have been calculated on a uniform basis within the Group parent company as part of the Group's risk measurement process.

Market risk management

Market risk measurement and limitation

The basis of our system for measuring and managing market risk is a value-at-risk approach. The market risk of a position is the loss in value (in euros) which, with a defined probability, will not be exceeded within a defined period until the position is hedged or liquidated.

Within the Bank, value-at-risk (VaR) is calculated using historical simulation methods. Group-wide, calculations are based on a confidence level of 99% and a holding period of one day over an observation history of 250 trading days of equal weighting.

The most significant market risks for HSH Nordbank are interest rate risk and foreign exchange risk. Other than these risk types, HSH Nordbank's value-at-risk also covers equity and commodity risks, both for the trading book and the banking book. The individual market risk types are not capped by separate limits, but risk limitation is effected by the VaR limit for the Bank's overall market risk. The value-at-risk is limited for the various different reporting units in order to manage the market risks. There are clearly defined processes for adjusting and exceeding limits.

Market risks from the lending business and from the Bank's liabilities are transposed to the trading divisions and considered as part of the corresponding risk items. They are steered there as a part of active portfolio management and are hedged through external transactions.

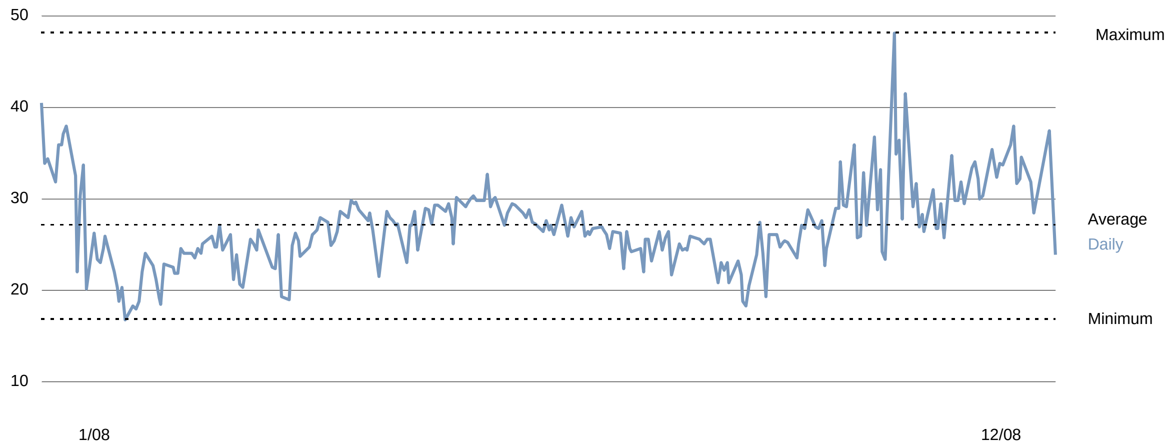
Market risk measurement further developed

We further developed the measurement of credit spread risks in the year under review, to complement the existing VaR methodology. A bond's credit spread is a premium for the issuer's default risk. Credit spread risk refers to the danger that the value of a position may rise or fall as a result of a change in the spread. We monitor our credit spread risks with the aid of scenario analyses within our credit investment portfolio. The Management Board and the Risk Committee are informed of the results of the analyses on a regular basis. In 2009, credit spread risks are to be integrated into daily market risk limitation and reporting and their measurement methodology will be developed further, especially in relation to securitisation items.

In the context of the current capital market situation, the Bank has analysed the basis spread risks in its swap positions. Basis spread risk refers to the risk caused by market imperfections resulting from differing payment frequencies and reference interest rates on the variable side of swaps. This risk, which had been fairly negligible for the Bank until the current crisis, increased substantially on the back of the turmoil in the capital markets in 2007, during which basis spreads have widened significantly. The complete discontinuation of the relevant swap positions meant that, from the end of the first quarter of 2008, there was no longer any need to continue to calculate the VaR premium to account for this risk. A project was initiated in the year under review to integrate basis spread risks into market risk measurement, and this is due to be completed in 2009.

Daily value-at-risk during the year under review
The following diagram illustrates the movements in the daily value-at-risk for the entirety of HSH Nordbank's trading and banking book positions during 2008. The market risk fluctuated between EUR 17 million and EUR 48 million, with the Bank's aggregate VaR amounting to EUR 24 million on the last trading day in 2008. The VaR limit for market risks was EUR 163 million, thus pegging limit utilisation at 15

Daily value at risk in the cours of 2008 (€ m)



The effect our business transactions had on the value-at-risk during the market volatilities in the fourth quarter was significantly more substantial than in the preceding months.

The table with the daily value-at-risk shows the value-at-risk for all the Bank's trading and banking book positions and also, separately, for the trading book positions as at year-end. Maximum and minimum refer to the upper and lower limits of the range in which the risk ratio in question moved during the year under review. Overall risk is calculated by aggregating the individual market risk types. Since February 2008, the Group's entire market risk, taking Group-wide correlations into account, has been calculated within HSH Nordbank AG. Market risks from derivatives, including volatility risks arising from options, are included in the figures. Credit spread risks are not included in the figures, but are due to be in 2009.

Daily value at risk[5] (€ m)

	Interest rate risk		Foreign exchange risk		Equity risk		Commodity risk		Market risk (aggregiated)	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Average	22.5	12.0	10.3	5.6	10.3	11.4	0.5	0.3	27.0	19.9
Maximum	34.7	33.9	27.0	17.9	15.2	14.5	1.3	1.0	48.2	38.5
Minimum	13.1	7.2	3.9	0.4	4.4	8.4	0.1	0.1	16.8	11.4
Year-end	24.9	31.1	10.7	17.9	4.4	12.1	0.2	0.8	24.0	38.5

[5] Value-at-risk cannot be calculated additively due to correlation effects

As at 31 December 2008, the value-at-risk of the trading book positions amounted to EUR 38 million while that of the banking book positions came to EUR 37 million.

Backtesting

We perform regular backtesting to verify the appropriateness of our value-at-risk forecasts. This involves comparing the theoretical daily profit/loss derived from the market performance observed on the following day with the value-at-risk figures for the previous day as forecast using historical simulation, assuming unchanged positions. The results of backtesting are taken into account in the ongoing development of the Bank's value-at-risk methodology.

Stress tests

In addition to the limit-based management of daily value-at-risk, regular stress tests are also carried out to determine the impact of extraordinary market fluctuations on the value of our positions. To this end, we vary our modelling against the calculation of risk under normal circumstances.

The main risk factors are varied specifically (e.g. according to currency and maturity) here, in particular for the interest rate risk and foreign exchange risk stress tests. At the end of 2008, the scenario of positive interest rate movements demonstrated a potential loss of EUR 59 million. The scenario of falling exchange rates resulted in a potential loss of EUR 100 million.

We also carry out separate stress tests on equity, commodities and volatilities based on uniform shifts for each item. In the year under review, we added more parametric scenarios and historical scenarios (e.g. 11 September 2001) to our stress tests.

Since January 2008, we have been regularly calculating the change in the present value of our banking book positions, assuming an interest rate shock of +130 and –190 basis points, to analyse interest rate risks in this area. This replaced the previous parallel shift of interest rate curves of +/–200 basis points and introduced the new regulatory requirements for calculating the effects of a sudden and unexpected change in interest rates on positions in the banking book on schedule.

LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into insolvency risk and liquidity maturity transformation risk. 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 desired extent. Liquidity maturity transformation risk refers to the risk that a loss may occur as a result of the differing fixed-conditions maturities for assets and liabilities, known as liquidity maturity transformation positions, and the fluctuations in the Bank's own refinancing premium. The Bank deploys a variety of instruments to measure, manage and limit its liquidity risks.

Organisation of liquidity risk management

- The Group Treasury division is in charge of liquidity management. This includes ensuring solvency at all times, managing liquidity as a resource within the Bank, and planning refinancing requirements.
- The Group Treasury division is also responsible for the implementation of funding operations and for market-smoothing activities.
- The Group Risk Management division is responsible for defining the methods used for measuring and limiting the Group's liquidity risks. It also measures risks and monitors limits as part of the daily reporting of liquidity risks. This supports Group Treasury in managing the liquidity of all maturity bands and enables it to counter potential risks at an early stage.
- As part of the Group-wide controlling of liquidity risks, HSH Nordbank Securities S.A. is incorporated as the only relevant subsidiary into the Group-wide examination of liquidity risk. The special-purpose entities Carrera and Poseidon are also incorporated into this liquidity risk management.
- The Bank has a contingency plan comprising a catalogue of measures together with documented processes and clearly assigned responsibilities in the event of a liquidity crisis.
- Our liquidity policy determines the underlying conditions for how the Group handles liquidity and its concomitant risks.

Liquidity risk management

Liquidity risk measurement

To measure the Bank's risk of insolvency and its funding requirements, transactions impacting its liquidity are converted into cash flow figures, and incoming and outgoing payments are assigned to maturity bands to produce a liquidity maturity statement. The difference between incoming and outgoing payments is the liquidity excess or shortfall (gap) in the individual maturity bands. The following serve as a measure of the risk of full or partial insolvency:

- Individual gaps for the first to the 14th day, to show concentrations of outgoing payments, and
- Cumulative gaps from day one to 12 months, to show future liquidity requirements.

Liquidity maturity statements are compiled on a regular basis at the Group level, for the Bank as a whole, for foreign branch offices and for HSH Nordbank Securities S.A. In addition to all balance sheet business, these statements include loan commitments granted, guarantees, transactions with forward value dates and other off-balance-sheet business. Maturity scenarios are used for a number of positions to map economic maturities more effectively. Factors such as possible minimum levels of deposits and current accounts and the realisation periods and amounts of assets are always modelled conservatively. In addition to compiling the liquidity maturity statement in the equivalent of euros, we also compile a separate liquidity maturity statement of all business dealings in US dollars on a daily basis, in order to adequately manage our US dollar position. These liquidity maturity statements are compiled on the basis of a normal-case examination.

The financial market crisis has continued to deteriorate since autumn 2008. The Management Board and the Group Treasury division are furnished with daily stress-case liquidity maturity statements in order to be able to judge the effects of this critical market environment on the Group's liquidity situation. These daily updates take into account issues such as the aggravated refinancing conditions and other cash flows on the basis of worst-case assumptions. In addition, taking haircuts into consideration, the liquidity potential of central bank-eligible marketable assets is considered to be liquefiable with central banks immediately ("central bank-eligible marketable securities measure"). These parameters result in the liquidity situation being presented in a generally less favourable light than in the normal-case examination.

In response to the shortage of liquidity in the markets, at the end of 2007 HSH Nordbank had already developed a value-at-risk approach to quantify the liquidity maturity transformation risk and implemented it on 1 January 2008. This long-term/structural liquidity risk represents the risk of a rise in the refinancing costs due to the liquidity exposure. The liquidity-value-at-risk (LVaR) is calculated by means of historical simulation (99.9% confidence level) of the liquidity spreads and their present-value effect on the business dealings which would theoretically be needed to be able to immediately terminate the current maturity transformation position. It is then assumed that these hypothetical termination transactions could indeed be effected in the market, thus meaning that refinancing in full would be possible. This model hypothesis was only fulfilled to a certain extent in the year under review. As scheduled, the LVaR calculation method was refined at the beginning of 2009 on the basis of the data gleaned in the course of the year under review. Our analyses demonstrated that the maturity transformation risk was overestimated in the year under review because of the conservative LVaR approach used. The calculation adjustments will result in the Bank's actual risk situation being reflected much more accurately. For example, the gaps are also closed by using the covered funding potential and minimum levels of client deposits are taken into consideration.

Limitiming and monitoring liquidity risks

In the context of the risks of insolvency, limits are set both on the individual gaps and the cumulative gaps for the first 14 days. Furthermore, limits are applied to the cumulative gaps for six additional maturity bands of up to 12 months.

The liquidity cover potential is the respective ceiling for the cumulative gaps of the individual maturities and is composed of a securities portfolio which is maintained as a precaution in the event of a crisis (crisis liquidity), additional liquid securities and loan notes on the basis of their convertibility into cash, unsecured funding options and secured potential funding from the issue of Pfandbriefs and central bank-eligible commercial loans. The liquidity cover potential components are examined and validated on an ongoing basis in accordance with internal minimum requirements. To keep the likelihood of the ceilings being used in full or exceeded as low as possible, only 80% of the available liquidity cover potential is allocated to a limit in each case.

Group Risk Management calculates and monitors the utilisation of the limits every day and reports its findings to the Management Board and to Group Treasury. In the event of limits being exceeded, Group Treasury implements appropriate measures and Group Risk Management monitors the implementation of these measures.

In addition, the Management Board and the responsible management units receive monthly aggregate updates on all risk-relevant key figures and developments regarding liquidity gaps.

The liquidity-value-at-risk for the liquidity maturity transformation risks is calculated by the Group Risk Management division every month and passed on to the Management Board and the responsible management unit. Limitation is implemented at the Group level and is a component of the risk-bearing capacity concept.

Financial market crisis generates ongoing high limit utilisation

The financial markets continued to be plagued by considerable tension in 2008 and highly restrained investor behaviour resulted in very limited refinancing opportunities for much of the year under review. Primarily in the second quarter of 2008, HSH Nordbank was able to exploit temporary signs of slight easing on the markets to effect refinancing activities, primarily with loan notes and private placements with medium-term maturities.

The further deterioration in the market situation since September 2008, which was first and foremost triggered by the insolvency of the US investment bank Lehman Brothers, also put considerable pressure on the liquidity situation of HSH Nordbank. We therefore increasingly made use of the liquidity provided by the central banks for short-term maturities in our collateral pool.

In addition, the following measures were implemented in the year under review in order to secure the Group's liquidity:

- Increase in the collateral pool by identifying additional central bank-eligible assets (e.g. commercial loans) and delivery to the relevant central banks
- Increase in the cover pool in order to effect covered issues
- Pricing commensurate with the risks involved and restrictive allocation of loans and irrevocable loan commitments.
- Disposal of assets, e.g. from within the credit investment portfolio, and portfolio restructuring
- Increased refinancing via central banks

These measures meant that it was possible to minimise the extent to which the limits and ceilings for the risk of insolvency triggered by the financial market crisis were exceeded, even if the problem could not be eliminated entirely.

In addition to the daily normal-case consideration, which is based on the assumption of business development in a normal market environment, we have also been performing daily market liquidity stress tests since autumn 2008 in order to take the ongoing critical market development into account.

The following table shows the relative utilisations of the ceilings in the normal-case and stress-case liquidity maturity statements for individual cumulative liquidity gaps as at 30 December 2008. In each case, the utilisation represents the cumulative gap as a proportion of the total liquidity coverage potential.

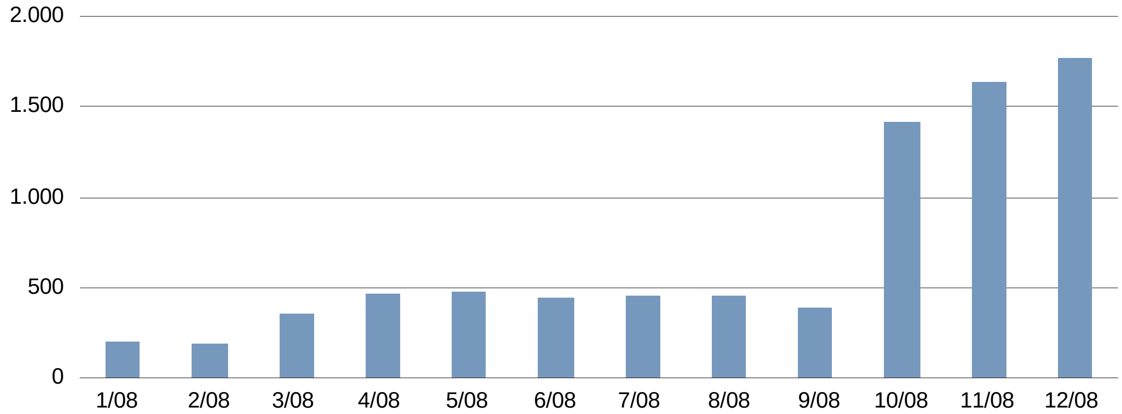
Utilisation up to ceiling as at 12/31/2008	Normal-Case	Stress-Case*)
Day 1	0	4
Day 7	55	50
Day 14	77	67
Week 3	80	79
Week 4	70	79
Week 8	77	94
Month 3	89	129
Month 6	77	128
Month 12	63	138

*) Incl. „central bank-eligible marketable securities measure“.

All the ceilings are observed in the normal-case consideration. In the short term of up to eight weeks, which is crucial to the risk of insolvency, the stress-case liquidity maturity statement shows only moderate signs of ceiling utilisation. The ceiling is then exceeded from month 3 and the maximum ceiling utilisation is achieved in month 12, at 138%. We assume that, once the markets have settled and the guarantees provided by the SoFFin and the States of Hamburg and Schleswig-Holstein have been used, sufficient long-term funding and long-term money market funding will lead to a decline in ceiling utilisation.

As a representation of the liquidity maturity transformation risk, the monthly liquidity-value-at-risk ranged between EUR 191 million and EUR 1,768 million in the year under review. According to the new measurement, the maximum value of 31 December 2008 has fallen by about half, to EUR 905 million.

Liquidity-value-at-risk in 2008 (€ m)



Backtesting

In the year under review, we expanded our procedure for backtesting the model assumptions to include rollover credit, for example. This involves verifying how business is presented in the liquidity maturity statement on the basis of statistical evaluations of the historical cash flows. We also further developed the process of calculating the haircuts on our securities portfolios and the checking and adjusting of our funding potential. Additional backtesting activities will be required in 2009.

Stress tests

Our regular stress tests for the risk of insolvency incorporate extraordinary scenarios and their effect on the Group's liquidity situation into the examination of risks. Specifying these scenarios involved identifying the risk and thus the key parameters for all transaction types in the liquidity maturity statement which change the cash flow profile in the relevant stress case. For example, inflows could be lower or later and outflows higher or earlier than expected. Within the various stress models, market-specific scenarios (e.g. global recession) and scenarios specific to the bank (e.g. a downgrade of HSH Nordbank AG) are examined. In addition, in view of the current liquidity crisis in the markets, we also examine a stress scenario, in which we assume that the current liquidity crisis will deteriorate further. In the year under review, we made the assumptions for this scenario considerably more conservative. We chose our stress tests on the basis of an analysis of historical events and hypothetical models. In each of these scenarios, it is assumed that some of the maturing loans to customers have to be extended and refinanced, while the options for extending repayment terms for deposits are to some extent restricted or not at all possible, resulting in a financing gap. In addition, the model assumes that large numbers of credit facilities that the Bank has granted are drawn down and that the Bank's own issues and securitised liabilities are redeemed early. The frequency with which the stress test results are reported to the Management Board and Group Treasury was shortened to a fortnightly cycle in 2008.

Both the market-specific and Bank-related stress scenarios of December 2008 demonstrate that our liquidity requirements are covered by the liquidity potential for a number of weeks, in spite of the severe worst-case assumptions. The results demonstrate that the Bank is sufficiently prepared for the aforementioned crises.

In the year under review, the Bank developed a methodology for computing stress scenarios for the liquidity maturity transformation risk.

Liquidity ratio of HSH Nordbank AG

The liquidity ratio as stipulated by the German Liquidity Ordinance (LiqV) is the regulatory parameter for liquidity risks. We actively manage our liquidity ratio with the help of targeted market transactions. For internal management, we observe a lower limit which is above the regulatory minimum of 1.0. At between 1.18 and 1.35, our liquidity ratio was above the regulatory minimum throughout the year under review. The average for 2008 was 1.25 (previous year: 1.31).

Liquidity ratio (LiqV)

Month-end values	2008	2007		2008	2007
January	1.27	1.29	July	1.29	1.27
February	1.23	1.52	August	1.26	1.17
March	1.18	1.32	September	1.23	1.29
April	1.18	1.33	October	1.18	1.39
May	1.26	1.30	November	1.18	1.28
June	1.35	1.25	December	1.34	1.26

OPERATIONAL RISK

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

HSH Nordbank considers operational risk control and the fostering of corresponding risk awareness within the Group to be a key aspect of its management systems. This is because of the dynamic business conditions and limited scope for risk transfer, as well as the rising demands made by rating agencies and other market participants.

Organisation of operational risk management

- HSH Nordbank has an independent central controlling unit for identifying, analysing, evaluating and monitoring operational risks. This unit is responsible for developing and supporting the relevant controlling instruments and providing expertise and advice on operational risks, as well as encouraging risk awareness within the Group. The central risk controlling unit also reports independently to the units of the Bank that are responsible for managing these risks.
- The central controlling unit for operational risks is backed up by a local network of experts. All business units have OpRisk officers and OpRisk assistants who are responsible for applying the controlling instruments and who act as the link between central risk controlling and the relevant divisions. The OpRisk officers and OpRisk assistants receive training for their duties from the risk controlling unit.
- All methods and procedures within the context of controlling operational risks are also employed at the Bank's locations abroad.
- The subsidiaries designated as relevant – HSH Nordbank Securities S.A., HSH Real Estate AG, HSH Nordbank Private Banking S.A. and HSH Facility Management Holding AG – are integrated into operational risk from the Group-wide perspective.

Operational risk management

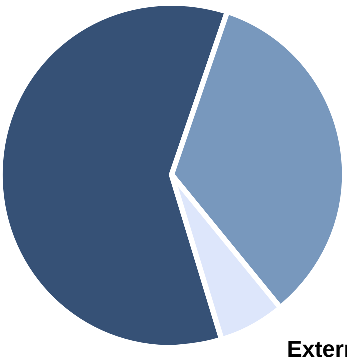
Operational risks can affect all products, processes and organisational entities. For this reason, particular attention is paid to effective risk awareness so that the expertise possessed by the Bank's staff can be utilised for identifying operational risks.

Risk event data base

Risk events resulting from operational risks are combined for the Bank and the relevant subsidiaries in a central risk event database. The divisions concerned record the risk events locally and forward this data to the central risk controlling unit which checks the data, collates collective risk events, if applicable, and prepares analyses and reports. The results of the analysis of risk events allow us to take preventive action. In addition, Internal Audit examines and assesses all the bank's activities and processes from a risk-oriented, process-independent perspective, and identifies any measures that can be taken to reduce operational risk.

The central risk event database takes into account all risk events with a gross loss of at least EUR 2,500. A gross loss is the sum of the cash outflow, income foregone and internal resources consumed. The categorisation of risk events makes it possible to systematically analyse the causes of losses and thereby contributes indirectly to the identification of operational risk events.

Share of risk categories in gross operational losses (%, 2008)



The largest individual gross loss of 2008 is attributed to the category of internal processes.

Since 2006, HSH Nordbank has been participating in the exchange of information on operational risk events as part of the Operational Risk Data Consortium (DakOR) at the level of the Association of German Public Sector Banks (VÖB). The Bank played a key role in the establishment of this pool.

Risk inventory

Since 2005, HSH Nordbank has carried out a Group-wide risk inventory annually. Based on the information about the risk situation of the divisions gained from this inventory, operational risk reporting to the management units is supplemented by the addition of forward-looking risk estimates to encourage the proactive management and monitoring of operational risks. The results of the risk inventory will be used as the basis for scenario analyses in individual cases to estimate the danger of particularly serious operational risk events; this will be important in particular for the derivation of suitable measures.

Legal risks

Pursuant to the German Solvency Ordinance, legal risks also fall under operational risks. The Legal and Group Compliance division is responsible for overseeing such risks. All the divisions are given comprehensive advice on legal matters by regularly trained employees to ensure that risks are minimised, contained or prevented. A structured process with clear requirements and responsibilities serves to ensure that the Bank's contracts and agreements are kept up to date.

OTHER RISKS

Compliance risk

Compliance risk encompasses legal and regulatory sanctions or financial losses due to failure to adhere to laws, regulations and guidelines as well as organisational standards and codes of conduct. Specifically, risk management in compliance entails the management of risks arising in connection with transactions in financial instruments and the associated provisions of the German Securities Trading Act as well as risks related to fraud prevention and fraud identification, preventing money laundering and examining financial sanctions.

The compliance requirements on financial institutions have increased considerably in recent years. This can be attributed on the one hand to new legal and regulatory requirements, such as those introduced as a result of the financial market crisis, and to significant compliance risk events in the international financial services sector on the other. HSH Nordbank has responded by continuously developing its compliance system and taking market standards into account.

Some of the project achievements of 2008 were the implementation of a risk-oriented customer acceptance process in accordance with the Third EU Money Laundering Directive, the development of monitoring instruments in the financial sanctions area, and comprehensive communication and training measures relating to capital market compliance, money laundering and financial sanctions for all the Bank’s relevant employees. In particular in view of the strategic realignment of HSH Nordbank, we will continue to develop our compliance instruments in 2009.

Strategic risk

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

In reaction to the financial market crisis, HSH Nordbank began to substantially focus its activities on the basis of the classification and prioritisation of its business activities as laid down in its 2007 strategy process. Its strategic risk is therefore being limited by the resultant reduction in the complexity of, amongst other things, the Bank’s target customers, its network of locations and its product portfolio. In addition, the strategic and organisational alignment of its core activities was scrutinised in order to sustainably secure and consolidate the Bank’s competitive position. These activities include the structure of internal processes for client business and, in particular, the development of processes to strengthen the Bank’s back-office activities and its risk culture.

SUMMARY AND OUTLOOK

As a consequence of the effects of the global economic and financial market crisis, the Bank implemented a far-reaching strategic realignment in the year under review.[6] The objective was to create a core bank with a focused business model, a vastly improved risk profile in all the Bank’s divisions, significantly reduced total assets and adequate capitalisation.

The concept which was passed in March 2009 provides for the strategically important divisions being pooled together in a single core bank. Divisions and equity holdings which are not strategically necessary and portfolios with a high risk potential are to be hived off from the core areas and wound down or disposed of if the market conditions are favourable. This will lead to a substantial reduction in the Bank’s total assets. The business activities that are due to be discontinued above all include credit investment business, leveraged finance, real estate in the USA and western Europe, leasing, corporate clients in Asia and Scandinavia, energy in the USA, and capital market business with no direct link to clients.

Following the capital increase of EUR 3 billion that our shareholders Hamburg and Schleswig-Holstein spoke in favour of in February 2009, our Tier 1 capital ratio is set to rise considerably. We expect the Tier 1 capital ratio to meet the SoFFin’s minimum requirement of 7%, in spite of the difficult earnings situation which the Bank is forecasting for 2009 and 2010. In view of the future developments that we are anticipating, this supplementary financial

[6] Cf. "HSH Nordbank strategic realignment" (pp. 14-16).

guarantee will specifically protect us against unexpected losses of up to EUR 10 billion. Based on this significant bolstering of our equity capital, we are assuming that we will have adequate capital resources available during the implementation phase of the strategic realignment over the next four years.

The core bank will henceforth focus on regional client business (corporate clients, private banking and savings banks), international sector business with the Bank's proven expertise and its regional anchorage (in particular shipping, transportation and renewable energy) and capital market business, which will, amongst other things, contribute to the development of needs-based products for the client business.

In addition, the financial market crisis and the strategic realignment of HSH Nordbank call for the ongoing development of basic banking functions, controlling instruments and risk management processes, e.g. loan approval processes. These measures will in particular also help to nurture the Bank's risk culture.

In the first half-year of 2009, the Bank will publish its first disclosure report as at 31 December 2008 in accordance with Section 26a of the German Banking Act (KWG) and the German Solvency Ordinance. The report is published under "Investor Relations" on the Bank's website at www.hsh-nordbank.de. The bank intends to publish such a disclosure report twice a year, as at 31 December and 30 June.

The risk and bank management systems we have described are configured to systematically take risks into account. The same applies to our expectations in terms of the future market and business developments. In our opinion, we have correctly presented the opportunities and risks arising from the future development of our business activities in, amongst other things, the "Outlook" chapter and in this risk report. We expect the economic and financial market crisis to continue in 2009 in particular. Nonetheless, taking the planned capitalisation measures into account, we assume that the risk-bearing capacity and the solvency of HSH Nordbank can be secured for the foreseeable future.

Hamburg/Kiel, 27 March 2009

Nonnenmacher Rieck Friedrich

Roth Visker

ANNUAL ACCOUNTS

Balance sheet of HSH Nordbank AG as at 31 December 2008

Assets				(Note)	T €	T €	12/31/2008 T €	12/31/2007 T €
1. Cash reserve								
a) Cash on hand						10,381		10,086
b) Balances with central banks						1,096,934		647,853
thereof:							1,107,315	657,939
with Deutsche Bundesbank		T €	972,162					
	(P. year[1]	T €	537,986)					
2. Debt instruments issued by public institutions and bills of exchange eligible for refinancing with central banks								
a) Treasury bills, discounted treasury notes and similar debt instruments issued by public institutions						284,591		525,876
thereof:								
eligible for refinancing with Deutsche Bundesbank		T €	272,507					
	(P. year[1]	T €	262,077)					
b) Bills of exchange						19,866		29,899
thereof:							304,457	555,775
eligible for refinancing with Deutsche Bundesbank		T €	19,866					
	(P. year[1]	T €	29,899)					
3. Loans and advances to banks				(4, 5, 18-22)				
a) Payable on demand						5,530,722		5,464,031
b) Other loans and advances						31,539,587		38,956,738
							37,070,309	44,420,769
4. Loans and advances to customers				(4, 5, 19-22)			119,019,510	108,380,007
thereof:								
secured by mortgages		T €	15,522,890					
	(P. year[1]	T €	14,482,432)					
public-sector loans		T €	12,822,237					
	(P. year[1]	T €	12,991,957)					
secured by ship mortgages			22,416,775					
	(P. year[1]	T €	17,655,523)					
5. Debentures and other fixed-interest securities				(7, 19-24,30)				
a) Money market instruments								
aa) from other issuers					232,647			695,564
thereof:						232,647		
eliglible as collateral for Deutsche Bundesbank		T €	175,085					
	(P. year[1]	T €	254,334)					
b) Bonds and debentures								
ba) from public-sector issuers					6,234,588			5,623,865
thereof:								
eligible as collateral for Deutsche Bundesbank		T €	5,890,432					
	(P. year[1]	T €	5,445,049)					
bb) from other issuers					26,151,439			26,688,090
thereof:						32,386,027		
eligible as collateral for Deutsche Bundesbank		T €	15,728,204					
	(P. year[1]	T €	14,944,135)					
c) Own debentures						12,729,396		4,613,662
Nominal value		T €	12,724,051				45,348,070	37,621,181
	(P. year[1]	T €	4,635,944)					
To be carried forward							202,849,661	191,635,671

[1] Previous year

Balance sheet of HSH Nordbank AG as at 31 December 2008

Assets			(Note)	12/31/2008 T €	12/31/2007 T €
			Carried forward	202,849,661	191,635,671
6. Shares and other non-fixed-interest securities			(7, 21, 23, 24, 30)	1,058,674	1,287,507
7. Equity holdings in non-affiliated companies			(11, 23, 30, 51)	720,436	847,029
thereof: in banks		T € 68,150			
	(P. year[1]	T € 70,710)			
8. Interests in affiliated companies			(11, 23, 30, 51)	2,005,860	3,795,008
thereof: in banks		T € 833,368			
	(P. year[1]	T € 1,147,694)			
in financial service institutions		T € 180			
	(P. year[1]	T € 170)			
9. Trust assets			(25)	363,878	390,152
thereof: trust loans		T € 30,084			
	(P. year[1]	T € 35,886)			
10. Intangible fixed assets			(12, 30)	35,148	30,577
11. Tangible fixed assets			(13, 30)	97,109	100,575
12. Other assets			(26)	4,352,923	3,036,386
13. Prepaid expenses			(4, 15, 27)	342,314	379,210
14. Deferred taxes			(14)	649,609	749,211
			Total assets	212,475,612	202,251,326

[1] Previous year

Balance sheet of HSH Nordbank AG as at 31 December 2008

Liabilities	(Note)	T €	T €	12/31/2008 T €	12/31/2007 T €
1. Liabilities to banks	(15, 31-34)				
a) Payable on demand			4,829,068		5,237,485
b) With agreed maturities or notice periods			65,786,192		58,697,017
				70,615,260	63,934,502
2. Liabilities to customers	(15, 32-34)				
a) Savings deposits					
aa) With agreed notice period of three month		87,827			91,340
ab) With agreed notice periods of more than three months		1,992			2,291
			89,819		93,631
b) Other liabilities					
ba) Payable on demand		8,993,278			10,033,527
bb) with agreed maturities or notice periods		48,503,717			43,572,986
			57,496,995		53,606,513
				57,586,814	53,700,144
3. Securitised liabilities	(15, 32-34, 54,55,56)				
a) Debentures issued			62,619,388		55,174,872
b) Other securitised liabilities			4,100,467		8,972,645
thereof: money market instruments	T € 3,223,073 (P. year[1] T € 8,751,872)			66,719,855	64,147,517
4. Trust liabilities	(35)			363,878	390,152
thereof: Trust loans	T € 30,084 P. year[1] T € 35,886)				
5. Other liabilities	(36)			2,551,277	3,716,759
6. Deferred income	(4, 15, 37)			490,689	488,561
7. Provisions	(16)				
a) Provisons for pensions and similar obligations			420,200		426,633
b) Tax provisions			47,423		195,834
c) other provisions	(38)		1,335,625		364,959
				1,803,248	987,426
8. Subordinated debt	(39)			5,302,554	5,324,219
9. Profit participation capital	(40)			966,100	1,141,217
thereof: maturing in less than two years	T € 827,100 (P. year[1] T € 646,717)				
10. Funds for general banking risks				1,051,693	1,051,693
To be carried forward				207,451,368	194,882,190

[1] Previous year

Balance sheet of HSH Nordbank AG as at 31 December 2008

Liabilities	(Note)	T €	T €	12/31/2008 T €	12/31/2007 T €
	Übertrag			**207,451,368**	**194,882,190**
11. Equity capital	(41)				
a) Subscribed capital					
aa) Share capital		881,226			702,209
ab) Silent participations		3,046,929			3,108,628
			3,928,155		3,810,837
b) Capital reserves			88,123		2,317,081
c) Restained earnings			1,007,966		887,218
d) Dirstibutable profit			-		354,000
				5,024,244	**7,369,136**
		Total liabilites		**212,475,612**	**202,251,326**
1.Contingent liabilities	**(49)**				
a) Liabilities from guarantee and indemnity agreements				**12,162,662**	**13,085,125**
2. Other commitments	**(49)**				
a) Placement and underwriting commitments					2,000,000
b) Irrevocable loan commitments			24,163,014		32,682,542
				24,163,014	**34,682,542**

Statement of income of HSH Nordbank AG for the period 1 January to 31 December

	(Note)	T €	T €	12/31/2008 T €	12/31/2007 T €
1. Interest income from	(42)				
a) lending money market transactions		17,820,422			19,023,480
b) fixed-interest securities and book-entry securities		1,514,261			1,542,876
			19,334,683		20,566,356
2. Interest expenses			17,998,550		19,354,188
				1,336,133	1,212,168
3.Current income from	(42)				
a) shares and other non-fixed-interest securities			230,977		73,788
b) equity holdings in non-affiliated companies			27,410		15,733
c) equity holdings in affiliated companies			306,342		472,074
				564,729	561,595
4. Income from profit pooling, profit transfer and partial transfer agreements	(42)			10,579	82,116
5. Commission income	(42, 43)		426,021		471,085
6. Commission expenses	(43)		133,217		110,647
				292,804	360,438
7. Net expenses on financing transactions (Previous year: Net income from financing transactions	(42)			252,059	68,708
8. Other operating income	(42, 44)			125,910	129,387
9. General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		299,890			358,959
ab) Compulsory social security contributions, expenses for retirement pensions and other employee benefits		80,502			94,661
			380,392		453,620
thereof: for retirement pensions T € 39,657 (P. year[1] T € 53,555)					
b) andere Verwaltungsaufwendungen	(45, 46)		420,717		403,357
				801,109	856,977
10. Depreciation and impairments on tangible and intangible fixed assets				22,908	29,058
11. Other operating expenses	(47)			109,533	58,115
12. Depreciation and impairments on loans (and advances) and certain securities and additions to provisions in the lending business				2,839,310	211,632
To be carried forward				(1,694,764)	1,258,630

[1] Previous year

Statement of income of HSH Nordbank AG for the period 1 January to 31 December

	(Note)	T €	T €	12/31/2008 T €	12/31/2007 T €
	Carried forward			**(1,694,764)**	**1,258,630**
13. Depreciation and impairments on equity holdings, in non-affiliated as well as affiliated companies and securities treated as fixed assets				**1,346,180**	**529,853**
14. Expenses from the transfer of losses				**138,160**	**185**
15. Profit on ordinary activities				**(3,179,104)**	**728,592**
16. Extraordinary expenses			164,036		-
17. Extraordinary result	(48)			**(164,036)**	-
18.Income tax expense			100,777		(98,652)
19. Other taxes not shown under item 11			426	**101,203**	3,188 **(95,464)**
20. Income from the tranfer of losses				**351,323**	**-**
21. Profits transferred under partial profit transfer agreements				**-**	**293,056**
22. Annual net income/deficit				**(3,093,020)**	**531,000**
23. Withdrawals from the capital reserve				**3,034,539**	**-**
24. Withdrawals from retained earnings					
a) other retained earnings				**58,481**	**-**
25. Allocations to retained earnings				**-**	**177,000**
25.Distributable profit				**-**	**354,000**

Notes

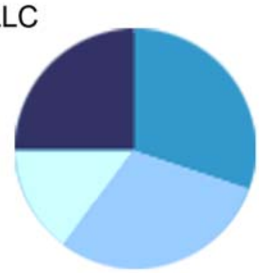
GENERAL INFORMATION AND NOTES

(1) HSH Nordbank AG and its shareholders

HSH Nordbank AG, with head office in Hamburg and Kiel, was founded on 2 June 2003 as part of the merger of Hamburgische Landesbank – Girozentrale –, Hamburg, and Landesbank Schleswig-Holstein Girozentrale, Kiel.

For the purposes of commercial and tax law the merger took place retroactively as of 1 January 2003.

The following overview shows HSH Nordbank AG's shareholders and their respective direct and indirect shares of the voting capital:



(2) Deposit protection, guarantor's obligation and maintenance obligation

HSH Nordbank AG is covered by the reserve fund of the state banks/central giro institutions (Landesbanken/Girozentralen), which is linked to the deposit protection scheme operated by the German savings bank system (Sparkassen-Finanzgruppe). In this system, liability is shared by the regional savings bank support funds, the reserve fund of the state banks/central giro institutions and the reserve fund of the state building societies (cf. Note 51). The purpose of the deposit protection scheme is to ensure the liquidity and solvency of the banks covered at all times.

The transitional provision in the Brussels Agreement of 17 July 2001 for the guarantor's obligation (Gewährträgerhaftung) and the maintenance obligation (Anstaltslast) to expire on 18 July 2005 also applies to HSH Nordbank AG according to Section 2 of the 4 February 2003 state treaty between the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein on the merger of its predecessor banks. The guarantor's obligation therefore covers liabilities dating back to 18 July 2001 and earlier irrespective of their maturities. It also covers liabilities undertaken at a later date but dating back to before 18 July 2005 if their term to maturity does not extend beyond 31 December 2015.

Landesbank Baden-Württemberg, Stuttgart, a former owner of Landesbank Schleswig-Holstein Girozentrale, is liable on the basis of the above-mentioned guarantor's obligation for liabilities agreed until its withdrawal with effect from 23 May 2003 and transferred to HSH Nordbank AG in the course of the merger, as is Westdeutsche Landesbank, Düsseldorf, for the liabilities taken on until the guarantor's obligation for liabilities ceased to apply.

(3) Accounting principles

HSH Nordbank AG's annual financial statements and management report to 31 December 2008 were prepared in accordance with the provisions of the German Commercial Code (HGB), the Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the Mortgage Bond (Pfandbrief) Act (PfandBG). In addition, we comply with the relevant standards issued by the Institute of Public Auditors in Germany (Institut der

Wirtschaftsprüfer in Deutschland e.V. / IDW).

Accounting and valuation principles

Accounting and valuation are based on the assumption that the Bank is a going concern. HSH Nordbank bases this assumption mainly on the raft of measures undertaken between the end of the financial year and preparing the annual financial statements:

- Ensuring adeqate liquidity in a difficult market environment by means of a guarantee given by the Financial Market Stabilisation Fund (SoFFin) at the end of November 2008 for up to € 30 billion in issued debt instruments.
- A resolution by the federal states of Hamburg and Schleswig-Holstein to grant the HSH Nordbank a capital supply of the € 3 billion and guarantee a further € 10 billion as protection against risks.
- A far-reaching strategic realignment of HSH Nordbank by the Management Board to lead the Bank into a successful future once more.
- Confirmation of the realignment concept by SoFFin on 7 March 2009 and by the Supervisory Board on 9 March 2009.

The going concern assumption is associated with material uncertainties in connection with events and conditions when preparing the annual financial statements. HSH Nordbank AG's continued existence as a going concern depends on equity-supporting measures being undertaken to an extent that is sufficient to ensure that supervisory equity requirements and contractual obligations toward the Special Financial Market Stabilisation Fund (SoFFin) as regards the tier 1 capital ratio are fulfilled. This requires in particular that:

- the Free and Hanseatic City of Hamburg and the state of Schleswig-Holstein implement the equity-supporting measures initiated (a €3 billion capital increase and a €10 billion subordinate default guarantee). That in turn presupposes approval of the legislative proposals by both state assemblies, approval under EU law, a resolution adopted by the Annual General Meeting and the signing of a guarantee agreement.
- the Federal Financial Supervisory Authority (BAFin) and Deutsche Bundesbank do not undertake regulatory measures in the meantime.
- SoFFin maintains the guarantee framework and makes it available to the extent that is required.

(4) Loans and advances

Loans and advances to banks and customers (asset items 3 and 4) are stated at their nominal value or cost of acquisition. Premiums or discounts are transferred to prepaid expenses or deferred income and written back over the term of the loan or the fixed-rate period where this is shorter. Pro rata interest is treated on an accrual basis and reported in the corresponding line item. We observe the strict lower of cost or market principle by rigorously applying our risk provisioning principles described below.

(5) Value adjustments to loans and allocations to loan loss provisions (risk provisioning)

To provide for possible loan losses we make value adjustments in accordance with the following principles; these adjustments are set off against the corresponding balance sheet items. Even if this is no longer specifically referred to below, it is done for off-balance sheet transactions by creating provisions. To ensure that our risk provisioning covers all identifiable credit and country risks, these are determined in three steps.

- Our credit exposures are monitored on an ongoing basis in accordance with strict guidelines. We make individual value adjustments to the amount of the anticipated loss for all credit risks identifiable when examined individually. We calculate the anticipated loss as the amount of the receivable less the net present value off all incoming payments that are still expected. Expected incoming payments include in particular all expected interest and redemption payments as well as payments received from the liquidation of collateral, taking liquidation costs into account.

- In addition we set up country-specific loan loss provisions for exposures relating to borrowers domiciled in countries rated as non-investment grade. Value adjustment rates are scaled by rating grade in 5% steps. Exposures in countries with a default rating (16-18) are rated at 100%. In determining the basis for calculation, business with customers and banks for which specific risk provision has already been made is not taken into consideration. By the same token other risk-reducing factors (such as valuable collateral) are taken into account.

- Finally, we create general loan loss provisions for the remaining exposure not accounted for in the first two steps but still involving latent risks by applying a risk factor. The risk factor represents the ratio of actual loan defaults (depletion of individual value adjustments plus direct write-offs less payments received on loans written off) over the past five years to the risk exposure. The calculation procedure complies with the tax-approved procedure in accordance with the 10 January 1994 bulletin issued by the German Federal Ministry of Finance.

All three types of risk provisioning are written back if the credit risk no longer applies or is reduced. We thereby comply with the obligation to write back impairments in accordance with tax law and with the provisions of the German Commercial Code.

(6) Establishing fair value

Fair value is the name given to the price at which a financial instrument can be traded between parties that are competent, independent and willing to enter into a contract, and are not under compulsion to act. The fair value of financial instruments is established on the basis of the listed price in an active market (mark-to-market) or, if that is not possible, by means of recognised valuation techniques and models (mark-to-matrix or mark-to-model).

Fair value can be established using the mark-to-market method if a market price at which a deal might be or has been struck is available. This is usually the case with market-listed securities and derivatives that are traded in liquid markets.

The mark-to-matrix method is used to establish fair value when a mark-to-market price is not available. Fair value is then established on the bais of prices at a time shortly before the valuation date. Alternatively, transaction prices, i.e. prices charged in a recent bona fide transaction, are used. If the fair value cannot be established on the basis of market or transaction prices for the financial instrument, it is derived from prices of comparable financial instruments or a model valuation is undertaken using parameters almost exclusively observable in the market. A further alternative is to use quality-assured market data from suitable price agencies or validated prices charged by arrangers.

Fair value is established on the basis of a mark-to-model valuation using a suitable model – such as an option price model, the discounted cash flow method or the collateralised debt obligation model – when a derived valuation is either unavailable or not available in sufficient quality.

As regards valuation techniques and models a distinction can be made between procedures that make use solely of observable market data or are based to only an insignificant extent on non-observable parameters (mark-to-matrix) and procedures that are based to a significant extent on non-observable parameters (mark-to-model). Observable parameters are usually available for liquid securities and simple OTC derivatives that are traded in liquid markets, such as interest rate swaps, forward exchange transactions, foreign exchange options in certain currencies and equity derivatives in certain listed shares or indices. Valuation techniques and models that are not based on observable market data and therefore require assumptions with regard to these parameters are as a rule required for structured securities or, more generally, for securities for which no liquid market exists, and for complex OTC derivatives. Non-observable parameters are, for example, correlations, volatilities and prepayment rates.

Securities in the trading portfolio are for the most part valued by means of stock market prices. If no current price is available from a liquid market, interest-bearing securities are valued by means of the discounted cash flow method using rating- and sector-dependent interest curves derived from market data for interest-bearing securities.

Listed derivatives are also valued by means of stock market prices. If no current price is available, they are valued by means of recognised valuation models, such as the Black-Scholes model for European options, that are based to only an insignificant extent on non-observable parameter estimates.

OTC derivatives are valued by means of valuation techniques and models. A distinction must be drawn between simple derivatives traded in liquid market – such as interest rate swaps, forward rate agreements, forward exchange transactions, foreign exchange options, single name and index credit default swaps – and complex derivatives for which the market is not liquid. The former are valued by means of recognised techniques and models that only make use of parameters that cannot be observed in the market to an insignificant extent. For the latter, estimates are required to a substantial extent with regard to both the choice of model and the parameters.

Simple interest rate swaps and forward rate agreements can be valued by means of recognised techniques and models that only make use of parameters that cannot be observed in the market to an insignificant extent.

If non-observable parameters are used to evaluate a financial instrument, the fair value established may be the best estimate as far as the Bank is concerned, but it will be subjective insofar as alternative choices of parameter may be available that cannot be countered by means of observable market data. To this extent, and especially considering the current state of the financial markets, establishing the fair value of different financial instruments is a fundamental discretionary decision by the Bank.

(7) Securities

For valuation purposes our securities portfolio (asset items 5 and 6) is broken down into the investment portfolio, the liquidity reserve and the trading portfolio in accordance with intended use and with the provisions of the German Commercial Code.

Given that securities held in the investment portfolio are intended for long-term investment, we value a greater portion in accordance with the diluted lower of cost or market principle. The securities in question are accordingly stated at their acquisition cost in the case of decreases in value that are projected to be temporary. We thereby avoid reporting performance volatility that would not be economically justified based on the short-term nature of the value fluctuations. In the case of value decreases that are projected to be permanent – usually caused by changes in credit standing – we write down the security to the lower of stock exchange price, market price or fair value. Mainly for the purpose of compensatory valuation of hedged items we value the remaining investment portfolio at the strict lower of cost or market principle (cf. Note 10).

We value securities held in the liquidity reserve in accordance with the strict lower of cost or market principle. We accordingly state the value of the securities at the lower of acquisition cost or stock exchange price, market price or fair value, irrespective of the duration of the decrease in value.

Securities held in the trading portfolio are valued at their fair value taking a risk discount into consideration. For the balance sheet treatment and designation of hedging, please refer to our remarks in Note 10.

Interest resulting from the total securities portfolio is reported as interest income, with pro rata interest treated on an accrual basis. Valuation gains and realised profits are allocated to financial investment income/expenses (item 13 in the income statement) for securities in the investment portfolio, to credit risk income/expenses (item 12 in the income statement) for securities in the liquidity reserve and to net income from trading activities (item 7 in the income statement) for securities in the trading portfolio.

Dividends and other disbursements are reported under current income from shares and other variable-rate securities.

(8) Derivative financial instruments

Derivative financial instruments are shown in the balance sheet and valued in accordance with the accounting principles of German commercial law. Internal transactions are required to comply with uniformly determined conditions. In particular, the terms must be in line with market conditions.

Purchased or written options are carried on the balance as other assets or other liabilities at the amount of the premium paid or received. If necessary, we make write-downs or set up provisions to comply with the lower of cost or market principle and the recognition of loss principle.

Insofar as a margin system is applied in the case of innovative financial instruments, margin payments are shown as assets or liabilities as appropriate. We comply with the recognition of loss principle by setting up provisions as necessary.

(9) Structured products

We report structured products in accordance with the German accounting standard IDW RS HFA 22. Structured products that are held in the trading portfolio or are valued in strict accordance with the lower of cost or market principle are not stated separately. Structured asset items that are valued in accordance with the diluted lower of cost or market principle are shown and valued uniformly if the derivative components are hedged by one or more opposite derivative instruments and are therefore offset for valuation purposes in accordance with Statement BFA 2/95 of the IDW's expert banking committee (BFA).

(10) Hedge accounting

We designate accounting groups for securities and derivatives that are to be regarded as a unit in terms of risk and reward in accordance with generally accepted principles. If the strict requirements for this have been fulfilled, we value the corresponding hedged and hedging items as offsetting transactions, taking into account the recognition of loss principle. If perfect hedging relationships exist with regard to the interest rate risk, we do not revalue the corresponding hedged items and hedging items to reflect changes in interest rates. Reporting of results of hedging operations follows the corresponding reporting of hedged items.

For derivative financial instruments for which an effective hedging relationship was not identifiable, we created a provision for contingent losses amounting to € 87 million for the first time in the annual financial statements for 2008.

For securities held in the liquidity reserve that are hedged individually or at the portfolio level against interest rate risks we have been creating compensatory hedging relationships at the portfolio level since the financial year 2008, taking into account the recognition of loss principle. In the event of negative value surpluses arising from compensation for hedged items and hedging items provisions are made for contingent losses. The first hedging relationship for securities held in the liquidity reserve burdened the net result for 2008 with a surplus of outstanding losses amounting to € 100 million.

In the trading portfolio we set up separate portfolios by risk type and by currency. The reporting year saw a change in the definition used as a basis for setting up portfolios. Differentiation between portfolios is no longer also geared, as in the previous year, to HSH Nordbank AG's organisational structure. This change in portfolio structure has no effect on previous annual financial statements. For financial instruments for which stock exchange or market prices are not available a fair value is determined on the basis of liquid market parameters and recognised valuation models. Using a risk-adjusted mark-to-market valuation we first recognise all positive and negative results. To comply with the principle of caution under German commercial law we then apply a discount to these results. This discount represents a potential loss (value at risk) determined by mathematical models and is based on all the positions in HSH Nordbank AG's trading book. Value at risk (VaR) is measured so there is a 99% probability that a potential loss on trading book positions will not be exceeded within a holding period of ten days. The value at risk discount is determined by adding together the VaR values of all trading units.

(11) Equity holdings in non-affiliated and affiliated companies

We carry equity holdings in non-affiliated and affiliated companies at the lower of acquisition cost or fair value. For disclosures in accordance with Section 285 (11) of the German Commercial Code (HGB) we have drawn up a separate listing that is published in the electronic version of the Federal Gazette (Bundesanzeiger) and can be looked up in the register of companies.

(12) Intangible fixed assets

Intangible assets are valued at their cost of acquisition and amortised on a scheduled basis. For standard software we assume a useful life of five years. We also report goodwill under intangible assets. Goodwill is amortised on a scheduled basis over a projected useful life of 15 years. Insofar as impairments occur that are likely to be permanent, exceptional write-downs are made.

(13) Tangible fixed assets

Tangible assets are valued at their cost of acquisition or production. For depreciable assets we calculate scheduled straight-line depreciation in line with the options provided by tax law with the following useful lives taken as a basis:

Tangible asset category	Useful life in years
Buildings	50
Leasehold improvements	Useful life is calculated on the basis of the remaining term of the rental agreement.
IT-equipment	4
Other equipment	3 to 13
Leasing assets	25
Low-valued fixed assets costing between € 150 and € 1,000	5

In the case of tangible assets we make unscheduled write-downs insofar as permanent decreases in value have occurred. Should the reasons for doing so no longer apply, write-ups are undertaken up to a maximum amount of the (amortised) cost of acquisition or production.

Acquisition or production costs subsequently incurred are capitalised and depreciated on an adjusted scheduled basis. Expenditure on the maintenance of tangible assets is recognised as an expense in the appropriate accounting period.

Tangible assets with a purchase price of up to € 150.00 are written off in full in the year of acquisition.

(14) Deferred taxes

Deferred tax assets and liabilities arise from the different carrying amounts for assets and liabilities in the commercial and tax balance sheets and are computed accordingly. We state deferred taxes on differences that will be reversed in future financial years. Deferred tax assets are calculated on the basis of these timing differences providing realisation is sufficiently probable. When calculating deferred taxes we use the tax rates and provisions that are expected to apply upon reversal of the timing differences. In compliance with regulations, we do not discount. Deferred tax liabilities are netted against deferred tax assets.

(15) Liabilities

Liabilities are stated at the amount repayable. Premiums and discounts are shown as deferred income and prepaid expenses and are written back over the term of maturity.

(16) Provisions

Provisions for pension obligations have been calculated on the basis of actuarial principles using the 2005 G mortality tables of Dr. Klaus Heubeck and are stated at their commercial law value using a discount rate of 6% p.a. as required by the German tax authorities.

Other provisions are stated at the amount of the expected call on provisions according to reasonable commercial judgement, taking positive contributions, such as the anticipated realisation value of collateral, adequately into account.

(17) Currency translation

Currency translation is undertaken in accordance with Section 340h of the German Commercial Code (HGB) and Statement BFA 3/95 of the IDW's expert banking committee (BFA). Balance sheet items and pending transactions stated in foreign currencies are classified and valued as specially hedged in each currency as required by Section 340h (2) (2) of the German Commercial Code (HGB). Income and expenses earned or incurred in currency translation are shown in the income statement in accordance with Section 340h (2) (1) and (2) of the German Commercial Code (HGB).

Assets and liabilities in foreign currency are translated at the closing rate on the reporting date. Outstanding spot transactions are translated at the spot rate on the balance sheet date and outstanding forward transactions at the forward rate on the balance sheet date. Adjustment items on the assets or liabilities side that result from the valuation of hedging transactions are netted out against each other and stated as other assets or other liabilities.

We convert the financial statements of consolidated entities that have been prepared in foreign currencies at the ECB rate on the balance sheet date.

NOTES ON BALANCE SHEET ASSETS

(18) Claims on associated savings banks

Loans and advances to banks include the following amounts due from associated savings banks:

In € k	12/31/2008	12/31/2007
	2,185,717	3,260,725

(19) Affiliated companies

The following balance sheet items include receivables from affiliated companies in the following amounts:

in € k	12/31/2008	12/31/2007
Loans and advances to banks[1]	9,250,301	11,037,470
Loans and advances to customers	2,780,506	2,020,917
Debentures and other fixed-interest securities Bonds and debentures	683,705	163,352

[1] The figures for 31 December 2007 are adjusted.

(20) Non-affiliated companies

Amounts due from non-affiliated companies are included in the following balance sheet items:

in € k	12/31/2008	12/31/2007
Loans and advances to banks[1]	786,962	983,731
Loans and advances to customers[1]	1,024,294	429,268
Debentures and other fixed-interest securities Bonds and debentures	201,734	341,600

[1] The figures for 31 December 2007 are adjusted.

(21) Subordinated assets

Assets have to be reported as subordinated assets if they can only be honoured after other creditors' debt claims in the event of the debtor's liquidation or insolvency. We report subordinated assets in the following balance sheet items:

in € k	12/31/2008	12/31/2007
Loans and advances to banks Other receivables	144,753	172,559
Loans and advances to customers	375,263	220,284
Debentures and other fixed-interest securities Bonds and debentures	1,076,307	540,843
Shares and other non-fixed-interest securities	7,350	30,516

(22) Residual maturities

The balance sheet items below are classified in accordance with their residual maturities as follows:

in € k	12/31/2008	12/31/2007
Loans and advances to banks		
Other receivables		
Due within 3 months	16,118,303	15,966,391
Due between 3 months and 1 year	7,715,493	5,424,293
Due between 1 year and 5 years	5,217,270	9,996,882
Due in more than 5 years	2,488,521	7,569,172
Loans and advances to customers		
Due within 3 months	15,757,709	14,447,599
Due between 3 months and 1 year	11,276,250	12,829,217
Due between 1 year and 5 years	48,322,379	35,672,748
Due in more than 5 years	43,663,172	45,402,613
Due with undetermined maturity	0	27,830
Debentures and other fixed-interest securities		
Due in the following year	15,519,375	8,444,022

(23) Listable securities

	Listed		Unlisted		Total	
in € k	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Debentures and other fixed-income securities	38,562,686	30,901,559	6,785,384	6,719,622	45,348,070	37,621,181
Shares and other non-fixed-income securities	101,016	171,645	375,721	770,381	476,737	942,026
Equity holdings in non-affiliated companies	45,000	60,823	26,764	2,579	71,764	63,402
Interests in affiliated companies	-	-	261,848	481,121	261,848	481,121

(24) Securities not valued using the lower of cost or market principle

in € k	12/31/2008	12/31/2007
Debentures and other fixed-income securities		
Carrying amount of securities valued using the moderate lower of cost or market principle	8,153,316	9,948,226
Carrying amount of securities reported above their fair value	5,748,347	4,228,447
Market value of securities reported above their fair value	4,890,058	3,937,025
Shares and other non-fixed-income securities		
Carrying amount of securities valued using the moderate lower of cost or market principle	270,565	275,027
Carrying amount of securities reported above their fair value	101,550	63,114
Market value of securities reported above their fair value	94,438	57,995

(25) Trust assets

Trust assets relate to the following balance sheet items:

in € k	12/31/2008	12/31/2007
Loans and advances to banks	991	990
Loans and advances to customers	362,887	389,162
Total	**363,878**	**390,152**

(26) Other assets

The major components of other assets are:

in € k	12/31/2008	12/31/2007
Adjustment item for currency translation	1,667,693	804.265
Adjustment item outstanding trading book profits	679,712	366,130
Premiums paid from options trading and interest limitation agreements	622,272	479,529
Due from tax authorities	578,138	412,855
Due from profit and loss transfer agreements and dividends	477,768	687,636
Shares in closed-end real estate funds	29,965	35,358
Due from security deposits	15,917	16,311
Cheques, bonds due for payment, interest and dividend coupons, other papers for collection	3,547	47,628

(27) Prepaid expenses

The main items comprising prepaid expenses are:

in € k	12/31/2008	12/31/2007
Accruals from interest swaps, swaptions and options	156,938	162,182
Discount accruals from issuing business	99,859	124,557
Premium accruals from claims	34,823	31,354
Discount accruals from liabilities	19,687	22,234

(28) Genuine repurchase agreements

As a borrower in genuine repurchase agreements we sold assets in the following amounts (carrying amounts) and at the same time contracted to repurchase the same assets at a later date. These assets continue to be carried in our balance sheet; the consideration received in return for the assets is reported under the corresponding liability item.

in € k	12/31/2008	12/31/2007
Carrying amount of repo asset items	3,556,542	93,498

(29) Assets transferred as collateral

In addition to the assets sold under repurchase agreements (cf. Note 28) and the receivables that serve as cover funds for debentures issues (cf. Notes 55 and 56), we have transferred further assets as collateral. These are mainly securities pledged as collateral for participation in stock exchanges and clearing organisations and as refinancing funds with central banks. In the financial year 2008 the value of assets transferred as collateral is based almost entirely on market values established by central banks plus pro rata interest less haircut. For 2007 we state the carrying amount.

in € k	12/31/2008	12/31/2007
Assets transferred as collateral	31,904,802	15,022,841

(30) Changes in fixed assets

in € k	Historical cost of acquisition	Additions[1]/ write-ups	Disposals[1]	Transfers	Cumulative depreciations	Depcreciations[2]	Carrying amount	Carrying amount
	01/01/2008	2008	2008	2008	12/31/2008	2008	12/31/2008	12/31/2007
Securities	9,067,255	5,031,653	3,396,234	-	1,070,121	1,014,880	9,632,553	9,009,221
Equity holdings in non-affiliated companies	903,776	129,499	135,222	-	177,617	120,870	720,436	847,029
Equity holdings in affiliated companies	3,925,093	172,764	1,635,084	-	456,913	326,828	2,005,860	3,795,008
Buildings and property	47,737	172	1,085	-	9,258	1,085	37,566	38,857
Plant and equipment	68,832	8,613	6,846	-	30,036	8,404	40,563	42,920
Leasing assets	21,674	1,086	-	-	3,780	904	18,980	18,798
Intangible fixed assets	154,983	21,766	6,780	-	134,821	16,423	35,148	30,577
Total	**14,189,350**	**5,365,553**	**5,181,251**	**-**	**1,882,546**	**1,489,394**	**12,491,106**	**13,782,410**

[1] Including exchange rate changes for assets denominated in foreign currencies.

[2] Including. unscheduled writedowns due to restructuring measures.

Reported real estate includes land and buildings used for the Bank's own business activities with the following carrying amounts:

in € k	12/31/2008	12/31/2007
Carrying amount of buildings and property used as business premises	23,663	24,134

The intangible assets consist of the following items:

in € k	12/31/2008	12/31/2007
Software	34,999	26,827
Goodwill	149	3,750
Total	**35,148**	**30,577**

NOTES ON BALANCE SHEET LIABILITIES

(31) Liabilities to associated savings banks

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

in € k	12/31/2008	12/31/2007
	2,027,459	2,026,074

(32) Affiliated companies

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

in € k	12/31/2008	12/31/2007
Due to banks	4,359,527	12,288,114
Due to customers	5,158,836	1,804,038
Securitised liabilities Debentures issued	0	0

Due to the reclassification of HSH N Finance (Guernsey) Limited as a finance company it is no longer listed in the reporting year under liabilities to banks but under liabilities to customers.

(33) Non-affiliated companies

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

in € k	12/31/2008	12/31/2007
Liabilities to banks [1]	141,027	422,464
Liabilties to customers [1]	98,132	42,049
Securitised liabilities Debentures issued	102,311	448,584

[1] The figures for 31 December 2007 are adjusted.

(34) Residual maturities

The balance sheet items below are classified in accordance with their residual maturities as follows:

in € k	12/31/2008	12/31/2007
Liabilities to banks		
with an agreed maturity or notice term of		
up to 3 months	42,853,672	33,984,843
between 3 months and 1 year	6,323,348	4,656,870
between 1 year and 5 years	9,284,360	10,252,200
more than 5 years	7,324,812	9,803,104
Liabilities to customers		
Savings deposits with an agreed maturity or notice term of more than 3 months		
up to 3 months	0	0
between 3 months and 1 year	598	790
between 1 year and 5 years	1,394	1,501
more than 5 years	0	0
Other liabilities with an agreed maturity or notice term of		
up to 3 months	16,119,167	15,610,691
between 3 months and 1 year	4,405,888	2,715,672
between 1 year and 5 years	10,937,699	8,648,109
more than 5 years	17,040,963	16,598,514
Securitised liabilities		
Bond issued		
Due in following year	21,761,598	11,132,847
Other securitised liabilities		
up to 3 months	3,332,919	6,567,319
between 3 months and 1 year	659,766	2,184,553
between 1 year and 5 years	107,782	220,773
more than 5 years	0	0

(35) Trust liabilities

Trust liabilities are to be found among the following balance sheet items:

in € k	12/31/2008	12/31/2007
Liabilities to banks	4,710	5,457
Liabilities to customers	359,168	384,695
Total	**363,878**	**390,152**

(36) Other liabilities

The major components of this item are as follows:

in € k	12/31/2008	12/31/2007
Security deposits for assumption of debt	1,285,300	1,406,262
Premiums received from options trading and interest limitation agreements	577,328	507,929
Pro rata interest on subordinated liabilities, profit participation rights and silent participations	311,353	604,292
Liabilities from profit and loss transfer agreements and dividends	178,564	0
Delivery commitments from securities transactions	73,182	1,005,810

(37) Deferred income

Deferred income mainly includes:

in € k	12/31/2008	12/31/2007
Defferals from interest swaps, swapoptions and options	325,915	307,358
Discount deferrals from receivables	80,989	94,164
Premium deferrals from issuing business	13,443	25,023

(38) Other provisions

Other provisions mainly relate to the following items:

in € k	12/31/2008	12/31/2007
Provisions for securities trading and financial derivates	526,638	14,411
Provisions in credit business	422,003	123,788
Provisions for restructuring measures	155,824	1,040
Provisions for personnel expenses	46,420	130,300
Provisions for litigation risks and costs	30,333	9,579
Provisions for invoices outstanding	26,283	22,829
Provisions for deposit guarantee fund	22,500	19,000
Provisions for archiving costs	5,500	0
Provisions for rent guarantees	4,879	6,429
Provisions for interest on tax payments for previous years	0	8,308
Provisions for refund of claim	0	5,885

(39) Subordinated debt

Subordinated debt has been issued as loans against borrowers' notes as well as registered or bearer debentures denominated in EUR, JPY and USD. The original maturities range from five to 40 years. Interest rates range from 1.64% to 6.5% p.a.

Individual items that exceed 10% of total subordinated debt:

in € m	Currency	Interest rate	Maturity	Cancellation possibilities
750	**EUR**	**4.375 %[1]**	**02/14/2017**	**Issuer cancellation right[2]**
1,000	**EUR**	**3M-Euribor + 0.3 %[3]**	**02/14/2017**	**Issuer cancellation right[2]**

[1] 3-month Euribor + 0.84% from 14 February 2012 to 13 February 2017

[2] For the first time by the end of the third target trading day before 14 February 2012 and thereafter quarterly on 14 May, 14 August, 14 November and 14 February, each with 3 target trading days´prior notice

[3] 3-month Euribor + 0.80% from 14 February 2012 to 13 February 2017

Terms and conditions for subordinated debt are arranged to fulfil the requirements of Section 10 (5a) of the German Banking Act (KWG) on inclusion as liable capital. Subordinated debt totalling € 190 million (previous year: € 147 million) will mature within two years.
In the financial year 2008 interest expenses from subordinated debt amounted to € 246 million (previous year: € 236 million).

(40) Profit participation capital

Claims to repayment of capital by holders of profit participation certificates rank behind other claims. The other terms and conditions of profit participation capital are also arranged to fulfil the requirements of Section 10 (5) of the German Banking Act (KWG) for recognition as liable capital. Profit participation capital totalling € 827 million (previous year: € 647 million) will mature within two years.

Registered profit participation certificates to a nominal value totalling € 966 million have original maturities ranging from five to 13 years and bear interest of between 5.13% and 7.63% p.a.

In the financial year 2008 expenses for profit participation rights totalled € 4 million (previous year: € 72 million). Interest on profit participation capital is pegged to HSH Nordbank AG's balance sheet profits.

(41) Equity capital

In accordance with Section 25 (1) of the Ordinance on Accounting for Banks and Financial Service Institutions (RechKredV) the subscribed capital consists of the share capital of HSH Nordbank AG and the silent equity holdings.

The share capital of HSH Nordbank AG amounts to € 881 million and is divided into 88,122,631 registered shares with a notional par value of € 10.00 each. All issued shares are fully paid. No subscription rights to shares in HSH Nordbank AG were outstanding on the balance sheet date.

By the terms of an agreement dated 17 July 2008 the shareholders in HSH Nordbank assigned their remaining € 685 million in silent equity holdings to HSH Nordbank AG and received in return ordinary shares with a € 125 million pro rata share of the share capital. The remaining € 560 million was transferred to the capital reserve. The private investors advised by J.C. Flowers who do not hold silent equity holdings made a cash contribution of € 300 million, also in return for ordinary shares. This cash contribution increased the share capital by € 55 million and the capital reserve by a further € 245 million. The transaction was a combined capital increase in cash and kind. It took effect with the commercial register entry on 21 August 2008. The new share capital is entitled to profits from 1 January 2008. The silent equity holdings remain entitled to pro rata profits for the financial year 2008.

As of the reporting date the Free and Hanseatic City of Hamburg was the largest shareholder with a 30.41% direct and indirect share of voting rights (previous year: 35.38%). The voting rights held by the state of Schleswig-Holstein have increased indirectly from 19.96% to 29.10% as a result of the implementation of the capital measures. The share of voting rights held directly and indirectly by the Savings Banks and Giro Association for Schleswig-Holstein fell from 18.05% to 14.82% in the financial year, while the nine groups of investors advised by J.C. Flowers & Co. LLC held a 25.67% share of voting rights as of 31 December 2008 (previous year: 26.61%).

The Free and Hanseatic City of Hamburg has notified us in accordance with Section 20 (1) of the German Stock Corporation Act (AktG) that it owns more than one quarter of the shares in HSH Nordbank AG. The state of Schleswig-Holstein has also notified us in accordance with Section 20 (1) AktG with reference to Section 16 (4) AktG that it owns more than one quarter of the shares in HSH Nordbank AG.

With effect from 16 January 2009, Gesellschaft zur Verwaltung und Finanzierung von Beteiligungen des Landes Schleswig-Holstein (GVB) ceased to be a shareholder in the Bank. Its shares were transferred to the state of Schleswig-Holstein, which now directly holds 25,643,485 shares, or 29.10% of voting rights, in the Bank.

The Management Board is authorised, subject to approval by the Supervisory Board, to increase the share capital by 30 June 2011 by issuing 17,490,909 new registered, non-par shares entitled to profits from 1 January of the year in which the capital increase is entered into the commercial register in return for a contribution in kind of € 174,909,090 (Approved Capital 2008/1). Neither it nor a company that is controlled by it nor a company in which it has a majority shareholding holds treasury shares in HSH Nordbank AG. Reciprocal shareholdings as defined in Section 19 AktG do not exist.

In financial year 2008 the shareholders made available to HSH Nordbank new funds totalling € 962 million in the form of a silent equity holding that will be converted into ordinary shares by 31 December 2010 at the latest. The Bank plans to issue 17,490,909 new shares, each with a € 10 share of the capital stock, by way of a capital increase from authorised capital. By virtue of loss sharing it was reduced by € 351 million to € 611 million in 2008. The silent participations fulfil the requirements of Section 10 (4) of the German Banking Act (KWG) for tier 1 capital.

Further silent equity holdings have been placed on the international capital market (€ 1,575 million) and with institutional investors in Germany (€ 861 million). The terms and conditions provide inter alia for the silent equity holdings to be repaid subordinated to other liabilities. Of these further silent participations, € 144 million fails to fulfil the requirements of Section 10 (4) of the German Banking Act (KWG) for tier 1 capital. The remaining € 2,292 million is allocated to tier 1 capital.

Interest paid on silent equity holdings will be subject to either a net profit for the year or a balance sheet profit. Of the silent equity holdings on which interest payments are subject to a net profit for the year, institutional investors account for € 861 million and shareholders for € 611 million. For the silent equity holdings held by institutional investors, the General Meetings held on 19 December 2008 and 2 February 2009 decided to dispense with a one-off loss allocation in respect of these silent equity holdings. In view of the net loss for the year no dividend will be paid on these holdings.

The Bank balanced its balance sheet before servicing silent participations and profit participation capital by means of a € 58 million withdrawal from retained earnings and a € 3,035 million withdrawal from the capital reserve. HSH Nordbank AG can therefore not service the silent equity holdings and profit participation capital on which interest payments are subject to a balance sheet profit.

NOTES ON THE INCOME STATEMENT

(42) Breakdown of income items by geographical market

				2008				2007
in € k	Germany	Rest of Europe	Asia	America	Germany	Rest of Europe	Asia	America
Interest income	15,773,133	2,508,022	363,741	689,787	16,680,165	2,549,028	494,394	842,769
Regular income from shares and other non-fixed-interest securities, equity holdings in non-affiliated and affiliated companies	536,642	26,126	0	1,961	531,090	28,524	0	1,981
Income form profit pooling, profit transfer or partial profit transfer agreements	10,579	0	0	0	82,116	0	0	0
Commission income	289,563	100,574	21,024	14,860	350,703	86,748	17,900	15,734
Net income from financing transactions	-231,719	10,596	42	-30,978	35,417	33,826	20	-555
Other operating income	107,891	10,377	1,534	6,108	74,377	50,502	422	4,086

(43) Net commission income

Net commission income can be broken down as follows:

in € k	2008	2007
Lending business	266,996	284,532
Foreign business	15,098	18,242
Payment and account transactions	4,016	4,417
Securities business	2,563	9,045
Guarantee business	1,283	27,280
Other business	2,848	16,922
Total	**292,804**	**360,438**

(44) Other operating income

Other operating income comprised the following main items in the reporting year:

in € k	2008	2007
Proceeds from releases of provisions	58,434	34,086
Income from interest on receivables from the tax office	28,967	1,325
Reimbursement of expenses	9,514	16,856
Rental income	3,888	5,682
Current income from IT services	2,295	4,569
Leasingincome	2,032	1,808
Tax refunds	1,433	51,175

(45) Administrative expenses

Administrative expenses for the reporting year were reduced by € 17 million by VAT reimbursement entitlement claims for previous years on the basis of amended preliminary proceedings.

(46) Fees for work by the auditor

Fees paid in the financial year for work by the auditor were recognised as expenses as follows:

in € k	2008	2007
Audit of annual accounts	7,345	2,900
Other consulting and auditing services	1,203	0
Other services	0	1,059

(47) Other operating expenses

Other operating expenses include the following main items:

in € k	2008	2007
Expenses arising from creation of provisions	94,059	2,981
Writedowns on a close-end real estate fund	4,253	0
Canteen expenses	2,930	3,040
Bail-out acquisition expenses	1,099	4,585
Property transfer tax	1,000	2,476
Losses from fixed asset disposals	357	2,116
Expenses arising from fiscal integration	0	29,770
Guarantee expenses	0	1,362

(48) Extraordinary result

Restructuring costs amounting to € 164 million as shown in the extraordinary result were incurred in connection with the proposed realignment of the Bank. For details of the Bank’s proposed realignment please see the Outlook section in the management report.

€ 31 million in taxes on income affects the extraordinary result.

OTHER NOTES

(49) Contingent liabilities and other commitments

Reported contingent liabilities relate mainly to financial guarantees provided in the course of our lending business. Other commitments are mainly irrevocable loan commitments. They include liquidity facilities totalling € 401 million of which € 13 million relates to facilities granted for commercial paper programmes. As of 31 December 2008 placement and assumption obligations did not exist (previous year: € 2 billion).

(50) Letters of comfort

Except in the case of political risk, HSH Nordbank AG assumes unlimited responsibility for ensuring that its affiliated companies HSH Nordbank Private Banking S.A., Luxembourg, and HSH Nordbank Securities S.A., Luxembourg, are able to meet their obligations.

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

(51) Other financial obligations

In addition to the contingent liabilities and other commitments reported below the balance sheet line, shareholder liabilities totalling € 507 million (previous year: € 376 million) exist for outstanding payments on subscribed nominal capital that have not yet been called in. This relate to equity interests.

In respect of the equity interest in ALIDA Grundstücksgesellschaft mbH & Co. KG, Hamburg, there is an additional funding obligation of € 8 million.

In respect of the equity interest in Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, there is an additional maximum funding obligation of € 17 million.

The maximum funding obligation that would result from membership of the Sparkassen Finanzgruppe's joint liability scheme – should a case occur in which support is required – is € 384 million (previous year: € 331 million). If the resources in the savings banks' guarantee fund are insufficient for the purpose, funding may be claimed immediately.

Further obligations result from long-term leases for land and buildings that are used for commercial purposes with three companies in which the Bank holds an equity interest.

(52) Notes on shareholdings

The complete list of shareholdings required by Section 285 (11) of the German Commercial Code (HGB) is compiled separately and published in the electronic version of the Federal Gazette (Bundesanzeiger). It can also be looked up in the register of companies.

HSH Nordbank AG is a partner with unlimited liability in Fernkälte Geschäftsstadt Nord, Hamburg; GbR Realrace 2005, Hamburg; GbR Tocotax, Hamburg; GLB GmbH & Co. OHG, Frankfurt am Main; and GbR Altgesellschafter der Deutschen Leasing AG, Bad Homburg v.d.H.

In addition, the Bank owns the following equity holdings in accordance with Section 340a (4) (2) of the German Commercial Code (HGB):

Name and registered office
Bürgschaftsbank Schleswig-Holstein GmbH, Kiel
Bürgschaftsgemeinschaft Hamburg GmbH, Hamburg

(53) Notes on foreign currencies

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

in € k	12/31/2008	12/31/2007
Assets	71,927,815	70,637,899
Liabilities	34,222,964	44,430,490

(54) Derivative financial instruments

The following section presents HSH Nordbank AG's business in derivative financial instruments (forward transactions within the meaning of Section 36 of the Ordinance on Accounting for Banks and Financial Service Institutions [RechKredV]) as of the balance sheet date.

Along with the nominal amounts of the contracts, which are classified by interest rate risks, interest rate and currency risks, currency risks and other price risks, the following tables show the maturity structure, breakdown by counterparty and information on trading book transactions with derivative financial instruments.

For the carrying amounts of premiums paid or received from option contracts and interest limitation agreements, which are stated under other assets or other liabilities, please see Notes 26 and 36.

Disclosures on volumes

in € m	Nominal values		Positive market values		Negative market values	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Interest rate swaps	542,960	517,164	11,712	5,511	11,401	6,978
FRA	20,375	8,864	49	7	51	9
Interest rate options						
Bought	3,624	26,114	286	190	0	0
Sold	1,890	22,264	0	0	142	404
Caps, floors	33,951	32,730	386	197	296	203
Exchange-traded contracts	1,492	3,363	47	123	54	147
Other forward interest rate transactions	6,347	22,097	17	13	43	25
Interest rate risks	**610,639**	**632,596**	**12,497**	**6,041**	**11,987**	**7,766**
Interest rate/currency swaps	36,853	20,344	2,333	815	794	422
Interest rate and currency rinsks	**36,853**	**20,344**	**2,333**	**815**	**794**	**422**
Forward exchange transactions	84,570	75,731	3,376	983	3,465	712
Currency options						
Bought	5,931	9,261	429	223	0	0
Sold	5,471	10,224	0	0	393	182
Currency risks	**95,972**	**95,216**	**3,805**	**1,206**	**3,858**	**894**
Stock options						
Bought	2,233	4,110	281	296	0	0
Sold	3,675	7,064	0	0	323	387
Stock futures trading	599	185	5	2	2	1
Exchange-traded contracts	892	1,226	63	51	67	39
Stock/index-based swaps	2,652	3,090	287	575	179	127
Commodity contracts	433	514	236	47	104	44
Shares and other price risks	**10,484**	**16,189**	**872**	**971**	**675**	**598**
Total	**753,948**	**764,345**	**19,507**	**9,033**	**17,314**	**9,680**

Breakdown by maturity

in € m	Interest rate risks		Interest rate and currency risks		Currency risks		Share and other price risks	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Residual maturity								
Up to 3 months	117,828	191,740	25,504	8,770	61,330	65,644	1,610	859
Up to 1 year	89,654	72,850	1,074	660	26,268	23,493	2,232	2,537
Up to 5 years	210,131	186,708	6,555	7,542	5,561	5,273	3,620	7,565
Over 5 years	193,026	181,298	3,720	3,372	813	806	3,022	5,228
Total	**610,639**	**632,596**	**36,853**	**20,344**	**95,972**	**95,216**	**10,484**	**16,189**

Breakdown by counterparty

in € m	Nominal values		Positive market values		Negative market values	
	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
OECD banks	615,693	629,389	13,505	6,304	14,807	7,721
Non-OECD banks	1,813	1,967	75	24	20	22
Non-banks (including stock exchanges)	130,650	127,103	5,733	2,488	2,366	1,913
Public authorities	5,792	5,886	194	217	121	24
Total	**753,948**	**764,345**	**19,507**	**9,033**	**17,314**	**9,680**

Trading book transactions

in € m	Nominal values		Positive market values		Negative market values	
	31/12/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Interest rate contracts	516,846	507,627	10,458	4,533	8,722	4,879
Interest rate and currency contracts	27,797	12,143	1,448	193	284	62
Currency contracts	33,975	35,980	931	429	906	380
Share and other contracs	1,228	3,221	316	165	267	132
Total	**579,846**	**558,971**	**13,153**	**5,320**	**10,179**	**5,453**

Credit derivatives

in € m	12/31/2008	12/31/2007
Protection sold	3,252	1,707
thereof trading book transactions	2,925	1,560
Protection bought	4,089	15,471
thereof trading book transactions	3,259	2,443

(55) Statement of coverage for real estate credit institutions and public-sector credit institutions

Pfandbriefe and municipal bonds issued by predecessor institutions in accordance with the ÖPG[1] are covered as follows:

[1] Law on Pfandbriefs and related debentures from public credit institutions enacted on 8 May 1963

(a) Coverage for Pfandbriefe

in € k	12/31/2008	12/31/2007
Bearer Pfandbriefe	258,727	1,066,112
Registered Pfandbriefe	2,204,828	2,720,874
Registered Pfandbriefe deposits as security	34,500	34,500
Pfandbriefe to be covered	**2,498,055**	**3,821,486**
Due to banks	-	-
Due to customers	4,808,220	6,659,137
Total coverage	4,808,220	6,659,137
Surplus coverage	**2,310,165**	**2,837,651**

b) Coverage for municipal bonds

in € k	31/12/2008	31/12/2007
Bearer municipal bonds	989,926	2,058,394
Registered municipal bonds	4,460,993	6,368,376
Registererd municipal bonds deposited as security	5,000	15,000
Bonds to be covered	**5,455,919**	**8,441,770**
Loans and advances to banks	2,558,917	3,515,843
Loans and advances to customers	3,431,523	4,407,081
Securities issued by public-sector borrowers	43,000	985,000
Total coverage	**6,033,440**	**8,907,924**
Surplus coverage	**577,521**	**466,154**

(56) Information required by Section 28 Pfandbriefgesetz

The total amounts of Pfandbriefe, public mortgage bonds and ship mortgage bonds in circulation and the corresponding cover funds stated in terms of the nominal value, net present value and risk-adjusted net present value in accordance with the PfandBarwertV² are as follows:[1]

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

	Nominal value		Net present value		Risk-adjusted net present value	
in € m	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007
Mortgage bonds	2,447	1,282	2,509	1,284	2,488	1,263
Cover funds	2,798	1,436	2,961	1,471	2,891	1,444
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**351**	**154**	**452**	**187**	**403**	**181**

in € m	Nominal value 12/31/2008	Nominal value 12/31/2007	Net present value 12/31/2008	Net present value 12/31/2007	Risk-adjusted net present value 12/31/2008	Risk-adjusted net present value 12/31/2007
Public-sector mortgage bonds	9,200	8,652	9,869	8,553	9,103	8,073
Cover funds	10,037	9,564	10,525	9,405	9,512	8,874
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**837**	**912**	**656**	**852**	**409**	**801**

in € m	Nominal value 12/31/2008	Nominal value 12/31/2007	Net present value 12/31/2008	Net present value 12/31/2007	Risk-adjusted net present value 12/31/2008	Risk-adjusted net present value 12/31/2007
Ship mortgage bonds	3,031	10	3,140	10	3,074	10
Cover funds	3,929	2,388	4,231	2,541	3,317	2,268
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**898**	**2,378**	**1,091**	**2,531**	**243**	**2,258**

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

Nominal value in € m	Mortgage bonds 12/31/2008	Mortgage bonds 12/31/2007	Cover funds 12/31/2008	Cover funds 12/31/2007
Up to 1 year	910	573	136	159
Between 1 year and 5 years	1,506	678	1,182	441
Between 5 years and 10 years	31	31	1,210	722
Over 10 years	-	-	270	114
Total	**2,447**	**1,282**	**2,798**	**1,436**

Nominal value in € m	Public-sector mortgage bonds 12/31/2008	Public-sector mortgage bonds 12/31/2007	Cover funds 12/31/2008	Cover funds 12/31/2007
Up to 1 year	1,628	1,015	758	402
Between 1 year and 5 years	2,746	3,569	1,698	2,134
Between 5 years and 10 years	1,894	1,256	3,610	3,153
Over 10 years	2,932	2,812	3,971	3,875
Total	**9,200**	**8,652**	**10,037**	**9,564**

Nominal value in € m	Ship mortgage bonds 12/31/2008	Ship mortgage bonds 12/31/2007	Cover funds 12/31/2008	Cover funds 12/31/2007
Up to 1 year	556	-	858	475
Between 1 year and 5 years	2,475	10	1,943	1,180
Between 5 years and 10 years	-	-	960	409
Over 10 years	-	-	168	324
Total	**3,031**	**10**	**3,929**	**2,388**

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

(a) Mortgage register

Nominal value in € m	Covering mortgages[1] 12/31/2008	12/31/2007
Up to € 300,000	21	8
Between € 300,000 and € 5 million	660	319
Over € 5 million	2,047	1,109
Total	**2,728**	**1,436**

[1]as of 31 December 2008 ordinary coverage only

(b) Shipregister

Nominal value in € m	Covering mortgages 12/31/2008	12/31/2007
Up to € 500,000	1	1
Between € 500,000 and € 5 million	460	322
Over € 5 million	3,468	2,065
Total	**3,929**	**2,388**

The breakdown of loans and advances used to provide ordinary cover of mortgage bonds by the country in which the property collateral is situated and the use to which properties are put is as follows:

	Residential								Commercial	12/31/2008
in € m	Apartments	Single dwellings	Multiple dwellings	Office Buildings	Retail properties	Industrial premises	Other commercial properties	Unfinished new-buildings and building plots	Thereof building plots	Total
Germany	-	1	670	396	383	8	313	-	-	1,771
France	-	-	-	315	-	-	-	-	-	315
Netherlands	-	-	48	470	95	-	17	-	-	630
Austria	-	-	-	12	-	-	-	-	-	12
Total	-	1	718	1,193	478	8	330	-	-	2,728
Total of payments at least 90 days in arrears	-	-	-	-	-	-	-	-	-	-
										12/31/2007
Germany	-	1	313	184	169	1	108	-	-	776
France	-	-	-	138	-	-	-	-	-	138
Netherlands	-	-	8	330	15	-	3	-	-	356
Austria	-	-	-	12	-	-	-	-	-	12
Total	-	1	321	664	184	1	111	-	-	1,282
Total of payments at least 90 days in arrears	-	-	-	-	-	-	-	-	-	-

The following table shows the breakdown of the total loans and bonds used to cover public mortgages bond by borrowers and their countries of domicile. Arrears stated are the sum total of payments at least 90 days in arrears:

(in € m)		**Country**	**Regional public authority**	**Local public authority**	**Others**	**12/31/2008 Total**
Germany	Nominal value	295	3,771	258	3,527	7,851
	Arrears	-	-	-	-	-
Belgium	Nominal value	250	23	-	-	273
	Arrears	-	-	-	-	-
France incl. Monaco	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Greece	Nominal value	55	100	-	-	155
	Arrears	-	-	-	-	-
United Kingdom / Northireland / Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Ireland	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Italy	Nominal value	-	52	9	-	61
	Arrears	-	-	-	-	-
Japan	Nominal value	-	-	50	-	50
	Arrears	-	-	-	-	-
Canada	Nominal value	-	26	-	-	26
	Arrears	-	-	-	-	-
Lithuania	Nominal value	25	-	-	-	25
	Arrears	-	-		-	-
Luxembourg	Nominal value	-	-	-	13	13
	Arrears	-	-	-	-	-
Netherlands	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Poland	Nominal value	24	-	-	-	24
	Arrears	-	-	-	-	-
Portugal incl. Azoren and Madeira	Nominal value	-	105	50	15	170
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	172	-	100	272
	Arrears	-	-	-	-	-
Slovakia	Nominal value	20	-	-	-	20
	Arrears	-	-	-	-	-
Slowenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Spain	Nominal value	-	121	-	25	146
	Arrears	-	-	-	-	-
Czech Republic	Nominal value	12	-	-	-	12
	Arrears	-	-	-	-	-
Hungary	Nominal value	57	20	-	-	77
	Arrears	-	-	-	-	-
Austria	Nominal value	405	278	-	79	762
	Arrears	-	-	-	-	-
Total	Nominal value	**1,233**	**4,668**	**367**	**3,769**	**10,037**
	Arrears	**-**	**-**	**-**	**-**	**-**

(in € m)		Country	Regional public authority	Local public authority	Other	12/31/2007 Total
Germany	Nominal value	24	2,933	166	3,373	6,496
	Arrears	-	-	-	-	-
Belgium	Nominal value	250	24	-	-	274
	Arrears	-	-	-	-	-
France incl. Monaco	Nominal value	45	-	-	-	45
	Arrears	-	-	-	-	-
Greece	Nominal value	170	100	-	-	270
	Arrears	-	-	-	-	-
United Kingdom / Northireland / Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Ireland	Nominal value	-	-	-	20	20
	Arrears	-	-	-	-	-
Italy	Nominal value	130	80	9	62	281
	Arrears	-	-	-	-	-
Japan	Nominal value	-	-	50	-	50
	Arrears	-	-	-	-	-
Canada	Nominal value	-	26	-	-	26
	Arrears	-	-	-	-	-
Lithuania	Nominal value	25	-	-	-	25
	Arrears	-	-		-	-
Luxembourg	Nominal value	-	-	-	13	13
	Arrears	-	-	-	-	-
Netherlands	Nominal value	-	-	-	48	48
	Arrears	-	-	-	-	-
Poland	Nominal value	18	-	-	-	18
	Arrears	-	-	-	-	-
Portugal incl. Azoren and Madeira	Nominal value	88	200	-	-	288
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	154	-	100	254
	Arrears	-	-	-	-	-
Slovakia	Nominal value	20	-	-	-	20
	Arrears	-	-	-	-	-
Slovenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Spain	Nominal value	-	161	-	50	211
	Arrears	-	-	-	-	-
CzechRepublic	Nominal value	16	-	-	-	16
	Arrears	-	-	-	-	-
Hungary	Nominal value	52	20	-	21	93
	Arrears	-	-	-	-	-
Austria	Nominal value	405	437	62	112	1,016
	Arrears	-	-	-	-	-
Total	Nominal value	**1,333**	**4,135**	**287**	**3,809**	**9,564**
	Arrears	**-**	**-**	**-**	**-**	**-**

The breakdown of claims against ship mortgage bonds by country of registration is as follows:

in € m	Ocean-going vessels	Inland water vessels	12/31/2008 Further cover	Ocean-going vessels	Inland water vessels	12/31/2007 Further cover
Germany	2,880	-	63	2,210	-	-
Greece	6	-	-	6	-	-
Panama	214	-	-	-	-	-
Netherlands	38	-	-	49	-	-
Malta	10	-	-	24		
Italy	9	-	-	-	-	-
Hongkong	17	-	-	-	-	-
Marshall-Islands	126	-	-	-	-	-
Cyprus	149	-	-	39	-	-
Liberia	180	-	-	-	-	-
United Kingdom	5	-	-	10	-	-
Norway	61	-	-	-	-	-
Singapore	25	-	-	-	-	-
Austria	-	-	94	-	-	50
Ireland	-	-	52	-	-	-
Total	**3,720**	**-**	**209**	**2,338**	**-**	**50**
Total of payments at least 90 days in arrears	**-**	**-**	**-**	**-**	**-**	**-**

The number of foreclosures pending, forced administrations pending and properties acquired to avoid losses in relation to the claims used to ensure coverage is shown in the following table:

Number	Commercial	Residential	Ships	2008 Total
Foreclosures pending	-	-	-	-
Judicially enforced receiverships thereof included in foreclosures pending	-	-	-	-
Foreclosures completed	-	-	-	-
Properties acquired to prevent losses	-	-	-	-

Number	Commercial	Residential	Ships	2007 Total
Foreclosures pending	-	-	-	-
Judicially enforced receiverships thereof included in foreclosures pending	-	-	-	-
Foreclosures completed	-	-	-	-
Proprties acquired to prevent losses	-	-	-	-

The sum total of interest arrears owed by mortgage debtors and of mortgage capital repayments in the financial year is as follows:

in € m	Commercial	Residential	Ships	2008 Total
Total arrears of interest	-	-	-	-
Mortgages redeemed				
by repayment	28	20	439	487
by other means	66	12	-	78

in € m	Commercial	Residiential	Ships	2007 Total
Total arrears of interest	-	3	-	3
Mortgages redeemed by repayment by other means	7 13	4 7	519 -	530 20

(57) Average number of employees

The average number of employees is calculated by category and headcount at the end of the quarter:

	Male	Female	2008 Total	Male	Female	2007 Total
Full-time employees	2,128	1,185	3,313	1,995	1,106	3,101
Part-time employees	61	468	529	55	450	505
	2,189	1,653	3,842	2,050	1,556	3,606
Apprentices/trainees	55	44	99	61	42	103
Total	**2,244**	**1,697**	**3,941**	**2,111**	**1,598**	**3,709**

(58) Corporate Governance

HSH Nordbank AG supports the aims of the German Corporate Governance Code and has recognised the Code's rules on a voluntary basis as an unlisted company. The Management Board and Supervisory Board of HSH Nordbank AG have issued a declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) and made it accessible for shareholders. The declaration is published on the Bank's website and in the annual report for 2008.

(59) Remuneration of the Management Board and Supervisory Board

Members of the Supervisory Board receive for their work remuneration at a level set by the Annual General Meeting. For the financial year 2008 the anticipated sum total of € 595,000 is shown as a liability (provision). In 2008, €552,000 was paid to members of the Supervisory Board out of the € 570,000 provision made in financial year 2007.

Management Board remuneration consists of a fixed sum and a variable, performance-related element that is based on the Bank's commercial success and, in particular, its achievement of certain targets. In addition, Management Board members receive appropriate payment in kind and, from a certain level, variable payments related to offices held. The Bank does not offer long-term incentives such as stock options. In keeping with German Corporate Governance Code recommendations, the total remuneration paid to Management Board members therefore comprises fixed and variable elements. Remuneration agreements are the responsibility of the Executive Committee.

Management Board remuneration in 2008 totalled € 3.577 million (previous year: € 9.492 million), including € 4.727 million (previous year: € 4.152 million) in fixed elements. The increase in current remuneration paid to members of the Management Board compared with the previous year was due to the larger average number of Management Board members in the reporting year. Of the € 4.135 million provision made in the previous year for variable remuneration elements, € 2.786 million was paid out. In the financial year 2008, € 200,000 in bonuses was paid out. In 2007 the Management Board received € 3.645 million in variable remuneration toward which a € 2.440 million provision had been made in 2006.

Pension obligations toward current Management Board members rose by € 850,000 in the financial year (previous year: € 2.210 million). As of 31 December 2008 they totalled €4.207 million (previous year: € 7.259 million).

Total remuneration paid to former members of the Management Board and their surviving dependents amounted to € 3,717 million (previous year: € 3.425 million), including € 0 (previous year: € 530,000) in variable elements. A € 1,450 million provision was made for ongoing remuneration. Pension obligations toward former members of the Management Board and their surviving dependents in the financial year totalled € 1.448 million (previous year: € 992,000), and € 27.218 million (previous year: € 22.225 million) in pension commitments was retained as of 31 December 2008.

Advances, loans and other liabilities to members of the Management Board as of 31 December 2008 totalled

€ 3.042 million (previous year: € 3.412 million) and to members of the Supervisory Board € 1.532 million (previous year: € 1.347 million).

(60) Membership of supervisory bodies

As of the reporting date the following were members of statutory supervisory bodies at large stock companies or credit institutes (Section 340a (4) (1) HGB in combination with Section 267 (3) HGB or Section 340a (1) HGB):

(a) Members of the Management Board

Prof. Dr. Dirk Jens Nonnenmacher	HSH Nordbank Securities S.A., Luxembourg	Advisory Board Deputy Chairman
Peter Rieck	LB Immo Invest GmbH, Hamburg	Supervisory Board Chairman
Bernhard Visker	HSH Nordbank Private Banking S.A., Luxembourg HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, Hamburg LB Immo Invest GmbH, Hamburg	Advisory Board Chairman Supervisory Board Member Supervisory Board Member
Joachim Friedrich	HSH Nordbank Securities S.A., Luxembourg	Advisory Board Chairman

(b) Employee representatives

Peter Axmann	Sprinkenhof AG, Hamburg	Supervisory Board Member
Dr. Martin van Gemmeren	HSH Nordbank Securities S.A., Luxembourg	Advisory Board Member
Dirk Gärtner	Closed Holding AG, Hamburg	Supervisory Board Member
Torsten Heick	HSH Nordbank Private Banking S.A.; Luxembourg Nobis Asset Management S.A., Luxembourg	Advisory Board Deputy Chairman Supervisory Board Deputy Chairman
Dr. Frank Heideloff	Nordwest Lotto Toto, Hamburg	Supervisory Board Deputy Chairman
Christian Nieswandt	Aegean Baltic Bank S.A.; Kifissia	Non-executive Member of the Board of Directors

(61) HSH Nordbank AG’s Supervisory Board

Dr. Wolfgang Peiner, Hamburg Chairman	Auditor
Olaf Behm, Hamburg Deputy Chairman	HSH Nordbank AG employee
Sabine-Almut Auerbach, Lübeck	Regional manager, ver.di South Holstein region
Astrid Balduin, Kiel	HSH Nordbank AG employee
Berthold Bose, Hamburg	Head of financial services unit, ver.di Hamburg region
Prof. Dr. Hans-Heinrich Driftmann, Elmshorn	Managing Partner, Peter Kölln KGaA
Ronald Fitzau, Seevetal	HSH Facility Management Holding AG employee
J. Christopher Flowers, New York	Chairman of the Board, J.C. Flowers & Co. LLC
Dr. Michael Freytag, Hamburg	Senator, head of the Ministry of Finance of the Free and Hanseatic City of Hamburg
Jens-Peter Gotthardt, Moorrege	HSH Nordbank AG employee
Lothar Hay, Flensburg (since 4 March 2008)	Interior Minster of the State of Schleswig-Holstein
Torsten Heick, Rellingen	HSH Nordbank AG employee
Reinhard Henseler, Schobüll	Chairman of the Board, Nord-Ostsee Sparkasse
Jörg-Dietrich Kamischke, Selk	President, Sparkassen- und Giroverband, Schleswig-Holstein
Rieka Meetz-Schawaller, Kiel	HSH Nordbank AG employee
Alexander Otto, Hamburg	Chairman of the Board, ECE Projektmanagement G.m.b.h. & Co. KG
Knut Pauker, Schnenefeld	Spielbank SH GmbH & Co. Casino Stadtzentrum Schenefeld KG employee
Edda Redeker, Kiel	Ver.di northern region
Ravi S. Sinha, London	Member of the Board, J.C. Flowers & Co. LLC
Dr. Ralf Stegner, Bordesholm (until 4 March 2008)	Chairman, SPD Group, Schleswig-Hostein State Assembly
Rainer Wiegard, Bargteheide	Finance Minister of the State of Schleswig-Holstein

(a) Members of the Risk Committee

Ravi S. Sinha	Chairman (since 5 September 2008)
Jörg-Dietrich Kamischke	Chairman (until 5 September of 2008)
Dr. Wolfgang Peiner	Deputy Chairman
Astrid Balduin	
Olaf Behm	
Jens-Peter Gotthardt	
Torsten Heick	
Minister Rainer Wiegard	

b) Members of the Audit Committee

Jörg-Dietrich Kamischke	Chairman (since 5 September 2008) Deputy Chairman (until 5 September 2008)
Ravi S. Sinha	Deputy Chairman (since 5 September 2008) Chairman (until 5 September 2008)
Astrid Balduin	
Olaf Behm	
Jens-Peter Gotthardt	
Rieke Meetz-Schawaller	
Dr. Wolfgang Peiner	
Minister Rainer Wiegard	

(c) Members of the Executive Committee

Dr. Wolfgang Peiner	Chairman
Minister Rainer Wiegard	Deputy Chairman
Astrid Balduin	
Olaf Behm	
J. Christopher Flowers	
Dr. Michael Freytag (since 8 March 2008)	
Jörg-Dietrich Kamischke	

d) Members of the Arbitration Committee

Minister Rainer Wiegard	Chairman
Dr. Wolfgang Peiner	
Olaf Behm	
Torsten Heick	

(62) HSH Nordbank AG's Management Board

Prof. Dr. Dirk Jens Nonnenmacher Chairman (since 17 November 2008) Born in 1963	responsible for the following devisions: Group Communications Group Development and Group Steering Management Board Staff and Marketing Legal and Group Compliance Taxes Finance Group Risk Management Credit Risk Management
Hans Berger (until 17 November 2008) Chairman (until 17 November 2008) Born in 1950	responsible for the following divisions: Group Communication Group Development and Group Steering Management Board Staff and Marketing Legal and Group Compliance Human Resources
Peter Rieck Deputy Chairman Born in 1952	responsible for the following divisions: Energy Shipping Transport
Joachim Friedrich Born in 1964	responsible for the following divisions: Group Treasury Asset und Investment Management Capital Markets Clients Capital Markets Credit Capital Markets Structuring & Trading
Frank Roth (since 1 July 2008) Born in 1959	responsible for the following divisions: IT/Organisation Human Resources Internal Audit Transaction Services
Hartmut Strauß (until 30 June 2008) Born in 1949	responsible for the following divisions: Internal Audit Credit Risk Management Group Risk Management IT/Organisation (provisionally) Transaction Services (provisionally)
Bernhard Visker Born in 1966	responsible for the following divisions: Corporate Clients Private Banking Savings Banks Real Estate Clients

Hamburg/Kiel, 27 March 2009

Nonnenmacher Rieck Friedrich

Roth Visker

AUDITOR'S REPORT

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of HSH Nordbank AG for the business year from 1 January to 31 December 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Without qualifying this opinion, we wish to point to the following comments in the management report in the section "Ausblick: Neuausrichtung der HSH Nordbank" [Outlook: Restructuring HSH Nordbank], which states that the continued existence of HSH Nordbank AG Group as a going concern depends on adequate action being taken with regard to supporting equity so that the regulatory capital requirements are met and so that the contractual obligations to the German financial market stabilisation fund (SoFFin) relating to the core capital ratio are met. In this respect, it is particularly necessary that

- The Freie und Hansestadt [Federal State of] Hamburg and the Federal State of Schleswig-Holstein implement the measures which have been initiated with the aim of supporting capital (capital increase of EUR 3 billion and second-loss guarantee of EUR 10 billion). This requires in particular the approval of the two State Parliaments for the bills, EU approval, a resolution of the shareholders' general meeting as well as the completion of the guarantee contract;
- The Bundesanstalt für Finanzdienstleistungsaufsicht [German Financial Supervisory Authority] and the Bundesbank do not take any regulatory measures;
- The SoFFin maintains the granted guarantee framework and makes it available to the extent which is necessary.

Hamburg, 27 March 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Krall	Madsen
Wirtschaftsprüfer	Wirtschaftsprüfer

Statement of responsibility

To the best of our knowledge and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of HSH Nordbank AG and the management report conveys an accurate picture of the development and performance of the business and the position of the Bank together with a description of the principal opportunities and risks associated with HSH Nordbank AG's expected development.

Hamburg/Kiel, 27 March 2009

Nonnenmacher Rieck Friedrich

Roth Visker