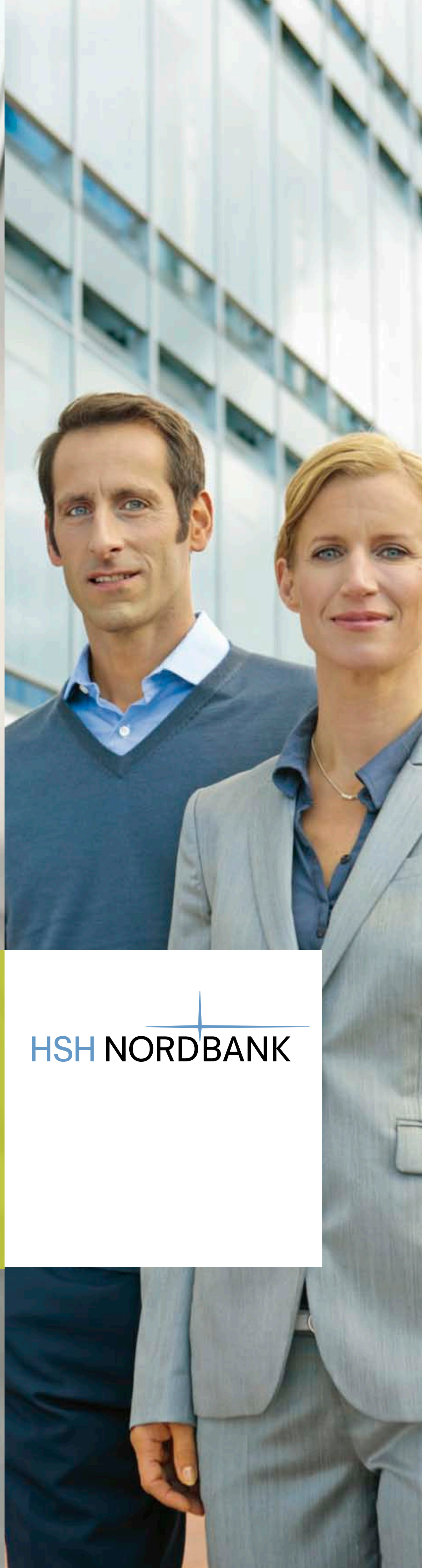


Financial Report 2010

HSH NORDBANK

CONTENT

HSH NORDBANK AG MANAGEMENT REPORT

Underlying conditions and business overview

UNDERLYING CONDITIONS

Recovery of the global economy at differing rates

The development of the global economy over the course of 2010 was a mix of light and shadows. Economic performance expanded rapidly again after its slowdown in 2009. At the same time international trade also increased very strongly following its slump in the previous year. However, the overall favourable development was accompanied by a new level of instability in the financial markets and the need for further action by governments and central banks.

The growth in the global economy was driven in particular by the Asian emerging markets, primarily China and India. In contrast the recovery in the eurozone was only sluggish. Furthermore there were clear divergent growth patterns between the individual countries of the monetary union. While some peripheral countries experienced a crisis situation in their real estate and banking sectors or suffered under government consolidation measures and therefore were in recession or in effect stagnated, the German economy grew strongly. This was primarily driven by the upturn in international trade given the export-led German economy. Consumer confidence also improved not least because of the reduction in unemployment. Moreover capital expenditure increased again following its reduction in the previous year with the effect that the growth base was broadened during the course of the year.

In 2010 the gross domestic product of the US grew more strongly than that of the eurozone. The US economy benefited from various special effects, for example the extraordinary expansive monetary policy of the Federal Reserve and government support measures. However, the recession in the real estate market is continuing; as a result growth was again slowed down by declining investments in house building, and there were still no signs of a sustained upturn in house prices.

Setbacks in stabilising the financial markets

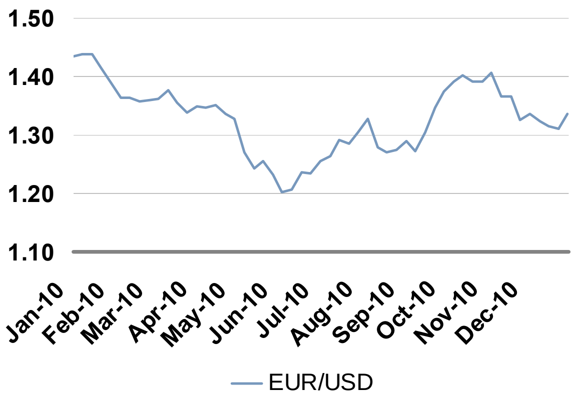
Turbulence flared up again in the financial markets from the second quarter onwards with the crisis regarding the public finances in the eurozone peripheral countries. In addition there were concerns in the meantime about the stability of banks, particularly in the eurozone, and a falling back again of the US into recession. The granting of loan facilities for Greece and Ireland, the start of an ECB programme for the purchase of private and public sector securities, the announcement of national government measures for the purposes of consolidating public sector finances and the creation of the European Stabilisation Mechanism (ESM) valid from mid 2013 onwards restored a certain degree of calm to the situation in the eurozone. Nevertheless the spreads between government bonds of several peripheral countries and German government bonds (Bunds) widened significantly by the year end.

The US Federal Reserve and central banks within the eurozone held key interest rates at historically low levels in light of the unstable economic situation and nervousness within the financial markets. Whereas the apparent renewed weakness in growth in the US had already caused the US Federal Reserve to extend its quantitative measures in August, it decided in November to purchase additional US government bonds in the amount of up to USD 600 billion. In view of the refinancing difficulties experienced by several banks and countries in the eurozone the ECB was forced to defer the intended phasing out of the extraordinary monetary policy measures. Consequently it extended – contrary to otherwise expected – its full allocation tender for three month operations to April 2011. In addition it again significantly increased its securities purchases from November 2010 onwards.

Yields on 10-year US Treasuries declined significantly until the beginning of October as a result of new concerns about the economy and the prospect of further purchases of government bonds by the US Federal Reserve. However, subsequently they increased noticeably again – driven by investor concerns about the increased risk of inflation and the uncontrolled public finances of the US. The 10-year German Bunds viewed as a “safe haven" initially benefited from the concerns about economic growth and the tensions in the financial markets. Their yield sank to a historic low by the end of August. Even German Bunds became less attractive as a result of the yield increase in the US. Furthermore the positive trend in the German economy as well as fears that Germany would be burdened even further in the context of the support measures within the eurozone caused the prices of German Bunds to fall. Spreads on corporate bonds widened at the peak of the public finance crisis in the eurozone in both the Spring and Autumn, but remained a lot less volatile than in 2009.

The currency markets in 2010 were again characterised by large fluctuations. The movement in the EUR/USD exchange rate was dominated by concerns in turn about the eurozone and the US. On balance the euro depreciated slightly against the US dollar in 2010.

Movement in the Euro/US dollar exchange rate in 2010



Contrary to a tendency often noticed in the past of the international equity markets to behave in the same way in principle, this past year saw very different patterns. In the US the S&P 500 as well as the Dow Jones rose by a good 10% irrespective of the concern about the future economic development. In Europe the very solid growth of many companies, in particular in the industrial sector in Germany on the one hand and the impact of the debt crisis on these countries and affected financial institutions on the other hand led to a widely differing picture. The DAX rose by almost 16% in 2010, to which automobile stocks were the main contributors, the STOXX 50 was at the same level at the year end as that of the previous year end and the EURO STOXX 50 lost in fact almost 6% during the course of the year.

Banking sector in upheaval

In its Financial Stability Review published in November 2010 the German Bundesbank stated that the German banking system was in an overall better state despite the continued existence of vulnerability. For example the risk situation had eased, as market risks were declining and the risks in the lending business had stabilised on the whole. Fewer loan loss provisions were required compared to 2009, according to the review. Furthermore the risk-bearing capacity increased as a result of the reduction in debt ratios and the strengthening of Tier 1 capital. The European stress test for banks of the Committee of European Banking Supervisors (CEBS) published in July 2010 showed that the majority of European banks would still be sufficiently capitalised in the event of a renewed economic downturn and turbulence in the financial markets caused in particular by losses incurred on government bonds in view of the restructuring of balance sheets and capital contributions already completed or made.

HSH Nordbank took part in the above-mentioned stress test and completed this successfully. The Tier 1 capital ratio of the Bank would have been clearly above the minimum values required by CEBS even in the most severe stress scenarios. Please refer to the Risk Report in this Management Report for more details.

It is intended to enhance the stability of the banking system further by the regulatory changes initiated in 2010. The “Basel III" framework to be introduced in 2013 and gradually strengthened in subsequent years should ensure that the capital adequacy and liquidity of banks is increased. In Germany the Restructuring Law was adopted. It provides for the establishment of a restructuring fund for the purposes of financing future measures required in the event of crises at banks that are important to the system. The fund is to be financed through contributions made by all credit institutions in Germany. Consequently this so-called bank levy (Bankenabgabe) will also be paid by HSH Nordbank in future. The exact amount of this levy had not yet been fixed at the beginning of 2011 as it was still subject to an ongoing legislative process.

BUSINESS OVERVIEW

The strategic realignment of HSH Nordbank makes an impact

HSH Nordbank has already initiated important steps on the path to becoming a stable and successful bank in the region on a sustainable basis. The strategic focus of the Core Bank was clearly placed on regional and sectoral business activities, and reductions in total assets through the reduction of risk positions bundled together in the Restructuring Unit has progressed faster than planned up to now. As part of the focussing of the business the number of employees and the network of locations of the Bank was further reduced. Furthermore the Bank has optimised numerous central processes and related organisational structures. The progress made in implementing the strategic realignment plan is also reflected in the annual results and several key indicators, which have improved more strongly than anticipated in the financial planning.

Under the strategic realignment the Bank is focussing on attractive business fields in the core region of Northern Germany. The newly created Core Bank covers regionally directed activities in which the Bank has a strong market position (Regional Bank segment). This covers areas of economic significance for Northern Germany: corporate clients, real estate financing, private banking and savings banks. Furthermore the Bank is involved on an international basis in the shipping, aviation, renewable energy and infrastructure sectors as an important financing partner (Sector Specialist Bank segment). These sectors offer good long-term growth potential. At the same time they represent particular strengths of the Hamburg and Schleswig-Holstein region.

In both the Regional Bank and Sector Specialist Bank segments the Bank has mature customer relationships and know-how built up over many years. The capital markets area of the Bank supplements the product range in the customer business through providing needs-based product solutions. With the significant reduction in total assets achieved through the systematic winding down of risk positions the Bank is strengthening its core activities and is creating a basis for a focussed expansion of business over the next years.

Winding down of risk positions ahead of plan

An important objective of the strategic realignment of HSH Nordbank is the winding down of transactions that no longer conform to the Core Bank strategy. The winding down process is managed by the internal Restructuring Unit, which operates as a separate segment of the Bank. Through reducing assets from € 77 billion to € 63 billion the Restructuring Unit has significantly exceeded the plan targets for 2010. The reduction in the portfolios has been driven by the Restructuring Unit on a risk-conscious and loss-minimising basis through targeted measures. Due to the improved risk situation the Restructuring Unit segment was able to report net income before restructuring above plan.

The credit investment portfolio (CIP), which suffered significant losses in value during the global financial crisis, constitutes a part of the capital market portfolios to be wound down. Since the end of 2007 this portfolio has been reduced as part of the strategic realignment by approximately 60% to € 12 billion (as at end of 2007: approximately € 30 billion). Positive spread trends led to the reversal of impairments losses in several asset classes in 2010, whereas in some asset classes, in particular European government and financial instruments, at times significant increases in spread were apparent in the CIP, as well as in the remaining capital market portfolios.

Reduction in the second loss guarantee

The risk-weighted assets of HSH Nordbank have declined significantly in the 2010 financial year. The reasons for this included – in addition to the winding down of the portfolios – an improvement in the portfolio quality in the second half of 2010 and a change in the way the first loss piece of the second loss guarantee, which was made available by the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein at the start of the strategic realignment via HSH Finanzfonds AöR, is taken account of. Against this backdrop it is planned to gradually reduce the second loss guarantee of € 10 billion from 2011 onwards. The guarantee protects HSH Nordbank against the risk of loss arising on the risk assets.

In February 2011, HSH Nordbank initiated the first partial reduction of the guarantee by € 1 billion to € 9 billion. The Bank expects approval to be granted by the guarantor in the near future. The Bank pays a market rate for the guarantee, which decreases based on reduced volume and thereby improves the results of the Bank. The expense for this guarantee amounted to € 405 million for 2010.

Reorganisation of key processes

Since 2009 HSH Nordbank has carried out as part of its realignment programme systematic analyses of its key processes and the related organisational structures.

These are based on the weaknesses in the business organisation of the Bank identified as part of the follow up on the global financial crisis. The Bank regards the systematic implementation of process optimisations in central departments as an important contribution to establishing its new position for the future. The main focus is being placed on the risk management, accounting, compliance and internal audit areas. By the end of 2010 the Bank has implemented the measures with the highest priority initiated in this connection. The reorganisation of the lending process and the internal control system were included among the largest cross-departmental projects in 2010.

Introduction of a risk-led lending process

In 2010 HSH Nordbank concentrated risk analysis completely in the back office departments and implemented increased specialisation of these back office functions as part of the implementation of a risk-oriented lending process. The new lending process has been in force since September 2010 and is aimed at ensuring a higher independency and quality of risk management in the Bank. At the same time a new, efficient allocation of work between the market and back office departments has been created. The market departments will be relieved of some of their functions and focus in future on customer service and sales activities. Further information on the lending process is set out in the risk report under "Default risk".

The market units will undergo significant organisational changes as a result of the transfer of analysis tasks, loan management and collateral processing functions to the back office departments. During the financial year the focus was placed on the consolidation of business support functions, which were implemented in the market departments at the beginning of October. The Bank is exploiting synergies and efficiency potential through the process adjustments made. Organisational changes were also implemented in the sales units of market departments until the beginning of 2011. In this connection the primary focus was to align their organisational structure to the strategic positioning of the Core Bank segments.

Reorganisation of the internal control system

The Bank has achieved important milestones in the reporting year in the reorganisation of its internal control system. The particular objective of this is to systematically analyse weaknesses and to ensure that stable processes are in place on a sustainable basis. Furthermore the processes will be systematically reviewed on a regular basis with regard to the appropriateness and effectiveness of the controls in place, thereby enabling the structure of the business processes to be continually enhanced.

The Bank has defined the major processes that have been gradually reorganised on a risk-oriented basis, documented them according to uniform criteria and provided them with adequate control mechanisms since 2010. In 2011 the restructuring of the internal control system for the remaining processes is to be completed and the systematic review of the processes included as a permanent activity. Please refer to the risk report in this management report for more details on the internal control system of the Bank.

COO function realigned

The COO unit was also further developed in 2010 with regard to the realignment of the activities of the Bank. Included among the tasks of this function is to ensure that Group-wide IT operations, payment transactions, processing of trading transactions, the provision of other central services as well as organisation management and the new products/new markets area are maintained on a proper basis. The focus was reorganisation through which the COO function focuses systematically on the future requirements of the Bank.

The primary goal is to ensure a high level of efficiency and stability in the providing of important services to the operating business of the Bank. As part of the reorganisation the technical platform for payment transactions was outsourced to an external provider. This measure is aimed at optimising the cost situation and modernising the systems.

Number of locations further decreased

The reduction in the network of locations and the disposal of a large number of equity investments are central components of the realignment process. In the 2010 reporting year the Bank has again closed foreign locations following the realisation of the planned closures of several branches and representative offices in 2008 and 2009. Numerous equity holdings were also wound down by the Bank in the past year. Further adjustments regarding locations and equity holdings are planned for the coming years, which will contribute to the focussing of our business. At the 2010 year end HSH Nordbank had foreign branches in Amsterdam, Copenhagen, London, Luxembourg, New York, Paris and Singapore and domestic branches in Berlin and Lübeck. The Bank also had representative offices in other domestic and foreign locations.

On 24 February 2011 the HSH Nordbank Group sold its shares in Hamborner REIT AG, which is included at equity in the consolidated financial statements as at 31 December 2010. The Group most recently held

35.18% of the shares of the Duisburg REIT. The sale of the Hamborner shares is a result of the strategic realignment of HSH Nordbank AG.

Progress made in reducing the number of employees

The reduction in positions, both domestically and abroad, connected to the realignment of the Bank, was continued in the financial year. The number of employees, calculated on a full-time equivalent basis (FTE), decreased to 3,098 at the 2010 year end (2009: 3,256). The Bank is attempting to further reduce the number of employees by the end of 2012. Termination agreements, early and partial retirement models were again agreed as methods for reducing headcount.

Changes to the Management Board

The Supervisory Board appointed Torsten Temp as a member of the Management Board in its meeting held on 14 April 2010. Since 1 May 2010 he has been responsible for the divisions Shipping, Transport and Energy. Mr Temp had been employed at what is now called UniCredit since 1989. The last position he held was that of the head of the Global Shipping division.

At an extraordinary meeting held on 15 December 2010, the Supervisory Board approved the mutually agreed termination of the appointment of Prof. Dr Dirk Jens Nonnenmacher as Member and Chairman of the Management Board of HSH Nordbank as of 31 March 2011 and agreed a termination agreement with him. The Supervisory Board thanked Mr Nonnenmacher for his major and successful involvement in the strategic realignment of the Bank.

At the same time the meeting decided on the appointment of Dr Paul Friedrich Lerbinger as a member of the Management Board with effect from 1 March 2011 and Chairman with effect from 1 April 2011 to 28 February 2014. During his long career Mr Lerbinger has been Managing Director and Head of the Investment Banking Division Germany at Deutsche Bank as well as Deputy Chairman of the Management Board of Citigroup Germany.

Corporate governance: New remuneration system

A change in the regulatory framework has necessitated a revision to the existing performance-related remuneration systems for members of the Management Board and employees of the Bank.

Against this backdrop HSH Nordbank adopted a new compensation system for board members of the Bank in 2009, which already takes into account many of the supervisory and regulatory requirements and has been applied since the start of 2010. The new system implements the limitation of monetary compensation of each board member to a maximum of € 500,000 per year (fixed compensation) as long as HSH Nordbank AG is not capable of making dividend distributions. In addition to the fixed salary Management Board members are entitled to receive variable performance-based compensation dependent on the achievement of certain strategic goals as well as the Bank's financial success taking into account individual performance. The payment of this variable compensation is subject to the precondition that the Bank is able to pay a dividend as at 31 December 2012 or at the latest by 2013. It is payable in three annual tranches. The new performance-related compensation system does not yet apply to two board members. However, the Supervisory Board is currently holding discussions regarding the changeover to the new system. In addition to this the employment contracts still have to be amended to include, amongst other things, the prohibition on entering into hedging/insurance strategies. Further information on Management Board remuneration is set out in note 62.

In parallel to the new rules regarding Management Board remuneration the material requirements of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV) were implemented below the Management Board level. The amount of the variable compensation payable to employees is based on the new rules and is calculated as a combination of the performance of the Bank, its business unit and the employee's individual performance. Furthermore fixed upper limits for the proportion of variable to fixed compensation are set for all employees of the Group (including subsidiaries and branches). Special rules apply to employees identified on a Group-wide basis who have a significant influence on the overall risk profile of the Bank, so-called risk takers. In accordance with the InstitutsVergV parts of their variable remuneration are paid on a deferred basis and are dependent on the sustained performance of the Bank. The remuneration system applies retrospectively to the 2010 financial year in accordance with the requirements of the InstitutsVergV. In accordance with the regulation further details will be published in a separate compensation report on the website of HSH Nordbank.

Furthermore the individual members of the Supervisory Board and the members of the committees established by the Supervisory Board are listed in note 67. The Supervisory Board Report provides information on the work performed by the Supervisory Board and its committees during the 2010 financial year.

HSH Nordbank as an unlisted company has adopted voluntarily the German Corporate Governance Code. The declaration of conformity within the meaning of Section 161 of the German Stock Corporation Act (AktG) is included in the Corporate Governance report in this annual report. Reasons for any exceptions to individual points in the Code are given in the report.

Business developments

OVERVIEW OF BUSINESS PERFORMANCE

Success of the realignment reflected in the earnings performance

The progress made under the realignment programme is also clearly evident in the results of HSH Nordbank. For the 2010 financial year the Bank generated a net loss after risk provisions/valuation in the amount of € -509 million after generating a net loss for 2009 that was approximately three times this amount (€ -1,618 million). The lower level of charges in the lending business against the background of systematic portfolio adjustments and the economic upturn in the year under review were the decisive factors behind this positive performance. The annual net loss was improved by almost three-quarters to € -219 million (previous year: € -816 million) taking into account loss participation on the part of silent investors and holders of profit participation rights in the amount of € 104 million (previous year: € 559 million) and a very positive tax position of € 425 million (previous year: € 364 million). Annual net income was burdened primarily by the commission fee for public-sector guarantees in the amount of € -519 million (previous year: € -482 million). Overall, the results for 2010 improved a lot more strongly than was forecasted in the financial planning of the Bank.

By means of the continued reduction of risk positions, total assets were further reduced to € 163 billion in the course of the year 2010 (31 December 2009: € 185 billion). Total assets adjusted by the effects of the initial application of the German Accounting Law Reform Act (BilMoG) were reduced by an additional € 8 billion. The Tier 1 capital ratio improved significantly to 14.2% and reflects a solid capital adequacy of HSH Nordbank at the 2010 year end.

Implementation of German Accounting Law Reform Act (BilMoG) completed

HSH Nordbank fully implemented the requirements of BilMoG in its 2010 annual financial statements. This had significant effects on the income statement as well as the balance sheet. Initial application effects in the statement of income are stated under extraordinary net income and amounted to a net amount of approximately € -232 million. Expenses resulting from the conversion in the total amount of € -340 million, of which € -178 million related to increased pension provisions and other provisions and € -162 million to the presentation and measurement of valuation units as well as the individual valuation of financial instruments in the non-trading portfolios were offset by income from the creation of deferred tax assets in the amount of € 108 million. In addition, initial application effects with no effect on income in the amount of approximately € -300 million were incurred, which related almost exclusively to deferred taxes and which were offset against other retained earnings.
As a result of the first-time disclosure of positive and negative market values of derivatives in the balance sheet, total assets increased as at 1 January 2010 by approximately € 8 billion compared to the previous year as at 31 December 2009.

EARNINGS SITUATION

Income statement in € million	2010	2009	Change absolute	Change in %
Net interest income	1,711	1,624	87	5.4
Net commission income	-347	-277	-70	25.3
thereof: Expenses for second loss guarantee	-405	-364	-41	11.3
thereof: Expenses for SoFFin-guarantee	-114	-118	4	-3.4
Net trading income	-182	-55	-127	>-100
Administrative expenses	-801	-796	-5	0.6
thereof: Personnel expenses	-376	-377	1	-0.3
thereof: Other operating expenses	-425	-419	-6	1.4
Other operating income	39	75	-36	-48.0
Operating result before risk provision/valuation	420	571	-151	-26.4
Risk provisions/valuation	-929	-2,189	1,260	-57.6
thereof: Loans	-894	-1,997	1,103	-55.2
thereof: Securities	269	205	64	31.2
thereof: Equity holdings	-304	-397	93	-23.4
Operating result after risk provisions/valuation	-509	-1,618	1,109	-68.5
Extraordinary result	-230	-121	-109	90.1
Income tax expenses	416	364	52	14.3
Partial profit transfers	0	0	0	-
Income from transfer of losses	104	559	-455	-81.4
Net loss for the year	-219	-816	597	-73.2

Total income burdened by commissions for public-sector guarantees and the trading result

The targeted reduction of non-strategic business as part of the realignment was also reflected in the results of operations of the Bank, in particular in net interest income and net commission income. In addition, valuation effects related to various items were responsible for a net trading loss. Total income – comprised of net interest income, net commission income, net trading income and other net income from operations – remained, at € 1,221 million – below that of the previous year (€ 1,367 million). In contrast the provisions in the lending business were substantially reduced to € -894 million (previous year: € -1,997 million). Administrative expenses of € -801 million were slightly above the previous year's level (€ -796 million). The detailed changes in income and expenses are as follows:

Net interest income amounted to € 1,711 million compared to € 1,624 million in the previous year. Net interest income was supported by the risk-adjusted interest pricing terms on new commitments and prolongations as well as early repayment penalties. In addition, notable interest-like income was received which in the previous year was shown in net commission income. Reduced interest income had a counter-effect due to the significant reduction in loans and advances to banks and to customers as well as the reduced securities portfolio. Compared to the previous year, current income from interests in affiliated companies and equity holdings declined as well.

Net commission income was negatively affected by fees for public-sector guarantees in the amount of € -519 million (previous year: € -482 million) and amounted to € -347 million (previous year: € -277 million). Net commission income excluding expense for public-sector guarantees in the amount of € 172 million decreased by € -33 million compared to the previous year (€ 205 million). Commission income was reduced as a result of a change in the disclosure of interest-like loan fees and the limited amount of new business in 2010.

Net trading income amounted to € -182 million (previous year: € -55 million). The principal factor for the decline related to net income/loss from currency translations of financial instruments in the trading portfolio resulting from developments related to the US dollar. The loss resulted from the hedge of impaired receivables. Valuation haircuts for counterparty risks continued to have a negative impact in the field of derivatives. In addition, valuation losses related to public-sector bonds impacted results negatively. Compared to the previous year, interest rate derivatives and trading in credit default swaps achieved positive results.

Costs slightly above the previous year's level

Administrative expenses amounted to € -801 million (€ -796 million). Personnel expenses of € -376 million were at the previous year's level (€ -377 million). Continued staff reductions were offset by higher wages and salaries. Operating expenses increased slightly to € -425 million (previous year: € -419 million).

Need for loan loss provisions reduced by more than half

Compared to the previous year the item risk provision/ valuation declined by more than half (€ 1,260 million) to € -929 million (previous year: € -2,189 million). This is in particular due to the result from the lending business which improved once again. However, the results from the securities business and the result from investments also trended positively compared to the previous year.

In 2010 the Bank was able to substantially reduce the loan loss provision expenses to € -894 million. Significantly lower additions were required as a result of the advanced stage of the portfolio adjustment process and the recovery in the economic environment. At the same time reversals increased. In 2009 HSH Nordbank significantly increased its loan loss provisions by € -1,997 million due to the crisis.

With regard to the securities business, at € 269 million, the Bank exceeded the positive results from the previous year of € 205 million. As it was the case in the previous year, the causes for this were impairment reversals and gains from disposals resulting from the recovery of the financial markets.

As it was the case in the previous year, the negative risk provision/valuation result from equity holdings amounting to € -304 (previous year: € -397 million) was attributable to the assumption of losses from HSH Real Estate AG, a subsidiary of the Bank specialising in real estate business, as well as to write-downs of companies in which an equity interest is held.

Net operating income after risk provision/valuation improved by more than two-thirds compared to that of the previous year (€ -1,618 million) to € - 509 million as a result of the reduction in charges for risk provision/ valuation by more than half during the financial year.

Extraordinary net income/loss in the amount of € -230 million (previous year: € -121 million) included the effects from the initial application of the BilMoG reflected in the statement of income amounting to € -232 million as well as net income/loss from restructuring. Whilst in the previous year restructuring costs for planned staff reductions were booked in the amount of € -121 million, the reversal of restructuring provisions led to income in the amount of € 2 million in the year under review.

Net income noticeably improved

Taking into account positive income tax effects in the amount of € 416 million (previous year: € 364 million) and income from the assumption of losses of € 104 million (previous year: € 559 million) from the participation of silent investors and holders of profit participation rights in the Bank's annual net loss, the Bank reported an annual net loss/balance sheet loss in the amount of € -219 million for the 2010 financial year (previous year: € -816 million).

As a result of the annual net loss and a corresponding balance sheet loss, the bank did not service silent participations and profit participation rights this year. In order to avoid a double burden on the part of the hybrid capital creditors, the existing losses carried forward from the year 2009 in the amount of € -816 million was offset by withdrawing funds from capital reserves in the 2010 financial year.

NET ASSETS AND FINANCIAL POSITION

Balance sheet in € million	31.12.2010	31.12.2009	Change absolute	Change in %
Assets				
Cash reserve, debt intruments issued by public institutions, bills of exchange egible for refinancing with central banks	1,387	1,268	119	9.4
Loans and advances to banks	11,828	20,796	-8,968	-43.1
Loans and advances to customers	99,461	110,820	-11,359	-10.2
Securities (total)	34,145	46,209	-12,064	-26.1
Trading portfolio	10,844	0	10,844	-
Equity holdings in non-affiliated companies and interests in affiliated companies	1,867	2,364	-497	-21.0
Trust assets	321	367	-46	-12.5
Other assets	3,164	3,147	17	0.5
Balance sheet total	163,017	184,971	-21,954	-11.9
Liabilities				
Liabilities to banks	29,508	46,627	-17,119	-36.7
Liabilities to customers	57,124	55,538	1,586	2.9
Securitised liabilities	48,830	63,966	-15,136	-23.7
Trading portfolio	10,120	0	10,120	-
Trust liabilities	321	367	-46	-12.5
Subordinated debt	5,145	5,216	-71	-1.4
Profit participation capital	132	439	-307	-69.9
Funds for general banking risks	1,052	1,052	0	0.0
Equity capital	5,992	6,572	-580	-8.8
Other liabilities	4,793	5,194	-401	-7.7
Balance sheet total	163,017	184,971	-21,954	-11.9
Contingent liabilities	8,116	9,209	-1,093	-11.9
Other commitments	9,629	15,280	-5,651	-37.0
Derivatives (credit risk equivalents) [1)]	3,503	19,059	-15,556	-81.6
	21,248	43,548	-22,300	-51.2
Business volume	184,265	228,519	-44,254	-19.4
Lending volume	174,365	211,541	-37,176	-17.6

[1)] 2010: only derivatives of the non-trading portfolio (previous year: in addition derivatives of the trading portfolio which are shown with their fair values under the balance sheet positions trading portfolio for the reporting period 2010)

Further reduction in total assets

In 2010 HSH Nordbank continued to press ahead in reducing the non-strategic business. Accordingly, total assets of the HSH Nordbank were reduced as at the end of 2010 by -12% to € 163,017 million (31 December 2009: € 184,971 million). In this context, it must be taken into account that as part of the implementation of the BilMoG the positive and negative market values of derivative holdings are reflected for the first time in the balance sheet. This led to an increase in total assets by approximately € 8 billion compared to the previous year resulting from the effects of initial application. The reduction in total assets adjusted for these conversion effects was correspondingly larger. The largest declines related to securities as well as to loans and advances to banks and customers.

Loans and advances to banks experienced a decline in the amount of € 8,968 million or approximately 43% to € 11,828 million (31 December 2009: € 20,796 million). A portion of this decline was caused by reclassifications in the trading portfolio. Loans and advances to customers declined from € 110,820 million to € 99,461 million compared to the previous year (€ -11,359 million or 10%).

Securities held experienced the most significant reduction on the asset side in the amount of € 12,064 million or approximately 26% to € 34,145 million (31 December 2009: € 46,209 million). This was primarily due to the continued reduction of the credit investment portfolio, the repayment of own issued instruments as well as reclassifications in the trading portfolio.

Assets held for trading amounted to € 10,844 million as at the balance sheet date compared to € 15,884 million in the opening balance sheet under BilMoG as at 1 January 2010. It consisted of securities held for trading and from the positive market value of derivatives.

On the liability side, liabilities to banks were significantly reduced from € 46,627 million to € 29,508 million (€ -17,119 million or -37%) primarily due to reduced drawdowns of central bank facilities. By contrast, liabilities to customers increased slightly compared to the previous year by € 1,586 million to € 57,124 million. This reflects HSH Nordbank's stable deposit base. Securitised liabilities totalled € 48,830 million (31 December 2009: € 63,966 million). The decline of € 15,136 million or 24% is also partially due to the expiration of the issues guaranteed by the SoFFin.

Liabilities held for trading resulting from the negative market values of derivatives amounted to € 10,120 million as at the end of 2010 (opening balance sheet as at 1 January 2010 under BilMoG: € 13,663 million). They were recognised for the first time as part of the transition of accounting to BilMoG in the 2010 annual financial statements.

Noticeable decline in business volume

The winding down of non-strategic business was also reflected in the decline in business volume, which decreased significantly compared to the previous year by € -44,254 million or 19% to € 184,265 million. The reasons for this – in addition to the reduction in total assets – were the decline in guarantee and indemnity agreements to € 8,116 million (31 December 2009: € 9,209 million) and the reduction in irrevocable loan commitments to € 9,629 million (31 December 2009: € 15,280 million), which however have been drawn down in part.

Equity structure improved

Equity capital disclosed on the balance sheet declined as at the end of 2010 to € 5,992 million (31 December 2009: € 6,572 million). Principally responsible for the decline of € 580 million were initial application effects from the transition to accounting under BilMoG not recognised in profit or loss in the amount of approximately € 300 million, which reduced other retained earnings by this amount, as well as the current annual net loss for 2010 (€ 219 million) as well as the pro-rata assumption of loss on the part of silent investors (€ 97 million).

The capital increase amounted to € 510 million. € 175 million of this amount was added to the share capital of HSH Nordbank, which was increased to € 2,635 million in this connection through the issue of 17,490,909 new registered shares in the nominal value of € 10 per share. The amount of € 335 million paid in excess of the nominal value was recorded in capital reserves. An amount of € 816 million was released from capital reserves to offset the losses of HSH Nordbank AG brought forward from 2009. On balance, the capital reserves were reduced to € 1,028 million.

Equity capital did not change as a result of this measure. There was merely a shift between silent participations (reduction) and share capital plus capital reserves (increase).

Shareholdings changed through the capital increase

The owners' shareholdings in HSH Nordbank were changed by the capital increase. The new shareholder structure is as follows as at 31 December 2010: the direct and indirect shareholding held by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg decreased in total from 85.50% to 83.26%, of which 59.92% (previous year: 64.18%) are held by HSH Finanzfonds AöR jointly owned by both federal states, 12.37% (previous year: 10.89%) by Hamburg and 10.97% (previous year: 10.43%) by Schleswig-Holstein. The share held by the Savings Banks Association for Schleswig-Holstein increased to 6.08% (previous year: 5.31%). The group of investors advised by J.C. Flowers & Co. LLC held 10.66% of the voting rights as at 31 December 2010 after the capital increase (previous year: 9.19%).

Substantial increase in the Tier 1 capital ratio to 14.2%

Regulatory figures*

%	31.12.2010	31.12.2009
Equity ratio (solvency coefficient)	22.3	14.2
Total ratio/regulatory capital ratio	20.6	13.7
Tier 1 capital ratio	15.8	9.5
Tier 1 capital ratio (including market risk items)	14.2	9.0

* Ratios before adoption of the annual financial statements of HSH Nordbank AG

The Tier 1 capital ratio of HSH Nordbank has increased significantly during the reporting year and reflects a solid capital adequacy at the 2010 year end. The Tier 1 capital ratio (including market risk positions) increased to 14.2% (31 December 2009: 9.0%) and the regulatory capital ratio rose to 20.6% (31 December 2009: 13.7%). The reason behind this was the significant progress made in reducing total assets as well as the changed allowance of the first loss piece to the second loss guarantee issued by the Federal States of Hamburg and Schleswig-Holstein, which had been deducted from equity since the second quarter and is no longer accounted for under the risk-weighted assets as was the case previously. Furthermore improved risk parameters caused a reduction in risk assets. The appreciation of the US dollar had an offsetting effect on the ratios, as its upward effect on risk assets could not be offset by a corresponding effect on equity capital.

Refinancing activities expanded

HSH Nordbank has expanded its refinancing activities and at the same time broadened its investor basis. The bonds issued by the Bank during the 2010 financial year were for the most part placed with private customers in the savings banks association and with institutional investors in Germany. Bond products developed by HSH Nordbank were successfully marketed especially in the savings banks sector. The Bank returned to the capital markets in June 2010 with a jumbo Pfandbrief in the amount of € 500 million. At the beginning of 2011 the Bank also placed two mortgage Pfandbriefe in the amount of € 500 million and CHF 100 million, respectively. In December 2010 the Bank had previously received from the Moody's rating agency the best possible rating of Aaa for its mortgage cover pool.

With the issue of unsecured bonds and Pfandbriefe the Bank has exceeded the issuance volume planned for the whole year at the beginning of 2010. In view of a temporary unplanned increase in the refinancing requirements – due in particular to the movement in the euro against the US dollar and the higher than planned loan prolongations in sub-portfolios of the Bank –, the Bank took further action. A series of initiatives were introduced to ensure that sufficient liquidity was in place at all times, which has had an increasing effect in the second half of the year. These included the expansion of the savings banks funding, tight management and close monitoring of new business and prolongations, expansion of the product range in the deposit business as well as various individual funding transactions. In addition, the liquidity position was eased by the substantial progress made in reducing portfolios within the Bank's Restructuring Unit. During the course of the year the Bank only accessed the tender operations of central banks to a very small extent. The positive earnings performance of the Bank in the 2010 financial year should contribute to the further strengthening of the refinancing activities.

Against the backdrop of severe currency fluctuations in the reporting year another focus of attention was the refinancing of our US dollar business. In December 2010 the Bank received a loan in the amount of USD 500 million from the state-owned China Development Bank – an important step in strengthening the US dollar refinancing.

The above-described market activities represent for HSH Nordbank a good starting basis for further capital markets issues in the coming years.

In addition to the issuing activities, a stable and broadly diversified volume of fixed-term and demand deposits continued to contribute to the refinancing of business. HSH Nordbank has been able to maintain its collateral pool at the European Central Bank at a stable level despite the repayment of the SoFFin bonds deposited there, among other things, through the delivery of industrial loans. The utilisation of the refinancing collateral pool amounted to an average of about 50% for the year; and about 40% as at 31 December 2010.

SoFFin guarantee facility expired

The guarantee facility of the Financial Market Stabilisation Fund (SoFFin) in an amount of € 17 billion, which HSH Nordbank has utilised to support its issuing activities against the backdrop of the global financial crisis, expired at the 2010 year end in accordance with the agreement. The SoFFin guarantees continue to apply to the capital market issues still outstanding over the 2010 year end until their respective maturity date (latest in July 2012). The Bank had reduced its utilisation of the guarantee during the course of the year through the repayment of bonds in the amount of € 8 billion.

Detailed information on the liquidity and risk situation is set out in the risk report section of this management report.

EMPLOYEES

Personnel reduction and restructuring programme continued in the Bank

As part of the realignment HSH Nordbank has continued the staff reduction and restructuring programme.

By the 2010 year end the number of employees on a full-time equivalent (FTE) basis decreased further by 158 to 3,098 and reached a somewhat lower number than planned. The relatively larger proportion of the redundancies occurred in foreign locations due to the reduction in the network of branches. The Bank is attempting to further reduce the number of employees by the end of 2012. Termination agreements, early and partial retirement models were agreed as instruments in reducing the number of employees. As part of the agreements reached in 2009 redundancies due to business operations were excluded until October 2012.

Personnel and position requirements in individual units of HSH Nordbank have also changed due to the realignment processes implemented in many business units, the continued building up of the Bank's internal Restructuring Unit and the closing of locations. As a result of this many positions in the Bank were transferred to other units in 2010 and many employees re-assigned within the Bank. More than a thousand positions were affected just by the restructuring of the CRO function with the transfer of credit analysis from market departments to back office departments. The Bank has been able to also recruit additional specialists in the market during the reporting year to fill central positions and to strengthen important areas. An appropriate budget is also available for 2011 for training in order to meet the qualification requirements of the realigned Bank.

Through a "change initiative" the Bank has created, among other things, a communication platform for an internal exchange of information on realignment topics. For instance, as part of the initiative, individual main areas of focus were identified through management surveys and joint discussion events involving employees and the Management Board, which are being followed up as part of the realignment process. In 2011 specific measures will be developed and implemented for example for interdepartmental cooperation and business unit communication issues.

Headcount HSH Nordbank AG

	31.12.2010	31.12.2009
Permanent Group employees HSH Nordbank AG[1]	3,458	3,694
HSH Nordbank AG (FTE)	3,098	3,256
Key figures HSH Nordbank AG		
Maternity and parental leave	109	159
Pensioners and surviving dependents/early retired	1,706	1,722
New employees	195	64
Part-time employees (%)	16.6	14.8
Turnover rate[2] (%)	9.7	8.8
Sickness rate[2] (%)	3.8	4.1
Average age[2] (years)	41.2	40
Average period of employment (years) (%)	11.2	11.0

1) Total number of employees excluding trainees, temporary staff and interns
2) Head office only; does not include branches or subsidiaries

BUSINESS MANAGEMENT AND KEY INDICATOR SYSTEM

Corporate management aligned to the restructuring of the Bank

The management system of the Bank is mainly aligned to the restructuring requirements. A core function of bank management is the development and regular updating of the restructuring plan within the internal planning process. The plan is implemented on the basis of a key indicator system as part of the controlling process. All material management information is supplied to the management of the Bank by the controlling department within the framework of the reporting system.

Important key indicators for the restructuring planning are income before restructuring, pre-tax income, return on equity, cost-income-ratio and the Tier 1 capital ratio. In addition the restructuring performance of the individual business areas and the internal Restructuring Unit together are reviewed with special key ratios regarding liquidity, total assets, risk assets and risk capital.

HSH Nordbank uses other internal key indicators to assess the performance of business fields. Material internal key indicators are RaRoC (Risk adjusted Return on Capital) and the value added (gross income less liquidity, administrative, risk and capital costs). Key indicators such as new business margin and cross-selling income are also applied in measuring performance.

The key indicator and reporting system is developed on a regular basis in order to take current management requirements into account. In the financial year additional key indicators for managing the winding down of the business were developed for the internal Restructuring Unit. Special key indicators are also used for monitoring the portfolio protected by the second loss guarantee, for instance utilisation of the agreed first loss piece as well as actual confirmed payment defaults.

Outlook

The following section should be read in conjunction with the other chapters in this Management Report. The forward-looking statements contained in this outlook are based on our beliefs and assumptions made using information currently available to us. The statements rely on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are outside of our control. Therefore actual results may differ materially from the following forward-looking statements.

ANTICIPATED UNDERLYING CONDITIONS

Moderate weakening in the dynamics of the global economy

The growth in the global economy should slow again in 2011. In fact the emerging economies should continue to expand strongly despite government measures taken to cool the economy. However, the US economy in particular will probably lose momentum. This is implied by the widespread unemployment, the continued high level of indebtedness of private households and the below average capacity utilisation, which suggests that consumption and capital expenditure will only increase at a moderate level despite the new fiscal and monetary policy measures. Furthermore, the situation in the real estate market should remain difficult in view of the sustained oversupply.

The eurozone should remain on its slow growth path. The gap between the sluggish developing peripheral countries and some more dynamic economies will also remain wide open in 2011. Germany, which is suffering comparatively less from structural problems, should take on the role of the economic locomotive and grow at an above-average rate. The German companies will benefit again from the expansion in international trade and also increase their capital expenditure at the same time. A further improvement in the labour market together with somewhat stronger wage increases should also boost consumption, which should also contribute markedly to growth.

Based on forecasts of the German Bundesbank in November 2010 the German banks are still facing value adjustments of € 23 billion for the current year, which is a similar amount as that in 2010. The restructuring of the sector will continue in view of the changed regulatory requirements.

Given the only sluggish recovery of economies – both in the US and the eurozone – together with the relatively moderate rate of inflation to date in these economic areas, the US Federal Reserve and the ECB will only gradually move away from their expansive monetary policy measures. Whereas the ECB may begin from the fourth quarter onwards to raise the base rate, we expect that tightening of monetary policy in the US will only commence in 2012. Accordingly, the yields on shorter term government instruments should also increase in the latter part of the year. The yields on government bonds with a longer maturity will also increase, as the high level of indebtedness and the risk of inflation should reduce their attractiveness. This applies in particular to US government bonds, for which we are accordingly expecting a more marked increase in yields than for German Bunds. The US dollar could depreciate against the euro by the year end, if a sustained solution is found for the public finance crisis in the eurozone and the ECB ends its exceptional monetary policy measures earlier than the US Federal Reserve.

The prospects for the equity markets continue to depend on the development of the world economy. We consider the economic environment anticipated in profit forecasts to be very optimistic. This is accompanied by a latent risk of a relapse, which continues to be countered by a certain investment pressure which results, among other things, from attractive dividend yields combined with comparatively unattractive yields on fixed-interest investments.

ANTICIPATED BUSINESS SITUATION

Strategic realignment of HSH Nordbank continues on schedule

The very noticeable successes achieved in implementing the realignment programme including improvements in results and key financial indicators show that the Bank is on the right track to establishing a sustainable foundation for the future. By concentrating on regional and sectoral activities the Core Bank has a clear position and long-term growth prospects in attractive markets. At the same time the Bank is creating through the systematic winding down of non-strategic positions the foundation on which it can drive forward its core business over the coming years on a focussed basis.

Given the positive and above-plan business developments in the past year the plan assumptions of the Bank have proved to be robust and sufficiently conservative. For the 2011 and 2012 financial years, HSH Nordbank expects continued improvements in its net results.

The main drivers are the reduction in the charges relating to loan loss provisions given the stabilised credit environment as well as the positive development in the measurement effects in net trading income, which are due to the continued winding down of risk positions and a gradual normalisation of the capital markets and have an overall positive effect.

In the Core Bank the Bank is planning a moderate and risk-conscious expansion of new business in selected areas. At the same time the customer divisions will continue to focus on managing the existing commitments. At the same time it is planned to maintain total assets of the Core Bank largely at a stable level. Growth in net interest income and net commission income is still dependent in general on the loan demand of companies and the opportunities to set prices at a level commensurate with the risk in a highly competitive bank environment.

In addition to the wide range of financing solutions we are aiming to develop our cross-selling business. This should account for an increasing proportion of income in the future. The foundations for the strengthened sales of needs-based cross-selling products, in particular investment and risk management products were further improved in the past year.

Further cost savings are linked in the coming years to the winding down of the business in the Restructuring Unit, the closing of locations and the further reduction in employees. This is offset by higher expense due to the so-called bank levy (Bankenabgabe) so that total administrative expenses for 2011 should approximately reach the previous year's level.

The Bank is expecting a substantial decrease in expense from public sector guarantees from 2011 onwards. A reason for this are the SoFFin issues that are gradually maturing. The SoFFin guarantee facility expired at the 2010 year end in accordance with the agreement; however, the guarantee still applies to existing capital markets issues until the final maturity of the bonds. Furthermore a gradual reduction of the second loss guarantee is planned given the stabilised capital situation. In February 2011, HSH Nordbank initiated the first partial reduction of the guarantee by € 1 billion to € 9 billion. The Bank expects approval to be granted by the guarantor in the near future. The fee expense is decreased accordingly on the reduction of the guarantee amounts. This will have an increasingly significant positive impact on the results of the Bank over the coming years.

The continued winding down of the risk positions consolidated in the Restructuring Unit is considered a key strategic target of the Bank. The reduction of the portfolios will therefore be driven as was the case previously through active measures – in addition to portfolio reductions resulting from scheduled principal repayments. The success of these measures continues to depend on the development of the economic environment in the relevant industries and financial markets. The downside potential will decrease in line with the continued portfolio reduction. However increased additions to risk provisions are expected for individual counterparties.

Following the unexpected strong upturn in the global economy in 2010 we are assuming that the economic recovery will continue at a weakened rate. The environment will probably remain characterised by significant uncertainty factors. In particular, the critical debt situation of some countries could again lead to unrest in the markets and cause problems in the banking sector.

At the beginning of 2011 HSH Nordbank and the state-owned China Development Bank signed a letter of intent to expand their business relationships. The focus is to be placed on operational cooperation in internationally aligned business fields. Joint financings and syndications will be the major focus. HSH Nordbank is expecting that the operating strengths of the Bank can be expanded through the cooperation.

Overall HSH Nordbank is confident that the course taken will bear fruit, the targets associated with the realignment will be reached and the Bank has strong prospects for the future.

EU state aid proceedings continue

The continued existence of HSH Nordbank AG depends on whether the European Commission in the foreseeable future approves the stabilisation measures granted by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on a permanent basis. It is also necessary that the EU approval should only be tied to such requirements that can be implemented within the framework of a sustainable business plan and in particular will not compromise the regulatory effectiveness of the reduction in regulatory capital required brought about by the stabilisation measures.

Nonetheless the Bank has pushed forward the implementation of the plan and the expected requirements in the reporting year and has reached important milestones. In addition to establishing the Restructuring Unit for the purposes of clearly separating the non-strategic portfolios and special risk positions from the core activities of the Bank these include the advanced stage of the winding down of the balance sheet together with, amongst other things, the reduction in the network of locations and a consolidation of the equity holdings portfolio. Discussions are also being held regarding an adjustment to the remuneration regulations for the second loss guarantee of the states of Hamburg and Schleswig-Holstein.

ANTICIPATED REFINANCING SITUATION

Development of additional refinancing potential

HSH Nordbank will continue in 2011 and 2012 the funding activities commenced in the previous year and will focus on expanding its investor base for the purposes of meeting the issue plan and refinancing the planned new business. The funding activities are aimed at obtaining a weighted mix of refinancing sources. The strong positive results trend in the 2010 financial year and the further progress made in the strategic realignment of the Bank should greatly aid its funding activities.

Deposit business with companies, public sector customers and other target groups is to be expanded through broadening the product range. The Bank will develop additional potential in the savings banks sector and with different investor groups in Germany and worldwide through increased contact with investors and sales and marketing initiatives.

A decision by the European Commission in the review process currently still pending, which would be positively received by the market, would further facilitate access to other investor groups and would thereby support an expansion of the new business of the core business units. Furthermore the Bank is aiming at a continued gradual reduction in its financing costs. A negative EU decision from the investor perspective, also in respect of other Landesbanks, could have an adverse impact on the funding volume marketable in the market, the investor base and the refinancing costs of the Bank.

Following the issuing of a public sector Pfandbrief in 2010 and a mortgage Pfandbrief at the beginning of 2011 the Bank is also aiming to issue benchmark bonds on the capital markets when market conditions are good. It is planned to issue unsecured instruments and Pfandbriefe. In view of the best mark received from Moody's for our mortgage cover pool in December 2010 focus is also being placed on an increase in the sale of mortgage Pfandbriefe. Public funding programmes, commercial loans for depositing in the ECB collateral pool together with structured funding transactions represent additional important instruments within the refinancing strategy.

Foreign currency assets, in particular those denominated in US dollar, are refinanced at HSH Nordbank via derivatives for the most part – as is the case at most European banks. The Bank is currently assuming that sufficient market depth required for this will continue to be available in the future.

Risk Report

RISKS WITHIN HSH NORDBANK GROUP

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

RISK MANAGEMENT SYSTEM

Principles of risk management

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

HSH Nordbank defines risk as the threat that unfavourable future developments may adversely affect the Bank's earnings and liquidity situation. Material risks for the bank are classified as default risk, market risk, operational risk, liquidity risk and strategic risk. The individual elements of risk management constitute a system in their entirety that ensures that risks are identified, analysed, evaluated, managed, monitored continuously and reported on.

There are clear rules in the Bank concerning responsibilities within the risk management framework. The overall responsibility for risk management in the Bank lies with the Management Board. This also includes the methods and procedures to be applied for measuring, managing and monitoring risk. By taking all types of material risk into account the risk strategy reflects the organisational and strategic orientation of risk management. It includes the planned development of all material business activities from a strategic risk perspective and taking particular account of the risk-bearing capacity.

The methods and instruments used in the risk management process are documented in a risk manual that is published throughout the Bank. The Management Board and the Risk Committee of the Supervisory Board are informed of the risk situation of the Group by means of a comprehensive quarterly risk report. As an internal but independent winding down unit for the Management Board of the Bank, the Restructuring Unit is fully integrated into the Group's risk management process. The risk methods and processes of the Core Bank apply accordingly to the Restructuring Unit.

Systematic enhancement of the lending process

In the year under review the Bank has made systematic progress on the enhancement of the lending process started in 2009 for the purposes of strengthening the back-office functions and the effectiveness of the lending decision process.[1]

In 2010 significant changes were made to the Bank's organisational structure and processes. For instance, the cooperation between the market and back-office divisions was structured on a much more efficient basis by defining clear responsibilities. In addition, the functions of credit risk analysis as well as loan and collateral management were successfully integrated into the back-office. The independent status and the quality of the back-office were thereby increased decisively. As a result, the lending decision process previously shaped by the market divisions was replaced by a much more risk-oriented approach. This ensures that there is a balance between risk and return targets in the assessment, particularly in the case of cyclical transactions. Overall, the measures implemented have made a significant contribution to the further enhancement of the Bank's risk culture and risk management.

Organisation of risk management

The organisation of risk management at HSH Nordbank is aligned with the requirements of the business model, while

[1] Cf. Chapter "Organisation of default risk management".

at the same time taking regulatory requirements into account.

The Management Board adopts the risk strategy of the Bank on an annual basis as part of its overall responsibilities. As a member of the Management Board, the Chief Risk Officer (CRO) is responsible for risk controlling, including risk monitoring, as well as for the back-office functions of the Core Bank. He is responsible for the divisions Group Risk Management, Credit Risk Management, Loan and Collateral Management and Restructuring. The tasks of the independent back-office are integrated into each of these divisions. Among the tasks of Credit Risk Management are the preparation of the risk analysis, including the determination of the internal rating and the drawing up of the credit application as well as the structuring of the processes and regulations for the lending business. Since September 2010 the new separate division Restructuring has been responsible for restructuring cases within the Core Bank. This function was previously assigned to Group Risk Management.

The member of the Management Board in charge of the Restructuring Unit takes responsibility for the internal winding down department, which has been set up from a organisational and process-related perspective as a back-office department. The Restructuring Unit decides whether to wind down positions which have been transferred to it. By the end of 2010, a second assessment had been made here by Credit Risk Management on non-problem and intensive care cases, in addition to the assessment made by the Restructuring Unit independently of the market divisions. Since the beginning of 2011, the relevant decisions have in principle been made solely within the Restructuring Unit under the dual control principle. The Restructuring Unit processes and manages the restructuring cases for positions for which it is responsible, mainly on an independent basis.

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

Central risk controlling in Group Risk Management develops the methods and instruments for measuring, managing and monitoring risks. In doing so, it ensures that the material risks of the Group are transparent and manageable. Trading transactions are settled and controlled in the Operations, Group Risk Management and IT divisions.

Active risk management for the Core Bank is performed in particular in the market and trading divisions, which are directly responsible for risks and profitability within the scope of their business activities. At the same time the risks are analysed and monitored decentrally by portfolio managers at the level of the respective division.

The Restructuring Unit created in December 2009 is responsible for positions of business areas no longer considered strategic and special risk positions. Central responsibility for the risk-oriented and loss-minimising winding down of the Credit Investment Portfolio is also included among its tasks.

In the year under review, the Management Board was directly responsible for the management of the strategic positions of the overall Bank, the management of the risk-bearing capacity throughout the year and capital measures. At the beginning of 2011, the ongoing portfolio management function was transferred to the newly formed Asset Liability Committee. It comprises the Management Board as well as the heads of the Group Treasury, Group Risk Management and Finance divisions.

For lending decisions above a certain amount the vote of a cross-division committee, which manages all the liquidity outflows on the asset side required for the business, is also taken into account. The composition of this committee was adjusted in February 2011, when the heads of Group Risk Management, Group Treasury and Finance became permanent members. The existing scope of the criteria catalogue was also expanded, e. g. to include profitability aspects.

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

The Legal division monitors the legal risks of the Bank as an independent department. The Compliance function monitors compliance with the requirements of the Bank with respect to securities compliance, anti money laundering, financial sanctions and fraud prevention. The

Compliance reports to the Management Board on the results of its control and monitoring activities on a semi-annual basis and to the responsible committee of the Supervisory Board on an annual basis.

Business segments are managed in line with worldwide standards on the basis of a global head principle. In this instance, the global heads – mainly heads of divisions – are responsible on a worldwide basis for the management of the business segments, administrative functions and services assigned to them. The global head principle also applies to risk controlling to ensure that a Group-wide coordinated risk controlling process is in place.

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

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

Internal Control System

Restructuring of the bank-wide internal control system

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

As part of the improvement of the Bank's business organisation, restructuring of its ICS was begun in autumn 2009 as part of a bank-wide project under the leadership of the Chief Operating Officer and involving all divisions, including the foreign branches. In this connection, a bank-wide main and sub-process structure (process map) was specified and a member of staff responsible for the process designated for all main processes. In addition, a so-called ICS cycle was implemented, which is to be completed annually, and includes the following levels: prioritisation of the processes to be revised, updating of the process, risk and control documentation, assessment of the appropriateness and effectiveness of the controls, determination of measures to be taken with regard to weaknesses identified in the controls and a final assessment after implementation of the measure. The top priority of this ICS assessment is the structured and systematic examination of potential or known weaknesses in processes together with the definition of and the decision on measures to be taken to eliminate them. The ICS cycle also ensures that subsequent to the project's completion the ICS is continuously enhanced with respect to its correctness and functionality.

Clear roles and responsibilities were defined within the ICS cycle to ensure that the tasks are performed in a proper manner. These are, in particular, the members of staff responsible for the process, members of staff with line responsibility, an ICS office and the ICS contacts in all divisions. The members of staff responsible for the process give the members of staff with line responsibility involved in the process binding specifications for designing the processes and controls and monitor adherence to these specifications. The members of staff with line responsibility design the process stage in their organisational unit in accordance with the specifications and provide evidence with regard to the appropriateness and effectiveness of the ICS in the respective process stage. The ICS office which is part of the Organisation division manages together with the process advisers the steps to be taken in connection with the cycle on the basis of a milestone plan. It also monitors the operational performance of the process responsibility by the respective member of staff in charge and ensures a regular report for the Management Board and the Supervisory Board. The ICS contacts are the first points of contact with regard to ICS topics in their divisions.

ICS regulations including the new roles and responsibilities also affect the corporate culture of the Bank. They are closely monitored by means of continuous communication and governance throughout the Bank in order to ensure that the system is functioning on a sustained basis. The ICS expertise in the domestic and foreign divisions was built up through a series of training measures so that the tools for process management and ICS can be applied on an independent basis in the individual divisions of the Bank.

When transferring the main processes identified for the Bank into the new ICS methodology, highest priority is given to processes relating to the preparation of the consolidated and single-entity financial statements, the management of requirements arising from the second loss guarantee, management of the loan portfolios and/or intensive care, liquidity management and risk management. As part of the project, two thirds of the main processes have already been re-designed in the year under review and integrated into the process map. The number of the sub-processes processed per main process varies between the main processes based on risk.

The milestones planned for 2010 were achieved for the high priority processes in accordance with the ICS cycle.

Substantial progress was also made in numerous other processes relating to the management of operational risk. On completion of the project as at 31 December 2010, the processes will continue to be transferred into the risk-oriented ICS methodology as part of line organisation. The rolling out of the ICS to selected subsidiaries and outsourced tasks is to be completed by the end of 2011. It is also planned to further extend the linking of the ICS with other risk management functions in the Bank, for example through the joint classification of risks and determination of measures to be taken.

Internal control system with regard to the accounting process

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

As is the case with all defined ICS processes, the accounting process is reviewed on a regular basis. Of paramount importance is the collection and allocation of material risks and their inclusion in the risk relevant sub-processes. At the same time, the process for preparing the consolidated and single-entity financial statements is of high priority. This complex main process consists of a number of sub-processes. Accordingly, the number of control steps to be carried out is comparatively high.

Under the leadership of the members of staff responsible for the process and with the involvement of all members of staff with line responsibility all existing controls were included in the written documentation and additional controls required were defined and implemented. Corresponding risk matrices were included in the documentation. The controls were assessed from a conceptual perspective, whereby key controls were defined and reviewed as to their suitability for minimising risk and their actual effectiveness. Furthermore, the extent to which the controls were carried out in an appropriate manner was reviewed and assessed. Based on the results, concrete and binding measures were established where necessary and have already been partially implemented in the year under review. The remaining measures should be implemented in the first half of 2011.

Regulatory requirements

HSH Nordbank determines the amount of regulatory capital backing for default, market and operational risks on the basis of the German Solvency Regulation (SolvV). In this context, the so-called IRB Advanced Approach is applied for default risk, for which the supervisory authority has issued the relevant authorisation to the Bank. Thus, the Bank applies the same parameters already being used internally in risk management and default risk management for regulatory reporting. The amounts allocated to market risk positions are determined in accordance with the pre-defined or optional standard procedures. Operational risk is taken into account under the standard approach. All limits applicable in this respect were maintained at all times during the reporting year.[2] The changes resulting from the Capital Requirements Directive (CRD) II were implemented on time as at 31 December 2010. The future requirements resulting from Basel III are being closely monitored as part of the involvement in bank initiatives.

In the year under review, the Bank completed implementation of the requirements that arose in 2009 from the second MaRisk amendment. In December 2010, the Federal Financial Supervisory Authority (BaFin) issued a new version of MaRisk. The international regulatory guidelines issued by the Committee of European Banking Supervisors (CEBS, since 2011 EBA) and the Basel Committee on Banking Supervision formed the essential basis for the revision. The regulations on liquidity risk, risk-bearing capacity, stress tests and risk concentrations are particularly affected by the changes. The Bank expects the new requirements to be implemented in full by the end of 2011.

In accordance with the requirements of Section 26a of the German Banking Act (KWG) and the German Solvency Regulation respectively, we have been publishing reporting date material, qualitative and quantitative information on equity capital, risks incurred, risk measurement procedures and risk management in a separate disclosure report since 31 December 2008. As an institution that uses the IRB Advanced Approach, particular requirements apply to HSH Nordbank. The document provides more information than statements made in this annual report on the basis of the accounting principles applied, as it provides comprehensive insight into the regulatory framework and the current risk situation of the Bank based on regulatory figures. The reports are available on our website, www.hsh-nordbank.de, under “Investor Relations.” With

[2] Regulatory figures: cf. Chapter “Net assets and financial position”

the publication of the disclosure reports HSH Nordbank complies with the requirements of the third pillar of Basel II (market discipline).

HSH Nordbank maintains a central data storage system, which takes into account requirements of the German Solvency Regulation, for the purposes of analysing, monitoring and reporting risks. In particular this includes the provision of data and information for regulatory reporting and disclosure under Basel II. Against the backdrop of adjustments since made to methods and processes, an inspection audit was carried out by the supervisory authority in the year under review.

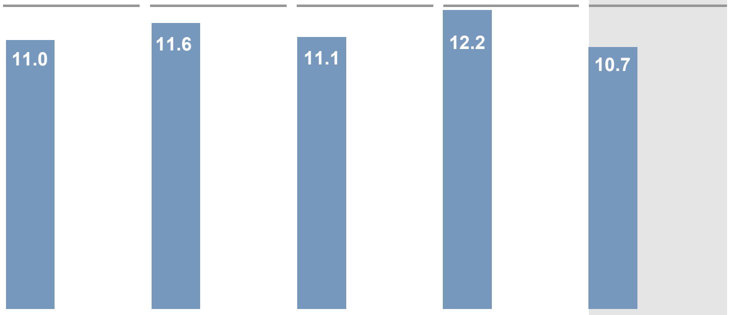
Risk-bearing capacity

HSH Nordbank has integrated a capital adequacy process (ICAAP) into its risk management pursuant to MaRisk in order to monitor and safeguard its risk-bearing capacity on a sustained basis. Risk-bearing capacity is managed in conjunction with equity capital and value added.
The economic capital required to cover unexpected losses (overall risk) is regularly compared to the available amount of economic risk coverage potential. This comparison is made within an integrated limit system that forms the basis of Group-wide economic risk limits on all types of risk. HSH Nordbank analyses its risk-bearing capacity comprehensively on a quarterly basis, as well as within the framework of its annual planning process.
Economic risk coverage potential is determined using the net asset value approach. In addition to equity capital for economic purposes (including changes in the net asset value) the net asset value approach takes into account, amongst other things, unrealized gains and losses arising on securities, equity holdings and the lending business as well as effects from the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein (total of economic mark-ups/mark-downs).

Since the second quarter 2009, the risk coverage potential has been reduced by the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein by the amount retained by HSH Nordbank of € 3.2 billion. At the same time, the total economic capital required for default risk has declined, as no economic capital has been required since June 2009 for positions that fall under the guarantee.

The calculation of the risk-bearing capacity changed as at 31 December 2010. On the one hand total economic mark-ups/mark-downs decreased by the deduction of deferred taxes now carried out. On the other hand the economic capital required for default risk has increased due to the change in the recognition of concentration parameters in the risk-bearing capacity.

Over the last five quarters, risk coverage potential developed as follows:



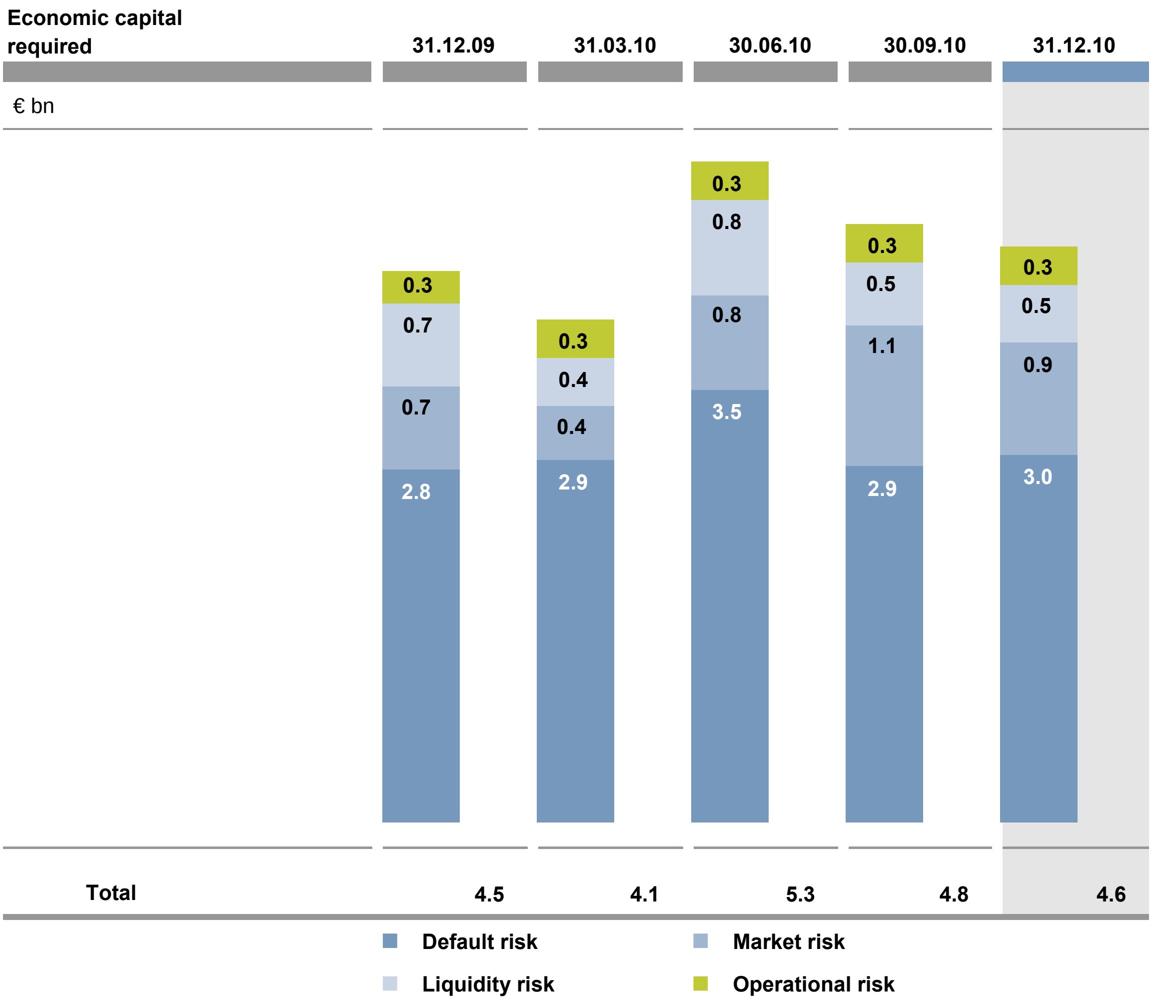
Economic risk coverage potential	31.12.09	31.03.10	30.06.10	30.09.10	31.12.10
€ bn					
Equity capital for economic purposes	12.9	13.0	13.0	13.0	12.9
Amount retained under guarantee transaction	-3.2	-3.2	-3.2	-3.2	-3.2
Total economic mark-ups/mark-downs	1.2	1.8	1.2	2.4	1.0
Total	11.0	11.6	11.1	12.2	10.7

As at 31 December 2010, risk coverage potential amounted to € 10.7 billion (previous year: € 11.0 billion). The reduction in the fourth quarter 2010 is mainly attributable to the deduction of deferred taxes.

The risk tolerance of HSH Nordbank is determined as part of the annual preparation of the risk strategy. Amongst other things, this includes the level of the buffer between the risk coverage potential and the maximum accepted overall risk (global limit). The buffer serves to cover, in particular, risks resulting from special stress scenarios and risks not yet quantifiable. The global limit is broken down into limits for individual risk types within the framework of the risk strategy.

The overall risk takes into account default risk, market risk, operational risk as well as the liquidity maturity transformation risk as an element of liquidity risk. Economic capital required is an expression of unexpected losses and is determined monthly for default, liquidity and market risks in a methodical manner with a confidence level of 99.9% and a risk horizon of one year. In order to do so, market risks are scaled up to this one year horizon based on the daily value-at-risk. Operational risks are determined in accordance with the standardised approach as defined in the German Solvency Regulation (SolvV). The economic capital requirements for the individual risk types are aggregated to an overall economic risk. In doing so, no risk-reducing correlations are utilised.

The following diagram shows the change in total economic risk over the course of the last five quarters:



In the case of losses arising from default risk, we make a distinction between expected and unexpected loss. The expected loss is equivalent to the default or loss in value due to a change in credit rating, which is expected within a year and is compensated for through the calculated risk costs. The maximum amount by which an actual loss can exceed the expected loss with a specified probability (99.9%) within a specified time period (1 year) is described as the unexpected loss. HSH Nordbank uses a modified IRBA approach to determine the unexpected loss, which is based, for example, on the analysis of the individual positions of subsidiaries classified as economically important and which waives the grandfathering provision regarding equity holdings. In addition to the probability of default (PD) of the borrower, the relevant risk parameters applied to this are the loss given default (LGD) and the exposure at default (EaD). In addition to the loan amount outstanding, the EaD also takes into account the expected drawdown on contingent liabilities and commitments. The economic capital required for default risk as at the reporting date amounted to € 3.0 billion (previous year: € 2.8 billion). Compared to 31 December 2009, the amount was up by € 0.1 billion mainly as a result of the change in the recognition of concentration parameters and the stronger US dollar as compared to the end of 2009, while the continuing winding down of the risk positions, a change in the LGD methodology implemented in the second half of 2010 and an improvement in the quality of the loan portfolio had offsetting effects. From 30 June 2009 onwards, the guarantee issued by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein has significantly eased the strain on economic capital required.

In response to the liquidity shortage in the markets, HSH Nordbank introduced a value-at-risk approach for quantifying liquidity maturity transformation risk as early as at the beginning of 2008. This long-term/structural liquidity risk is an expression of the danger of increased refinancing costs on the open liquidity position. Compared to the end of 2009, the liquidity value-at-risk (LVaR) decreased by € 0.2 billion to € 0.5 billion. In particular, this development reflects the decrease in liquidity gaps to be notionally closed and partly the refinancing costs (volatilities) which arise on closing out these gaps and which are decisive for determining the LVaR. Insolvency risk, which represents the more important aspect of liquidity risk in general compared to the maturity transformation risk, is backed by a buffer of liquid funds available at any time. Information on managing the insolvency risk, amongst other things, is included in the section “Liquidity risk”.

As part of the risk-bearing capacity concept, market risk (value-at-risk), which is determined on a daily basis at a confidence level of 99.0% and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a confidence level of 99.9% and a risk horizon of one year. Since the end of March 2010, the capital requirements for the Core Bank’s portfolio and for the Restructuring Unit’s positions have been determined using a uniform liquidation horizon of 250 trading days. In doing so, the diversification effects between the Core Bank and the Restructuring Unit are taken into account in such a way that the economic capital required for market risk has sunk ceteris paribus in comparison to the end of 2009. During the second quarter of 2010, however, there was a significant increase in credit spread risk due to the current debt crisis in some European countries. In the third quarter of 2010, credit spread risks on securitisation transactions were integrated into the daily VaR measurement and thereby into the determination of economic capital required. Since 2009, a monthly approximation calculation has been conducted to determine credit spread risks. Compared to 31 December 2009, the economic capital required for market risk increased in total by € 0.2 billion to € 0.9 billion as at 31 December 2010.

Operational risks are determined in accordance with the standardised approach as defined in the German Solvency Regulation (SolvV). The corresponding economic capital required amounted to € 0.3 billion as at 31 December 2010 (previous year: € 0.3 billion).

As a result of the effects described above, overall economic risk increased by € 0.1 billion compared to the end of 2009 and amounted to € 4.6 billion as at the reporting date (previous year: € 4.5 billion). The utilisation of risk coverage potential amounted to 44% as at the reporting date. The risk-bearing capacity was secured accordingly.

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

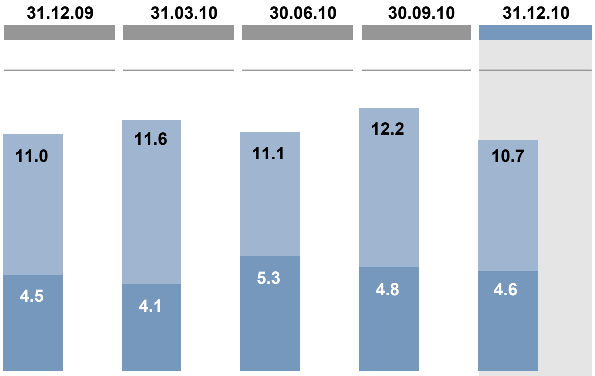
Risk-bearing capacity of the Group (€ bn)	Absolute 31.12.2010	Absolute 31.12.2009	As % of the risk coverage potential 31.12.2010	As % of the risk coverage potential 31.12.2009
Economic risk coverage potential	10.7	11.0	100	100
Risk limits				
of which: Default risk	3.5	3.1	33	28
Market risk	2.2	1.5	21	13
Liquidity risk	0.8	0.8	7	7
Operational Risk	0.3	0.3	3	2
Total	6.8	5.5	64	51
Economic capital required				
of which: Default risk	3.0	2.9	28	26
Market risk	0.9	0.7	9	6
Liquidity risk	0.5	0.7	4	6
Operational Risk	0.3	0.3	3	2
Total	4.6	4.5	44	41
Risk coverage potential buffer	6.0	6.5	56	59

We regularly conduct a stress test across all risk types in order to be in a better position to estimate the expected effects of potential crises on the overall risk situation of HSH Nordbank in addition to the assessment of the utilisation of the risk coverage potential as at the reporting date. For this purpose, we simulate the increase in the economic capital required that would arise on special scenarios for default, market and liquidity risks, which assume a massive deterioration in the risk parameters compared to the current situation and consequently go beyond the negative developments assumed within the framework of the CEBS stress test carried out in June 2010. The risk-bearing capacity of the Bank would have been maintained during the financial year 2010, even in this economic stress case.

Over time, the utilisation of the risk coverage potential developed as follows:

Utilisation of risk coverage potential

€ bn



%	31.12.09	31.03.10	30.06.10	30.09.10	31.12.10
Normal Case	41	35	48	40	44
Stress Case	57	65	78	75	77

Utilisation (economic capital required)
Availability (economic risk coverage potential)

HSH Nordbank uses recognised risk management instruments for the management of both regulatory and economic risk. For example, the bank was one of the first institutions to receive approval from the supervisory authority to calculate the regulatory capital backing for default risk on the basis of internally determined ratings (so-called advanced IRB approach).

As part of the scenario analysis HSH Nordbank determines the changes in the risk parameters for the customer lending portfolios. The PD and LGD are analysed for the respective portfolios on the basis of market expectations specific to segments. Furthermore, the credit investment portfolio is reviewed by internal and external experts on the basis of an analysis of carrying values, market values and unrealised losses.

HSH Nordbank successfully participated in the EU-wide regulatory stress test conducted by the CEBS – since 2011, the EBA - in the second quarter of 2010. As a result of the economic downswing assumed in the stress scenario in connection with a negative development of the financial markets, HSH Nordbank would report a Tier 1 capital ratio (including market risk positions) of 9.9% in 2011 – compared to 10.5% established for the 2009 annual financial statement. An additional simulated increase in the risk premium for government bonds would affect the Tier 1 capital ratio by an additional 0.2 percentage points. HSH Nordbank thus considerably exceeds the minimum value of 6% required by CEBS, even in the most severe scenario. Detailed results of the stress test may be viewed on our website, www.hsh-nordbank.de, under "Investor Relations".

DEFAULT RISK

In view of HSH Nordbank's strong orientation towards the lending business, entering into, managing and limiting default risks are among the Bank's core competencies. The default risk is broken down into credit, country, equity holding and settlement risk. In addition to the traditional credit risk, credit risk also includes counterparty and issuer risk. Settlement risk consists of clearing risk and advance performance risk. Clearing risk arises in the case of possible loss of value if delivery or acceptance claims pertaining to a transaction that is already due have not been met by both parties. Advance performance risk arises where the Bank has performed its contractual obligations but consideration from the contracting party is still outstanding. All elements of default risk referred to are taken into account within the context of the management of equity capital. For risk concentrations (in particular at borrower/country level) and equity holding risks, additional management measures are in place.

The organisation of and methods applied in default risk management are being constantly improved in order to reflect changes in market conditions and new regulatory requirements. The organisational and procedural changes made during the reporting year, which have led to a strengthening of back-office functions, were already addressed in the chapter "Systematic enhancement of the lending decision process". Please refer to the following chapter "Organisation of default risk management" for further details.

Organisation of default risk management

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

As part of the measures implemented by the Bank during the financial market crisis, the previous lending processes and structures of the loan divisions were subject to an intensive analysis, which was developed into an approach essentially based on risk. As a consequence, the credit analysis, loan management and collateral management functions, which were previously assigned organisationally to the market divisions, were integrated into the back-office.

Through the restructuring of the back-office departments, the tasks of Credit Risk Management have also changed significantly. By assuming the task of credit analysis originally performed by the market divisions, the preparation and setting of the internal rating and the drafting of the credit applications are now part of the tasks of risk analysis. As a result, the independence of risk analysis from the market divisions is further increased. Excluded from this new structure is the risk analysis for the highly structured business of the Core Bank. This remains within the market division, but the back-office divisions are to be closely involved. Furthermore, the organisation of the processes and regulations for the lending business, including the corresponding process responsibility, is among the tasks of the Credit Risk Management division.

Collateral values are determined in the newly formed Loan and Collateral Management division, the development and operation of an early warning system and segment risk analysis in the Group Risk Management division.

At the same time as the reorganisation of the back-office, new competence guidelines were established to reflect the new structures. Lending decisions in the Core Bank are made jointly by the market and back-office departments. Assessment and decision-making occur at the same time. A decision contrary to that of the back-office is not permitted. In the restructuring division, lending decisions are made under the dual control principle. The competence levels are based on nominal amounts and the internal rating category.

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

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

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

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

The Group Risk Management division is responsible for the independent monitoring of risks at the portfolio level, independent reporting and the management of country risk for both the Core Bank and the Restructuring Unit. As part of the introduction of a risk-oriented lending process the organisational structure of the independent portfolio management function within Group Risk Management was specified and a separate portfolio management unit established. For this purpose, the previous monitoring unit was organisationally transferred from the Credit Risk Management division into Group Risk Management. Portfolio management is responsible for ensuring the transparency of the portfolio, independent segment risk analysis and the operation of an early warning system for identifying at an early stage borrowers that are beginning to show signs of increased risk. In addition, the Bank is planning to further expand portfolio management with regard to processes, systems and instruments.

As part of the restructuring of the lending decision process, an integrated market strategy and credit risk strategy (IMKS) was developed in 2009 for the individual divisions as a component of the consolidated credit risk strategy for HSH Nordbank Group. The IMKS combines the assessment of risks and opportunities in the respective markets. Furthermore, it defines a comprehensive, binding and exclusive framework, within which lending business may be carried out in the strategic business fields of the Bank. Taking into account both market and risk perspectives ensures that the guidelines for granting loans ("credit standards") are consistent with the developments currently observed in the market and the position of HSH Nordbank within this market. The Group Risk Management division coordinates the development of the IMKS, in which the market divisions as well as the Corporate Development, Credit Risk Management and Group Risk Management divisions are involved.

The expertise for winding down the portfolios is consolidated in the Restructuring Unit, which was set up as a back-office unit from an organisational and processing perspective. The Restructuring Unit makes the decision to reduce positions which are transferred to it. By the end of 2010, a second assessment had been made here by Credit Risk Management on non-problem and intensive care cases in addition to the assessment of the Restructuring Unit. Since the adjustment of the competence guidelines at the beginning of 2011, the relevant decisions have been made solely based on the assessment of the Restructuring Unit under the dual control principle.

In principle, the Restructuring Unit processes and manages restructuring cases for positions for which it is responsible on an independent basis. Furthermore, it is responsible for processing and decision-making on work-out cases both for its own positions and those of the

Core Bank.

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

Managing default risk

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

The economic capital required for default risk has been reduced by the second loss guarantee issued by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein, as, since June 2009, there has been no economic capital required for default risk for positions that fall under the guarantee. HSH Nordbank manages both the guaranteed and non-guaranteed portfolio in accordance with regulatory and economic principles. For example, the economic capital required for default risk on the guaranteed positions without taking account of the guarantee is additionally limited. The objective is to avoid, if possible, a claim on the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein.

Default risk exposure

The loan amount outstanding represents the sum of loans, securities, equity holdings, derivative financial instruments and other off-balance sheet transactions such as irrevocable, undrawn loan commitments that are at risk. The total loan amount outstanding was € 168,964 million as at 31 December 2010.

The loan amount outstanding broken down by internal rating categories is presented in the following table. The loan amount outstanding with an investment grade rating (rating category 1 [AAAA] to 5) accounts for € 97,514 million or 58% of the total exposure (previous year: € 129,438 million or 63%).

	Loan amount outstanding	
Default risk structure by rating (€ m)	**2010**	**2009**
1 (AAAA) to 1 (AA+)	35,733	48,675
1 (AA) to 1 (A-)	31,962	40,406
2 to 5	29,819	40,357
6 to 9	25,864	31,406
10 to 12	12,407	14,015
13 to 15	11,947	16,327
16 to 18	21,232	13,982
Total	168,964	205,168

With regard to the significant increase in the loan amount in rating categories 16 to 18, it should be noted that the rating methods applied by HSH Nordbank are based solely on the probability of default and, particularly in the case of asset financings, do not always permit a direct indication of the actual risk content of the respective financing. The increase in impaired loans from € 9.8 billion at the end of 2009 to € 12.3 billion as at 31 December 2010 turned out to be considerably lower.

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

	Loan amount outstanding	
Default risk structure by sector (€ m)	**2010**	**2009**
Industry	16,297	20,672
Shipping	33,330	34,941
Trade and transportation	11,141	13,092
Credit institutions	31,490	41,924
Other financial institutions	22,602	32,917
Land and buildings	24,141	26,799
Other services	11,259	12,896
Public sector	14,787	17,704
Private households	3,917	4,223
Total	168,964	205,168

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

Default risk structure by maturity (€ m)	Loan amount outstanding 2010	2009
Up to 3 months	18,557	15,940
> 3 months to 6 months	5,925	8,906
> 6 months to 1 year	17,836	27,558
> 1 year to 5 years	69,023	81,123
> 5 years to 10 years	34,203	45,481
> 10 years	23,420	26,160
Total	168,964	205,168

Rating procedure/LGD

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

The RSU is responsible for new development, consistent updating and further development of the rating systems in accordance with the regulatory quality requirements and for the operation of the rating modules in a standard IT environment. The RSU is supported in methodology and expertise by specialists from the participating banks. In addition to the rating modules supported by the RSU, HSH Nordbank also uses rating systems that are provided, maintained and enhanced by S Rating.

HSH Nordbank is in charge of the shipping, leasing, leveraged finance and, since the start of 2011, aircraft financing rating modules. It is also jointly responsible for the international real estate as well as the country and transfer risk rating modules.

As part of the validation process the predictive accuracy of the rating modules was reviewed in the year under review with regard to the predicted probabilities of default using anonymous, pooled data of the user group.

In order to determine the expected drawdown for contingent liabilities and commitments in case of possible default, so-called credit conversion factors (CCF) are calculated empirically and applied. The loan amount outstanding weighted by CCF is described as exposure at default (EaD). HSH Nordbank has developed a differentiated LGD methodology for lending and trading transactions to forecast the loss given default for all business divisions. Item-specific collateral recovery rates and borrower-specific recovery rates are estimated based on historic loss information. The respective default amount is determined from the EaD using the LGD. The LGD and CCF methods are reviewed and continually refined in the RSU user group and under the leadership of HSH Nordbank as part of the annual validation process.

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

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

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

The Bank aims to apply the methods newly developed and refined according to Basel II, not only to determine the regulatory economic capital required but also to integrate them completely at an early stage in the internal management system. Thus, all parameters connected to Basel II form the basis for an integrative approach to overall bank management and risk management at HSH Nordbank. For example, the corresponding risk parameters are used for pricing and are reflected in the determination of the competence guidelines. In addition they are incorporated in the system for integrated risk limitation and the planning and strategy process.

Management of default risk in pricing and actual costing

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

Stress tests

HSH Nordbank carries out regular stress tests to determine the economic capital required for default risk. For this, the risk parameters used to calculate the economic capital required are varied, e.g. by changing the expected probability of default and the default ratios. An assessment is made as to whether the budgeted risk limit for the default risks is still adhered to given the specific stress scenarios. The same stress tests are applied to the regulatory capital required to meet the requirements under the German Solvency Regulation (SolvV).

Risk concentrations

Effective limitation of risk concentrations is necessary for economic reasons, as well as from a regulatory perspective. Corresponding limits for economic capital are set in order to effectively manage and monitor risk concentrations at the borrower level (borrower entities) and country level. Limits are also applied to high risk countries, which are described in the “Country risk” section. Limits were derived from the risk coverage potential, taking into account portfolio granularity. At least once a year, the limits are reviewed on the basis of risk bearing capacity and set by the Management Board in line with the Bank’s risk strategy. The decision on each new lending transaction which could result in a limit being exceeded is made by the Management Board. The Management Board and the Risk Committee are informed in the quarterly risk report of all cases where a limit has been exceeded on new and existing lending transactions and of the status of the key measures introduced.

Risk concentrations with respect to sectors and rating categories are monitored in the framework of an integrated limit system. This enables early identification of adverse developments and the implementation of relevant countermeasures.

Additional limits for risk concentration are set at the level of regulatory borrower entities (in accordance with Section 19 (2) KWG) as part of the internal large risk management. The large risk management procedure ensures compliance with the regulatory limits for large exposures at both HSH Nordbank AG and the HSH Nordbank Group level and places the Bank in a position to identify large exposures at an early stage, which could exceed the applicable limit after taking account of the amounts to be applied to it, and to introduce countermeasures before they actually occur. In addition, there are limits on classic lending and trading transactions.

Country risk

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

Country risk limitation is an additional management dimension within the management of risk concentrations. The risks involved in foreign lending activity are managed using the economic capital required. Among other things, the rating and the LGD of the specific economic risk country are included in the country risk measurement as the main risk drivers. Country ratings and country LGDs are based on a methodology that was developed as part of the joint project of the Landesbanks and the RSU. In addition, portfolio granularity is taken into account in order to provide a true portrayal of cluster effects.

The risk concentrations for all countries at Group level are limited in principle by the country limits for economic capital required as derived from the risk-bearing capacity. In addition, limits at global head level are set by the

Management Board based on the strategic importance of countries where the Bank conducts its core activities. Utilisation of the limits is monitored continuously by the country risk management.

The “Country exposure by region” table provides an overview of the breakdown of country exposure by region, which reached € 96,187 million as at 31 December 2010 (previous year: € 111,887 million). Country exposure is defined as the nominal exposure on lending and trading transactions taking into account collateral relevant to transfer risk. The item “Other” includes e.g. ABS and funds that cannot be clearly allocated to a country or region.

Country exposure by region (€ m)	Loan amount outstanding 2010	2009
Western Europe	53,867	61,160
of which: Eurozone countries	26,469	29,713
Central and Eastern Europe	2,805	3,464
of which: Eurozone countries	138	249
Africa	2,039	1,665
North America	21,767	25,274
Latin America	2,950	3,346
Middle East	969	845
Asien-Pacific region	10,803	14,927
International organisations	212	76
Other	775	1,130
Total	96,187	111,887

In view of the global financial crisis, country risk management has identified high risk countries which are likely to be particularly affected by the negative macroeconomic effects of the crisis. Narrow limits have been set for these high risk countries and are monitored continuously. The country risk concept for these limits comprises all country risks and thus goes beyond observation of the transfer risk described above. Because of the deterioration in their fiscal data, a number of countries in the eurozone are subject to increased monitoring. Since 2009, additional limits have been established for this purpose, which at the end of 2010 affect Ireland, Greece, Portugal and Spain and since January 2011 also Italy and Belgium.

The loan amount outstanding on sovereign loans in the countries Belgium, Greece, Ireland, Italy, Portugal and Spain totalled € 1,921 million as at 31 December 2010.

Sovereign loans to selected eurocountries (€ m)	Loan amount outstanding 2010	2009
Portugal	165	129
Ireland	0	0
Italy	855	848
Greece	295	319
Spain	249	244
Belgium	357	317
Total	1,921	1,857

Equity holding risk

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

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

A regular company valuation represents an important instrument for monitoring and managing equity holding risk. At least once a year, impairment tests are performed on all direct equity holdings and the relevant indirect equity holdings of HSH Nordbank. Important equity holdings are subject to a detailed valuation using the relevant standards of the Institute of Public Auditors in Germany (IDW). All other equity holdings undergo a risk-oriented assessment.

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

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

Loan loss provisions

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

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

In the case of problem loans – including not only workout cases but also restructuring loans – the basis for the respective amount of the loan loss provision is the unsecured portion of the loan draw-down after a revaluation of the collateral. The Bank's experience in realising collateral and appropriate individual risk haircuts are taken into account in revaluing the collateral. The appropriateness of the loan loss provision is monitored continuously as part of the problem loan processing.

Loans and advances to customers declined markedly by about 10% during the reporting year as a result of the limited amount of new business. Since movement in loan loss provisions was characterised through the end of 2009 by high net additions due to the financial and economic crisis, a significantly reduced net change has been evident since the beginning of 2010 as a result of the economic recovery. This also applies specifically to the shipping markets, which are of particular importance to HSH Nordbank. The table "Total loan loss provisions" provides an overview:

Total loan loss provisions (€ m)	**31.12.2010**	**31.12.2009**
Loans and advances to customers	99,461	110,820
Loans and advances to banks	11,828	20,796
Volume of impaired loans	11,637	9,819
Individual valuation allowances for loans and advances to customers	-3,909	-3,440
General loan loss provisions for loans and advances to customers	-298	-284
Individual valuation allowances for loans and advances to banks	-191	-363
General loan loss provisions for loans and advances to banks	-9	-9
Total loan loss provisions for balance sheet items	**-4,407**	**-4,096**
Provisions for individual risks in the lending business	-373	-523
Provisions for contingent liabilities (general loan loss provisions) in the lending business	-14	-14
Loan loss provisions for off-balance sheet items	**-387**	**-537**
Total loan loss provisions	**-4,794**	**-4,633**

During the reporting year, the Bank's loss ratio amounted to 0.44% (previous year: 0.24%). The Bank's loss ratio is calculated on the basis of the actual realised losses (utilisation of individual valuation allowances plus direct write-downs less income payments received on loans and advances previously written-off) in relation to loan volume. For 2010 losses resulting from defaults amounted to € 773 million (previous year: € 499 million) and credit volume amounted to € 174,365 million (previous year: € 211,541 million).

Loan loss provisions within the Bank in the form of individual valuation allowances and provisions for individual risks in the lending business amounted to € -4,472.9 million as at 31 December 2010 (previous year: € -4,325.9 million) corresponding to a ratio of 2.57% in relation to loan volumes (previous year: 2.04%). General loan loss provisions (including general country loan loss provisions) amounted to € -321 million (previous year: € -307 million).

MARKET RISK

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

Organisation of market risk management

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

Market risk is actively managed directly in the Capital Markets Structuring & Trading and Group Treasury divisions. The Management Board was directly responsible in the year under review for selected, strategic positions. At the beginning of 2011, this overriding portfolio management function was transferred to the newly formed Asset Liability Committee. The market positions of the Restructuring Unit are also restricted through limits and monitored on a daily basis. Daily market risk reports regularly keep the Management Board and the trading divisions informed on the extent of existing market risks and current utilisation of limits.

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

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

HSH Nordbank Securities S.A. was identified as a subsidiary to be included within the Group-wide market risk management. Risk limits are set and risks monitored centrally by HSH Nordbank AG.

Market risk management

Market risk measurement and limitation

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

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

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

Where necessary, HSH Nordbank enters into hedging transactions to manage or reduce market risk in order to offset the impact of unfavourable market movements (e.g. with regard to interest rates, exchange rates) on its own positions. Derivative financial instruments in particular, such as interest rate swaps, are used as hedging instruments.

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

Market risk measurement enhanced

In the year under review, the risk measurement for credit spread risk was enhanced to complement the existing VaR methodology. The credit spread of a bond is a premium payable for the default risk of an issuer. The credit spread risk represents the risk that the value of a position will rise or fall due to a change in the spread. During the third quarter of 2010, credit spread risk on securitisation transactions, for which an approximate monthly calculation had been made since the end of 2009, was integrated into the daily VaR measurement and thus into the determination of economic capital required. Furthermore, the risk measurement for government bonds and Pfandbriefe was refined in June 2010. Differentiated spread curves are now applied in the calculation of the VaR and the profit and loss by country or collateral category respectively.

As part of the regular process for identifying basis risk, the Bank again analysed the overall portfolio in the year under review with regard to importance for the Bank. No significant changes were identified compared to the previous year. The swap positions in particular contain interest rate basis risk. The interest rate basis risk is defined as the potential loss of value that results from different payment frequencies and/or reference interest rates on the variable side of swaps. As part of the integration of interest rate basis risk into the daily measurement of market risk, the remaining professional work for the secondary currencies of HSH Nordbank (DKK, SEK) was completed in the reporting year. Technical implementation is planned for 2011.

At the end of 2010, work was commenced to incorporate into the internal management process the fair value adjustments (FVA), which have been calculated for financial statement purposes for several years. As a first step, the change in counterparty default adjustments, i.e. the measurement of counterparty risk on derivatives, was included in the calculation of the economic profit and loss. Other types of FVA are to follow in 2011.

Since the end of the year under review, we have also been measuring the market risk that arises on derivative positions from the change in the market's assessment of the creditworthiness of the counterparties. This is particularly relevant for very positive market values on derivatives. An appropriate measurement method was established in the course of the year 2010.

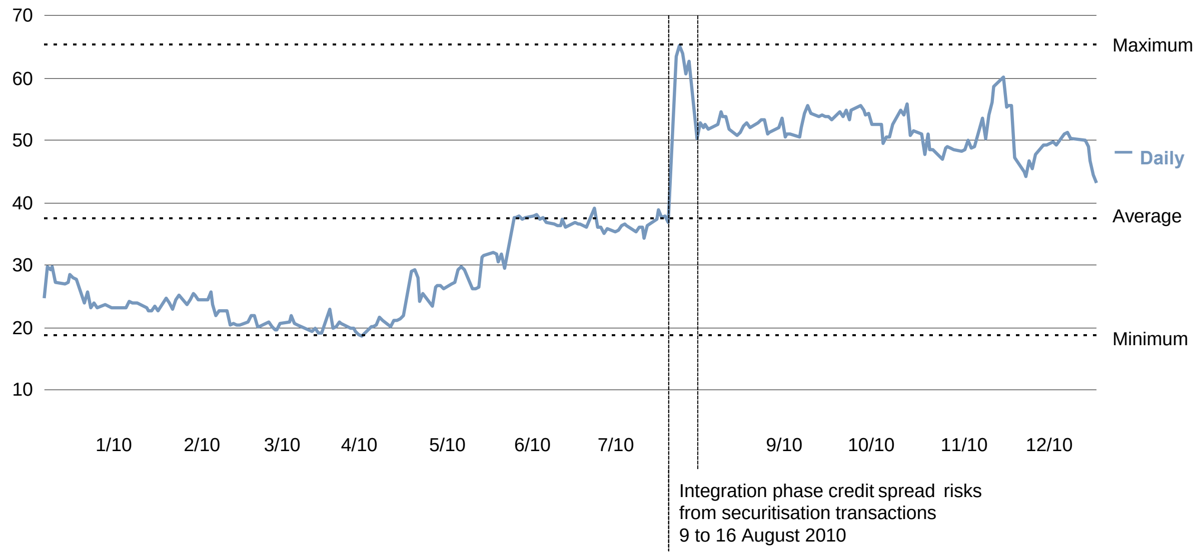
The incorporation into the market risk calculation of so-called smiles for volatilities is planned for 2011. For ease of simplification volatilities independent of the interest rate strike price have been assumed up to now for the risk calculation. The calculation will be based on volatility surfaces in the future. The improvement of the consideration of the right to cancel bonds in the market risk systems is an additional focus of the enhancement measures.

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

Daily value-at-risk in the year under review

The following chart illustrates the movement in the daily value-at-risk for the total trading and banking book positions of HSH Nordbank over the course of 2010. Market risk fluctuated between € 19 million and € 65 million with the value-at-risk of the trading book positions amounting to € 4 million as at 31 December 2010, while that of the banking book transactions amounted to € 42 million. On the last trading day in 2010, the total VaR of the Bank amounted to € 43 million, while the VaR limit for restricting market risk amounted to € 80 million. The utilisation of the limit was therefore 54%. As part of the risk-bearing capacity management, the VaR is scaled up to the amount of € 0.9 billion in the framework of aggregating the individual risk types to the overall risk.

Daily value-at-risk in the course of 2010 (€ m)



In addition to the decline in trading activities, the decrease in interest rate risk was a methodological result of the elimination of data for the corresponding period in the previous year from the historical observations for the last 250 trading days, as well as of lower market volatility.

In the period from February to April 2010, the foreign exchange risk for special repo transactions was exaggerated at times due to technical reporting errors in the relevant risk measurement system. Foreign exchange risk has again been determined correctly since 24 April 2010.

As part of the further enhancement of the methodology, the integration of credit spread risks from securitisation transactions – for which a monthly approximation calculation has been conducted since the end of 2009 – into the daily VaR measurement began on 9 August 2010. The significant increase in the credit spread risk resulting from this, and therefore also the overall market risk, decreased when the integration terminated on 16 August 2010.

In addition, since the third quarter, the foreign exchange risk from unrealised losses on ABS has been initially taken into account by the improved valuation of ABS in the risk measurement systems. As a result of this, there may be a noticeable increase in the measured foreign exchange risk in the Restructuring Unit. Foreign currencies are not explicitly hedged, as the Bank does not expect any actual losses from these unrealised losses and therefore no foreign exchange risk exists from a long-term perspective. For this reason these foreign exchange risks have not been considered up to now. These risks have now been integrated into the measurement process in terms of a uniform measurement of market risk.

At the beginning of December 2010, improvements were made to the measurement of credit spread risk on securitisation transactions and of foreign exchange risk. On an overall basis, this resulted in a significant reduction in the overall market risk.

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

Daily value-at-risk of the Group (€ m)

	Interest rate risk *		Credit spread risk*		Foreign exchange risk		Equity risk		Commodity risk		Market risk (aggregated)[3]	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Average	10.0	33.7	28.7	27.0	12.7	20.6	3.2	5.3	0.2	0.3	37.3	49.8
Maximum	25.9	47.8	45.9	40.0	32.2	47.3	4.9	9.9	1.2	1.7	65.2	74.8
Minimum	6.7	20.7	21.1	20.7	1.9	2.2	2.5	2.6	0.1	0.0	18.7	27.2
Period end amount	9.2	25.4	38.6	21.3	10.2	2.3	3.3	2.7	0.2	0.2	43.3	29.9

* Credit spread risk is a sub-type of interest rate risk. It is not disclosed as a part of interest rate risk but as a separate item due to its significance to HSH Nordbank.

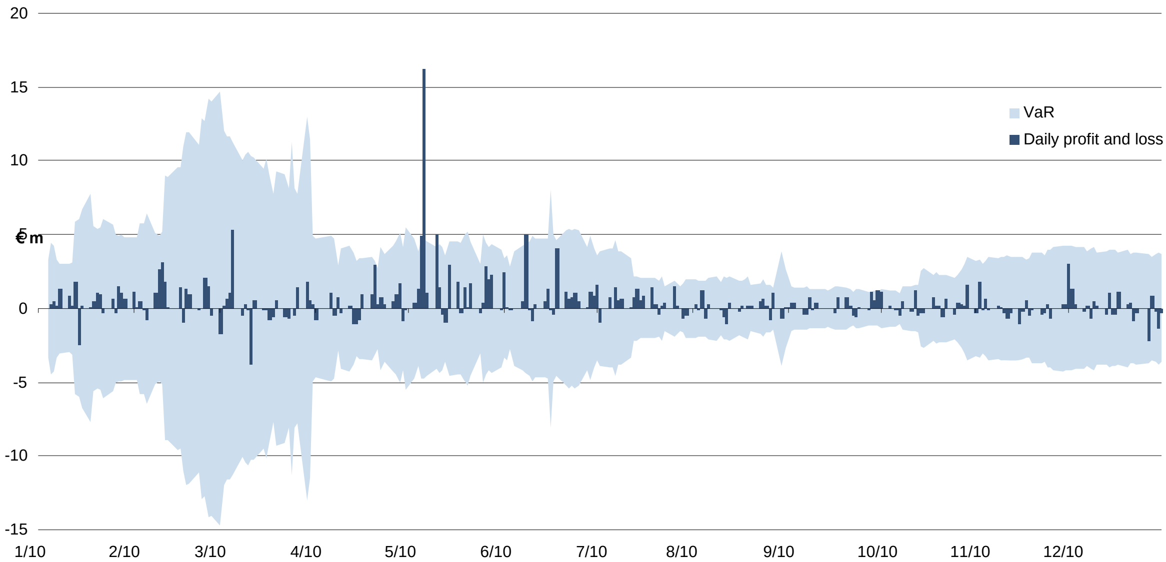
[3] The value-at-risk does not add up due to correlations.

The market risk that arises on derivative positions from the change in the market's assessment of the credit-worthiness of the counterparties amounted to € 8.3 million as at the reporting date. This risk is not included in the value-at-risk amounts disclosed for the Group.

Backtesting

The Bank performs daily backtests to verify the appropriateness of our VaR forecasts. On the assumption of unchanged positions, the daily profit and loss achieved in theory due to the market developments observed are compared with the VaR values of the previous day, which were forecasted using historical simulation. Based on the assumption of the confidence level of 99% applied by the Bank, up to four outliers indicate that the forecasting quality for market risks is satisfactory. With a total of four outliers in the year under review, the market risk model of the Bank is validated accordingly. The results of back-testing are taken into account in the ongoing development of our VaR methodology.

The following chart shows the daily value-at-risk and the actual daily profit and loss for the trading book positions of the Core Bank over the course of the year:



A contribution to profit of € 17 million was generated in May 2010 through share arbitrage transactions across annual general meeting dates.

Stress tests

In addition to the limit-based management of the daily VaR, at least weekly stress tests are performed that analyse the effects of unusual market fluctuations on the present value of the Bank's positions. In doing so, we vary our stress scenarios based on the risks specific to the economy, the Bank and the Bank's portfolios.

We differentiate between historical/standardised and hypothetical stress scenarios on the one hand and risk-type specific and risk-type overlapping stress scenarios on the other. While the historical/standardised scenarios are constant and take into account correlations that actually occurred in the past in the case of risk-type overlapping stress tests, the hypothetical scenarios represent notional changes in the risk factors.

As part of the risk stress test a change in the risk factors is simulated under extremely unusual market conditions, e.g. by shifting or rotating the interest rate curve in the interest rate risk stress test. For special analyses of the interest rate risk of our banking book positions, we continually determine change in present value on interest rate shocks of +130 and -190 basis points. In doing so, we fulfill the supervisory requirements for the determination of the effects of a sudden and unexpected interest rate change to positions held in the banking book. At the end of 2010 the negative interest rate shock with a potential loss of € -226 million represented the most unfavourable scenario for the Bank.

The potential loss under the scenario of an extreme increase in credit spreads amounted to € -514 million as at 31 December 2010. In this stress test the spread curves are shifted according to their rating category. Spread shifts of between +30 (AAA rating) and +1,500 basis points (CCC rating) are applied to the curves.

At the end of 2010, the potential loss under the scenario of a negative movement in exchange rates amounted to € -68.9 million. The following shifts in exchange rates were taken into account in determining the change in present value: USD -9%, GBP - 8%, JPY -16% and -9% for the currencies of the remaining industrialised countries and -15% for other currencies. The movement in the US dollar is the significant factor influencing the result of the stress test, as only smaller positions are held in other currencies.

Furthermore separate stress tests are performed for currencies, securities, commodities and volatilities, whereby standard shifts are used as a basis for the respective positions.

Instruments for managing market risk as part of hedge accounting

For purposes of managing market risk from loans and liabilities, as well as from securities, the Bank's financial markets divisions also employ derivative financial instruments. In particular, interest rate swaps and other interest rate/currency derivatives are employed to hedge interest rate and foreign exchange risks from underlying transactions. Risks may be hedged on a micro, portfolio, and macro basis.

When hedging trading portfolio positions, hedging relationships are implicitly taken into account as part of the financial measurement of the hedged items and hedging instruments at fair value less a risk haircut under Section 340 e (3) 1st sentence German Commercial Code (HGB).

When hedging positions in the non-trading portfolio, transactions which clearly are related to another in a documented hedging relationship may be accounted for as a valuation unit within the meaning of Section 254 HGB provided the requirements for the application of Section 254 are met. In the case of hedging relationships not included in valuation units, a review is conducted as to whether provisions for contingent losses should be created.

LIQUIDITY RISK

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

Organisation of liquidity risk management

Liquidity management is the responsibility of the Group Treasury division which assumes this task as a cross-divisional banking function. The splitting of the Bank into a Core Bank and a Restructuring Unit has no impact on the management of liquidity risk. The individual divisions within the Restructuring Unit are integrated into the processes and methods for managing liquidity risk in the same way as are all relevant divisions in the Core Bank. The objective of liquidity management is to ensure the solvency of the Bank at all times, in all locations and in all currencies. Group Treasury is also responsible for funding and marketing.

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

HSH Nordbank Securities S.A. as well as, since the end of 2010, HSH Nordbank Private Banking S.A. and the HSH Real Estate Group are integrated as relevant subsidiaries into the Group-wide examination of liquidity risk.

The Bank has a contingency plan which contains a catalogue of measures and regulated procedures and responsibilities should a liquidity crisis occur. We have now also incorporated early warning indicators as part of the enhancement of the contingency plan.

Our Liquidity Policy defines the basic parameters of the Group in dealing with liquidity and the associated risks. For example, responsibilities and processes are defined in this policy, the measurement, monitoring and management of liquidity risk described and the risk tolerance of the Bank for dealing with liquidity risk specified.

Liquidity risk management

Measurement of liquidity risk

The transactions of the Bank impacting liquidity are converted into cash flows and the inflows and outflows allocated to time buckets (liquidity development report) for the purposes of measuring insolvency risk or funding requirements. The difference between inflows and outflows represents a liquidity surplus or deficit (gap) in the relevant time buckets. As a measure of insolvency risk the individual gaps for 1 to 14 days are used to show concentrations of outflows and the cumulative gaps from 1 day to 12 months to consider future liquidity requirements. They are compared to the liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the limit for insolvency risk.

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

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

HSH Nordbank has been quantifying its liquidity maturity transformation risk since the beginning of 2008 by means of a value-at-risk approach. The liquidity value-at-risk (LVaR) is calculated using historical simulation (confidence level 99.9%) of the liquidity spread and its present value effect on transactions, which would be necessary theoretically in order to immediately close the current maturity transformation position. In doing so, it is assumed that these hypothetical close-out transactions could actually be effected in the market and that full funding is therefore possible.

Limiting and monitoring liquidity risk

Limits are set for the individual gaps as well as the cumulative gaps for the first 14 days as part of insolvency risk management. Furthermore, limits are set for cumulative gaps for numerous other time buckets up to 12 months.

Insolvency risk is in principle limited by the ability of HSH Nordbank to exhaust its total liquidity potential. This liquidity potential comprises different elements, the total of which represents the total limit. The liquidity potential (limit) represents the respective ceiling for cumulative gaps of individual maturities and is composed of a securities portfolio held as a crisis precaution measure (crisis liquidity), further liquid securities and promissory notes, according to how liquid they are, unsecured funding options, secured funding potential from the issue of Pfandbriefe and commercial loans eligible for refinancing with central banks. In the year under review, the limit was expanded to include other components, e.g. the plans for the winding down of the portfolio within the realignment of the Bank are now reflected in the limit based on a conservative approach. Given the market situation, the unsecured short-term funding potential has been reflected more precisely since 2010 and, as a result, more restrictively in the liquidity potential through the separate assessment of the prolongation ratios of banks and non-banks. The components of the liquidity potential are monitored continuously and validated in accordance with internal minimum requirements. Safety buffers and risk discounts were incorporated into the limits in order to keep the probability of full utilisation or overdrawing the limits as low as possible. These individual discounts are, for example, haircuts or other safety margins that reflect the uncertainty about the future development of the respective limit component.

Group Risk Management calculates and monitors limit utilisation daily and reports the results to the Management Board and Group Treasury. If limits are exceeded, Group Treasury determines and implements appropriate measures and their implementation is monitored by Group Risk Management.

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

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

Liquidity management

The Bank prepares a structural liquidity plan for the strategic management of the liquidity resource over the long-term. The internal liquidity committee is used, among other things, to manage liquidity over the short-term, whereby it makes decisions on a weekly basis with regard to relevant upcoming outflows and new transactions. The basis for decision-making is, among other things, the structural liquidity development report, which is updated regularly and is prepared in a manner consistent with the Bank's business planning.

The liquidity buffer on our securities and loans (collateral pool) was also managed and enhanced by Group Treasury in 2010 in order to utilise the potential for secured funding in the best possible manner.

Backtesting

In our backtesting we review the modelling of products with stochastic cash flows in the liquidity development report on the basis of statistical evaluations of historical cash flows. The selection of the relevant products is based on the product volume and its risk content in terms of uncertainty in previous modelling. In the year under review, we have carried out backtesting for numerous products, e.g. overdraft facilities, demand deposit/savings deposits, cash collateral for OTC derivatives, early redemption of own issues and promissory notes, irrevocable loan commitments/liquidity facilities and rollover loans. Furthermore backtesting is performed on funding potential and the methodology applied in taking account of new lending business, prolongations and repayments.

In October 2010, we enhanced the parameters for measuring and setting limits for insolvency risk on the basis of the knowledge obtained from regular backtesting and the statistical analyses of the methods. Overall, the adjustments made resulted in a higher utilisation of the liquidity potential in the normal case and a lower utilisation in the stress case.

Stress tests

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

The selection of our stress tests is the result of an analysis of historical events and hypothetical models. The knowledge obtained on the rating downgrade of HSH Nordbank in 2009 was also incorporated into the modelling or the parameter structure. Within the different stress modelling market specific scenarios (e.g. global recession) and institution specific scenarios (e.g. rating downgrade of HSH Nordbank AG) are assessed on the basis of assumed critical market developments. In each of these scenarios it is assumed that new lending business will continue to some extent and that loans and advances to customers now maturing must be extended and refinanced on an increasing basis while the rollover of liabilities is partially cut back or is quite impossible and as a result a funding gap is created. Furthermore increased drawdowns on loan commitments issued and the early redemption of own issues and securitised liabilities are incorporated in the modelling. The stress test results are reported to the Management Board and Group Treasury on at least a monthly basis.

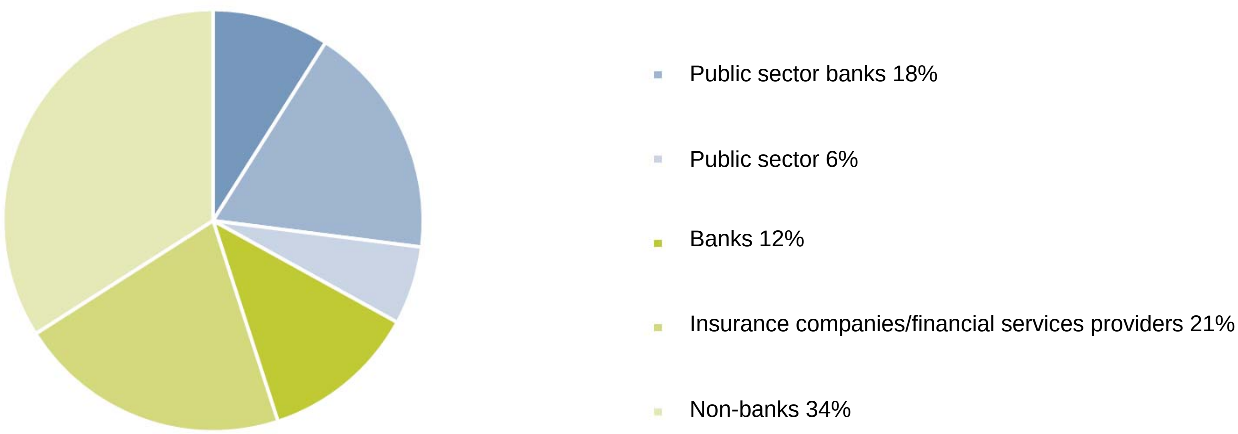
In addition to the previous calculations performed, we have developed in the year under review a US dollar stress test, which is applied to the normal case liquidity development report and simulates an appreciation in the US dollar affecting the US dollar cash flows and the cash collateral for US dollar derivatives. The stress factor for the appreciation is determined based on an analysis of the historical movement of the US dollar/euro exchange rate.

As part of the enhancements, we have also developed in the year under review a stress test for the liquidity maturity transformation risk. This stress test analyses how the liquidity value-at-risk (LVaR) moves on increasing liquidity spreads. The change in the liquidity spread is determined from an analysis of the historical movement for the purposes of deriving the scenario parameters. The stress LVaR serves as an indicator for the sensitivity of the LVaR to an increase in the spread/liquidity costs.

Risk concentrations

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

Depositor structure as at 31.12.2010 (in %)



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

In addition to the analysis of the depositor structure, liquidity concentrations are examined with regard to macroeconomic factors. This identified a strong dependency of the liquidity situation on the movement in the US dollar due to the large amount of US dollar assets that are refinanced through cross-currency swaps among other things. In the course of the euro crisis, the increase in the cash collateral to be provided for the currency derivatives represented a burden on liquidity halfway through the year 2010. For the purposes of analysing the dependency on the US dollar, sensitivity analyses are therefore carried out regularly for cash collateral. In addition a US dollar stress test of the liquidity development report is performed.

Liquidity position stabilised further

Further normalisation was initially observed in the money and capital markets at the start of 2010. However, uncertainty surrounding high budget deficits in particular in several Southern European countries and the associated weakness in the euro led to higher utilisation of the liquidity potential from April 2010 onwards. Furthermore, the above-plan prolongations in the lending business also had an initial adverse impact on the liquidity situation of HSH Nordbank. As the year progressed, the temporary high utilisation of the liquidity potential halfway through the year was significantly reduced by the reporting date through measures initiated by the Bank and the more stable euro against the US dollar.

In the course of the year we have used the tender transactions recently offered by the central banks just on a small scale. The volume amounted to € 150 million at the end of 2010. The liquidity received from the ECB in 2009 from the one year tender transactions in the total of approx. € 7.7 billion did not need to be replaced on maturity by follow-up tender transactions within the reported year.

The following measures were taken in the year under review in order to ensure a sufficient liquidity situation for the Group:

- Greater efforts to attract long-term funding through, among other things, increase in funds raising at savings banks and to retail customers
- Growth in sometimes large volume funding through private placements
- Increase in the cover pool and rating of the mortgage cover pool by Moody's with the top grade Aaa
- Floating of covered benchmark issues, e.g. issue of a three year public sector Pfandbrief
- Identification of further assets (e.g. commercial loans) eligible for refinancing with central banks for the collateral pool and depositing at the corresponding central banks.
- Measures to increase volume of customer deposits
- Close management of new business and prolongations
- Winding down of assets, e.g. from the credit investment portfolio.

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 30 December 2010 as well as at 30 December 2009. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes utilisation of borrowing options at the central banks.

Limit on cumulative liquidity gaps Utilisation of liquidity potential (%)	**Normal Case**		**Stress Case**	
	30.12.2010	**30.12.2009**	**30.12.2010**	**30.12.2009**
1st day	3	1	4	7
7th day	23	14	24	21
14th day	39	25	42	35
3rd week	46	33	52	44
4th week	52	38	66	54
8th week	57	48	74	68
3rd month	65	57	88	83
6th month	83	67	114	101
9th month	88	74	126	110
12th month	88	73	132	113

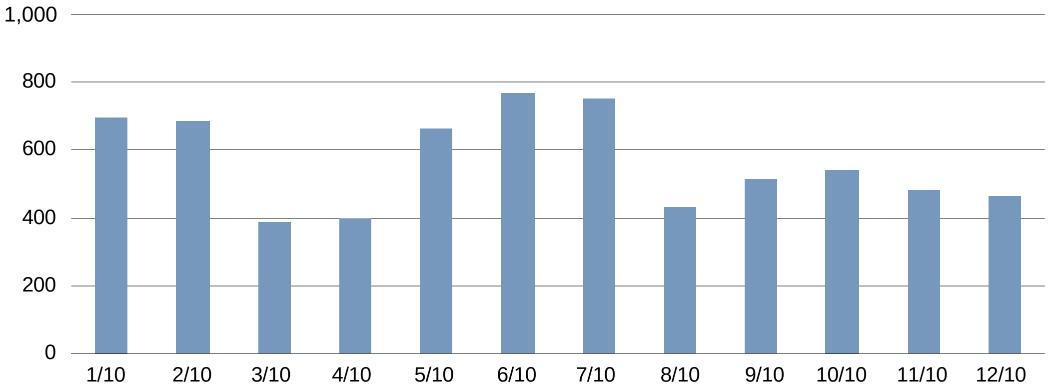
At the beginning of 2010, the Bank redefined its risk tolerance with regard to liquidity risk. Risk tolerance is reflected, among other things, in the definition of a survival period in the sense of a minimum survival period, which describes how long a liquidity potential under 100% may be maintained under the normal and stress cases for insolvency risk.

In the normal case assessment the liquidity potential had a peak utilisation of 88% in the 9th month and 12th month as at the reporting date. All limits within the defined survival period of 12 months were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was not exceeded within the three-month survival period established by the Bank. The utilisation rates have increased compared to the end of 2009, which is mainly attributable to expiring SoFFin bonds and the more conservative methodology applied in the liquidity risk measurement. However, no critical limit utilisation was noted.

The results of the market-specific and Bank-related scenarios determined in addition to the stress case liquidity development report show that in December 2010 the liquidity requirement of HSH Nordbank was covered for several weeks up to three months despite the strict worst case assumptions for each scenario. The results show that the Bank is suitably prepared for the crisis scenarios assessed.

In the year under review, the liquidity value-at-risk as an expression of the liquidity maturity transformation risk moved on a monthly basis between € 387 million and € 768 million. It amounted to € 465 million as at 30 December 2010. A minor limit overdraft halfway through the year in the amount of € 18 million was offset by appropriate measures.

Liquidity Value-at-risk in the course of 2010 (€ m)



Overall, the liquidity situation of HSH Nordbank has been stable in the reporting period through the above-mentioned measures and market developments. The long-term funding obtained is ahead of plan with a simultaneous stable movement in the deposit level. Access to capital markets remains limited so that future funding and the Bank's rating continue to be significant challenges.

Liquidity ratio of HSH Nordbank AG

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.44 and 2.01, our liquidity ratio remained above the regulatory minimum value of 1.0 at all times throughout the reporting year. The average value for 2010 was 1.72 (previous year: 1.66).

Liquidity ratio (LiqV)

Month-end values	2010	2009	2008		2010	2009	2008
January	2.01	1.37	1.27	July	1.59	1.92	1.29
February	1.87	1.17	1.23	August	1.45	1.67	1.26
March	1.99	1.30	1.18	September	1.58	1.88	1.23
April	1.99	1.50	1.18	October	1.74	2.17	1.18
May	1.74	1.41	1.26	November	1.59	1.92	1.18
June	1.44	1.72	1.35	December	1.67	1.87	1.34

OPERATIONAL RISK

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

HSH Nordbank considers operational risk controlling and the promotion of an appropriate risk awareness in the Group as an integral component of its management systems. This is particularly relevant given the dynamic business environment, the ongoing restructuring measures of the Bank, the limited options for transferring risk, together with the increased requirements of rating agencies and other market players.

In the year under review, a training session was held for employees of HSH Nordbank AG and selected subsidiaries by means of an E-Learning program to further increase the alertness of employees with regard to operational risk.

The internal splitting of the Bank into a Core Bank and a Restructuring Unit has no influence on the management of operational risk. The individual divisions within the Restructuring Unit are integrated into the Group-wide processes and methods for managing operational risk in the same way as are all relevant divisions in the Core Bank.

Organisation of operational risk management

HSH Nordbank has set up an independent central controlling unit to identify, analyse, evaluate and monitor operational risk. It is responsible for developing and supporting controlling instruments, providing expertise and advice on operational risk and the promotion of the risk awareness throughout the Group. Central risk controlling is also responsible for the independent reporting to the management units of the Bank that are responsible for managing risk.

Central controlling of operational risks is backed by a local network of experts. All divisions have OpRisk officers and OpRisk assistants who are responsible for maintaining the controlling instruments and who act as an interface between central risk controlling and the respective divisions. The OpRisk officers and OpRisk assistants receive training on their duties from central risk controlling.

All methods and procedures for controlling operational risk are also employed at the Bank's foreign branches.

The subsidiaries HSH Nordbank Securities S.A., HSH Real Estate Group, HSH Nordbank Private Banking S.A. and HSH Facility Management Holding AG have been identified as relevant and have been integrated in the Group-wide assessment of operational risk.

Operational risk management

Operational risk can affect all products, processes and organisational units. For this reason, a functioning risk awareness is of central importance in order to be able to utilise the expertise of employees to identify operational risk.

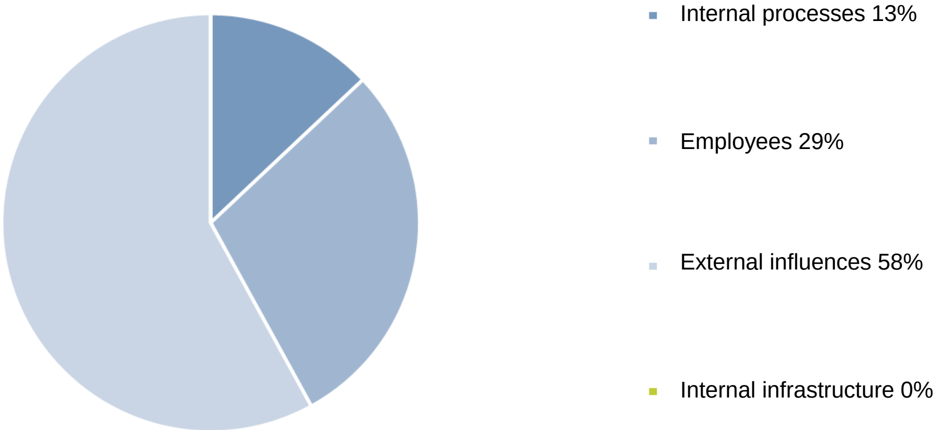
As part of the realignment of the Bank, a substantial reduction in the number of employees is planned in addition to the associated staff restructuring under which employees were affected in 2010, particularly by organisational restructuring and job changes. The reduction in headcount planned for 2009 and 2010 was slightly exceeded in the year under review. As a result, there is the danger in some divisions that the upcoming tasks can only be performed with the required diligence to a limited extent. In order to counter the resultant operational risk, the Bank has introduced measures to curb high staff fluctuation, to manage the internal job market and to intensify external recruiting. This ensured that the positions relevant for meeting the regulatory and legal requirements and other key positions critical to the success of the realignment and risk management of the Bank, particularly in the Credit Risk Management, Group Risk Management, Restructuring, Compliance, Guarantee Management, NPNM and Internal Audit divisions, were filled in good time. In addition, the specific measures initiated in 2009 for improving the personnel situation with regard to the management of intensive and restructuring cases, both in the Core Bank and the Restructuring Unit, were also continued in the year under review.

Loss event database

The loss events arising from operational risk are consolidated into a central loss event database for the Bank and relevant subsidiaries. The loss events are recorded locally by the divisions affected and forwarded to central risk controlling. The central risk controlling unit checks the data, consolidates losses into collective losses, if applicable, and prepares analyses and reports. The results of the analyses of actual loss events allow us to derive preventative measures.

The central loss event database includes all loss events with a gross loss of at least EUR 2,500. A gross loss is the sum of losses that involve a cash outflow, lost earnings and consumption of internal resources. Furthermore unexpected income arising from operational risk from an amount of € 2,500 is also recorded in the loss event database, as loss events with a positive income for the Bank can also provide indications of, for example, procedural weaknesses. Classification of loss events leads to systematically analyse the causes of losses and therefore contributes indirectly to the identification of operational loss events.

Share of risk categories in gross operational losses (%, 2010)



The largest individual gross loss in 2010 occurred in the external influences category.

HSH Nordbank participates in the exchange of operational loss event data as part of the Operational Risk Data Pool (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.

Based on the experience of the participating institutions, a catalogue of risk categories of banking risk scenarios was developed and adopted in 2010. The scenario catalogue has already been implemented by HSH Nordbank as a basis for risk assessment in the annual risk inventory. Since 2011 the participating banks have also allocated all loss events involving a certain minimum amount of gross loss to a specific risk scenario. Thus, HSH Nordbank perspectively obtains an improved data base for the evaluation of risk scenarios and external comparisons.

Risk inventory

Since 2005, HSH Nordbank has carried out a risk inventory each year for the whole Group. Based on information about the risk situation of the divisions gained from this inventory, the reporting of operational risk to the management units is supplemented by forward-looking risk estimates to encourage the proactive management and monitoring of operational risk. The scenario catalogue developed by DakOR was expanded by HSH Nordbank to include internal scenarios and is now being used for the bottom-up collection of potential loss events. The individual scenarios are consolidated in core topics, e.g. reorganisation and outsourcing, and supplemented by a top-down analysis across divisions. Based on the risk inventory, scenario analyses are to be performed in individual cases for the purposes of assessing the danger presented by particularly serious operational risk events that are of particular importance with regard to establishing suitable measures.

Legal risk

In accordance with the German Solvency Regulation (SolvV), legal risk also falls under operational risk. The Legal division is responsible for managing these risks. In order to reduce, limit or prevent risk all divisions are given comprehensive legal advice by regularly trained staff. A structured process with clear requirements and responsibilities serves to ensure that the Bank's contracts and agreements are kept up-to-date.

Compliance risk

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

There has been a further increase in the compliance requirements on financial institutions. This is due firstly to new legal and regulatory requirements and secondly to compliance loss events in the area of international financial services. HSH Nordbank has responded to this by continuously developing its compliance system and taking current market standards into account.

The Code of Conduct summarises all behavioural requirements for compliance, which are set out in detail in internal instructions. It applies to all employees, managers and the Management Board of HSH Nordbank AG and is a mandatory part of the agreement of personal goals. By March 2010 all members of the Management Board, managers and employees had attended a bank-wide training programme on the Code of Conduct. Special training sessions were standardised and expanded.

In 2010, the Bank received notification of suspicious cases of misconduct from the so-called “whistleblowing office” and forwarded these to the relevant internal and external units. Furthermore, the whistleblowing office is staffed by independent ombudsmen from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and enables anonymous reporting of suspicious cases.

During the year under review, several enhancements were made with regard to the individual compliance topics. These include the gradual review of the older existing portfolio of HSH Nordbank with regard to any money laundering risk. This was continued and specific high risk cases were submitted to the Management Boards for their decision. The new requirements with regard to financial sanctions, investor protection and investment consulting have been implemented in good time. The implementation of the Minimum Requirements for the Compliance Function (MaComp) issued by the supervisory authority in June 2010 was monitored as part of a project.

STRATEGIC RISK

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

The strategic realignment of HSH Nordbank was successfully continued during the year under review. The strategic risk of the Bank was further reduced in the year under review through concentrating on the core business fields, the separation and active winding down of risk-bearing and non-strategic portfolios in the Restructuring Unit, the consolidation of the international network of locations together with the sale of numerous equity holdings.

Risk management in the Bank was also refined during the year under review and risk systems were continuously improved. For instance, an efficient lending decision process with strengthened competencies and responsibilities was introduced into the back-office as a result of the implementation of a risk-oriented approach, the loan and collateral management function of the Bank was centralised and the entire CRO sector was reorganised.

CORE BANK RISKS

The risks of the “Core Bank” sub-portfolio are shown separately below. These relate to the default risk and market risk in the Core Bank. Liquidity risk, operational risk and other risk are managed comprehensively at Group level for the Core Bank as well as the Restructuring Unit.

Default risk in the Core Bank

The processes and methods applied in determining default risk in the Core Bank have already been described in detail in the “Default risk” section. As at 31 December 2010, the loan amount outstanding for the Core Bank totalled € 97,296 million (previous year: € 119,938 million).

Default risk exposure

The following table shows the loan amount outstanding of the Core Bank by internal rating categories. The loan amount outstanding with an investment grade rating (rating category 1 [AAAA] to 5) accounts for € 60,890 million or 63% of the exposure (previous year: € 81,455 million or 68% of the exposure).

Default risk structure of the Core Bank by rating (€ m)	Loan amount outstanding 2010	2009
1 (AAAA) to 1 (AA+)	18,368	27,011
1 (AA) to 1 (A-)	22,010	26,811
2 to 5	20,512	27,633
6 to 9	18,623	19,178
10 to 12	7,065	7,550
13 to 15	3,844	7,385
16 to 18	6,874	4,370
Total	97,296	119,938

The following table shows the loan amount outstanding by sectors that are significant for the Core Bank.

Default risk structure of the Core Bank by sector (€ m)	Loan amount outstanding 2010	2009
Industry	9,902	11,640
Shipping	22,281	25,410
Trade and transportation	8,056	8,416
Credit institutions	23,376	29,303
Other financial institutions	8,193	16,435
Land and buildings	10,186	11,038
Other services	7,056	8,014
Public sector	5,950	7,674
Private households	2,296	2,008
Total	97,296	119,938

The following table shows the loan amount outstanding of the Core Bank by residual maturities.

Default risk structure of the Core Bank by maturity (€ m)	Loan amount outstanding 2010	2009
Up to 3 months	13,348	11,770
> 3 months to 6 months	3,421	5,064
> 6 months to 1 year	11,317	19,225
> 1 year to 5 years	40,146	45,874
> 5 years to 10 years	19,801	26,397
> 10 years	9,263	11,608
Total	97,296	119,938

Country risk

The following table provides an overview of the Core Bank's exposure by country region, which amounted to € 50,630 million as at 31 December 2010 (previous year: € 54,863 million).

Country exposure of the Core Bank by region (€ m)	Loan amount outstanding	
	2010	2009
Western Europe	27,454	28,565
of which: Eurozone countries	13,329	14,837
Central and Eastern Europe	1,863	2,006
of which: Eurozone countries	36	114
Africa	1,663	1,433
North America	9,160	9,594
Latin America	1,864	2,142
Middle East	600	517
Asien-Pacific region	7,756	10,521
International organisations	136	26
Other	134	59
Total	50,630	54,863

Market risk in the Core Bank

The processes and methods applied in determining market risk in the Core Bank have already been described in detail in the "Market risk" section.

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

Daily value-at-risk of the Core Bank (€ m)	2010	2009
Interest rate risk	14.6	13.5
Credit spread risk	9.0	1.2
Foreign exchange risk	3.7	2.9
Equity risk	2.4	1.9
Commodity risk	0.2	0.2
Market risk (aggregated)	11.7	15.1

The value-at-risk of the trading book positions of the Core Bank amounted to € 3.7 million at 31 December 2010 and that of the banking book to € 13.2 million. The total VaR of the Core Bank amounted to € 11.7 million on the last trading day of 2010 (previous year: € 15.1 million).

RISKS OF THE RESTRUCTURING UNIT

The risks of the sub-portfolio 'Restructuring Unit' are described separately below. In this connection, default risks and market risks of the Restructuring Unit will be addressed. Liquidity risk, operational risk and other risks are managed comprehensively at Group level for both the Core Bank and the Restructuring Unit.

Risk reporting for the Restructuring Unit is generally carried out by means of the management and reporting systems of the Group Risk Management division. In addition to the regular risk reporting, additional winding down and management reports have been established for the Restructuring Unit. This provides the option of including special elements relating to the winding down process and of reacting to changes in the portfolio in a flexible and timely manner. These reports are continuously refined and expanded.

In addition to the standard loan processing the loan portfolios are wound down in a structured manner on the basis of a specified process with clearly defined responsibilities. This is carried out using different methods for three exposure categories: normal cases, intensive cases and restructuring cases. For normal cases, several winding down strategies are pursued under the premise of a value-based winding down. For intensive cases, any increased risks in the individual case are taken into account on a winding down. For restructuring cases, a restructuring concept is developed for each individual case and evaluated. As a rule, winding down is only possible after the restructuring has been successfully completed.

Positions are allocated to different categories on the basis of the current market valuation and impairment losses already recognised for the purposes of winding down the capital markets business. Based on the characteristics of the respective category, the positions are wound down under a loss budget determined by the Management Board and after weighing up any increased risks or potential for the reversal of impairment losses.

Default risk in the Restructuring Unit

The process and methods applied in determining default risk in the Restructuring Unit have already been described in detail in the “Default risk” section. The loan amount outstanding of the Restructuring Unit amounted to € 71,668 million (previous year: € 85,230 million) as at 31 December 2010.

Default risk exposure

The following table shows the loan amount outstanding of the Restructuring Unit by internal rating categories. The loan amount outstanding with an investment grade rating (rating category 1 [AAAA] to 5) amounts to € 36,624 million or 51% of the exposure (previous year: € 47,983 million or 56% of the exposure).

	Loan amount outstanding	
Default risk structure of the Restructuring Unit by rating (€ m)	**2010**	**2009**
1 (AAAA) to 1 (AA+)	17,365	21,664
1 (AA) to 1 (A-)	9,952	13,595
2 to 5	9,307	12,724
6 to 9	7,241	12,228
10 to 12	5,342	6,465
13 to 15	8,103	8,942
16 to 18	14,358	9,612
Total	71,668	85,230

The following table shows the loan amount outstanding by sectors significant for the Restructuring Unit.

	Loan amount outstanding	
Default risk structure of the Restructuring Unit by sector (€ m)	**2010**	**2009**
Industry	6,395	9,032
Shipping	11,049	9,531
Trade and transportation	3,085	4,676
Credit institutions	8,114	12,621
Other financial institutions	14,409	16,482
Land and buildings	13,955	15,761
Other services	4,203	4,882
Public sector	8,837	10,030
Private households	1,621	2,215
Total	71,668	85,230

The following table shows the loan amount outstanding of the Restructuring Unit by residual maturity.

Default risk structure of the Restructuring Unit by maturity (€ m)	Loan amount outstanding 2010	2009
Up to 3 months	5,209	4,170
> 3 months to 6 months	2,504	3,842
> 6 months to 1 year	6,519	8,333
> 1 year to 5 years	28,877	35,249
> 5 years to 10 years	14,402	19,084
> 10 years	14,157	14,552
Total	71,668	85,230

Country risk

The following table provides an overview of the exposure of the Restructuring Unit by country region, which amounted to € 45,557 million as at 31 December 2010 (previous year: € 57,024 million).

Foreign exposure of the Restructuring Unit by region (€ m)	Loan amount outstanding 2010	2009
Western Europe	26,413	32,595
of which: Eurozone countries	13,140	14,876
Central and Eastern Europe	942	1,458
of which: Eurozone countries	102	135
Africa	376	232
North America	12,607	15,680
Latin America	1,086	1,204
Middle East	369	328
Asien-Pacific region	3,047	4,406
International organisations	76	50
Other	641	1,071
Total	45,557	57,024

Market risk in the Restructuring Unit

The market risk of the Restructuring Unit is determined in accordance with the same processes and methods as applied in the Core Bank.[4]

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

[4] Cf. Chapter "Market risk"

Daily value-at-risk of the Restructuring Unit (€ m)	2010	2009
Interest rate risk	18.7	18.2
Credit spread risk	30.0	21.4
Foreign exchange risk	13.6	1.5
Equity risk	2.0	1.8
Commodity risk	0.0	0.0
Market risk (aggregated)	48.9	24.2

The value-at-risk of the trading book positions of the Restructuring Unit amounted to € 1.2 million as at 31 December 2010 and that of the banking book to € 48.8 million. The total VaR of the Restructuring Unit amounted to € 48.9 million on the last trading day of 2010 (previous year: € 24.2 million).

SUMMARY AND OUTLOOK

In 2010, the Bank implemented a risk-oriented lending process in a consistent manner. In this context, the credit analysis function was transferred from all market divisions in the Credit Risk Management division and the loan and collateral processing in the Loan and Collateral division. This was accompanied by corresponding measures and changes relating to the organisational and processing structure. A centralised loan loss provisioning process based on the market standard was also implemented in the year under review. Group Risk Management has been reorganised into four sub-areas - Group Risk Controlling, Market Risk Management, Portfolio Management und Methods & Instruments – to reflect the new tasks assumed.

In the year under review, the Bank has been able to achieve a significant improvement in the risk situation. This was also reflected in the risk parameters for default risk. For instance, the borrower specific recovery rates in the portfolios of the Core Bank and Restructuring Unit improved significantly, particularly in the third and fourth quarter, and the exposure at default (EaD) declined continuously over the year under review. The market risks measured under the VaR method decreased in the trading and banking book, the liquidity value-at-risk at the year end was significantly lower than the maximum recorded halfway through the year and the liquidity development report improved strongly despite the SoFFin bonds expiring in 2011.

The state-aid proceedings of the EU Commission commenced in 2009 relating to the restructuring plan of the Bank, and the stabilisation measures granted by the public shareholders are still going on. Nonetheless, the Bank has pushed forward its implementation of the plan and the expected requirements in the year under review and has achieved important milestones. This also includes the reduction in the network of locations and the consolidation of the equity holdings portfolio in addition to the creation of the Restructuring Unit in order to clearly separate the Bank's core activies from the non-strategic or high risk-bearing portfolios and the advanced stage of the winding down of the balance sheet.

Based on a continued market recovery, the challenges for 2011 lie in the further improvement of the risk structure of our loan portfolio with a simultaneous moderate level of new business in the Core Bank. Against this background, the newly formed Asset Liability Committee plays a major role as the central risk and portfolio management instrument of the Bank. Furthermore, we will further strengthen our internal organisational and processing structure in the area of risk management and significantly improve system support, particularly in the area of lending, and play an active part in system consolidation within capital markets. Overall, the divisions under the responsibility of the CRO will actively shape the strengthening of the risk-adjusted profitability of the Bank.

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

Final declaration to the report on relations with affiliated companies in accordance with § 312 AktG

The Management Board of HSH Nordbank AG is required under § 312 of the German Joint Stock Company Act (AktG) to submit a report on relations with affiliated companies for the 2010 financial year.

The final declaration of the Management Board on the report is as follows:

"In the transactions listed in the report on relations with affiliated companies, HSH Nordbank AG has in each case received appropriate compensation in the circumstances known to us at the time the transactions were conducted. No measures were taken or omitted on the instruction or in the interests of the two controlling companies."

Hamburg/Kiel, 25 February 2011

Nonnenmacher van Gemmeren von Oesterreich

Temp Visker

ANNUAL ACCOUNTS 2010

Balance sheet of HSH Nordbank AG as at 31 December 2010

Assets				(Note)	€ k	€ k	31.12.2010 € k	31.12.2009 € k
1. Cash reserve								
a) Cash on hand						8,991		9,801
b) Balances with central banks						976,817	985,808	936,100
thereof:								945,901
with Deutsche Bundesbank		€ k	378,444					
	(P. year	€ k	655,220)					
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						401,521		321,932
thereof:								
eligible for refinancing at the Deutsche Bundesbank		€ k	294,156					
	(P. year	€ k	283,049)					
							401,521	321,932
3. Loans and advances to banks				(7, 8, 23-27)				
a) Payable on demand						5,355,507		5,881,687
b) Other loans and advances						6,472,170		14,914,592
							11,827,677	20,796,279
4. Loans and advances to customers				(7, 8, 24-27)			99,460,792	110,819,631
thereof:								
secured by mortgages		€ k	11,462,159					
	(P. year	€ k	12,549,855)					
public-sector loans		€ k	9,218,539					
	(P. year	€ k	11,848,420)					
secured by ship mortgages		€ k	12,552,929					
	(P. year	€ k	12,604,232)					
5. Debentures and other fixed-interest securities				(10, 24-27, 29, 30, 38)				
a) Money market instruments								
aa) from other issuers					74,862			97,913
						74,862		
b) Bonds and debentures								
ba) from public-sector issuers					3,874,116			4,714,353
thereof:								
eligible as collateral at the Deutsche Bundesbank		€ k	3,075,919					
	(P. year	€ k	3,972,564)					
bb) from other issuers					22,597,666			26,250,791
thereof:						26,571,782		
eligible as collateral at the Deutsche Bundesbank		€ k	14,036,411					
	(P. year	€ k	16,139,596)					
c) Own debentures						6,990,794		14,415,894
Nominal value		€ k	7,055,838				33,637,438	45,478,951
	(P. year	€ k	14,468,020)					
To be carried forward							146,313,236	178,362,694

Balance sheet of HSH Nordbank AG as at 31 December 2010

Assets			(Note)	€ k	€ k	31.12.2010 € k	31.12.2009 € k
			Carried forward			146,313,236	178,362,694
6. Shares and other non-fixed-interest securities			(10, 26, 29, 30, 31, 38)			507,107	730,492
6a. Trading portfolio			(11, 26, 28)			10,843,768	-
7. Equity holdings in non-affiliated companies			(15, 29, 38, 66)			530,714	539,080
thereof: in banks		€ k 50,501					
	(P. year	€ k 55,493)					
8. Interests in affiliated companies			(15, 29, 38, 66)			1,336,210	1,825,251
thereof: in banks		€ k 67,110					
	(P. year	€ k 659,581)					
in financial service institutions		€ k 187					
	(P. year	€ k 174)					
9. Trust assets			(32)			320,596	366,720
thereof: trust loans		€ k 19,690					
	(P. year	€ k 23,055)					
10. Intangible fixed assets			(16, 38)				
a) Industrial property rights acquired inhouse and similar rights and assets					524		-
b) Licences, industrial property rights and assets as well as licenses to use such rights and assets purchased					40,738	41,262	37,640
							37,640
11. Tangible fixed assets			(17, 38)			81,695	87,555
12. Other assets			(33)			1,392,042	1,659,827
13. Prepaid expenses			(7, 19, 34)			218,752	330,873
14. Deferred taxes			(18, 35)			1,431,066	1,030,589
				Total assets		163,016,448	184,970,721

Balance sheet of HSH Nordbank AG as at 31 December 2010

Liabilities		(Note)	€ k	€ k	31.12.2010 € k	31.12.2009 € k
1. Liabilities to banks		(19, 39-42)				
a) Payable on demand				1,260,765		2,477,823
b) With agreed maturities or notice periods				28,246,971		44,149,061
					29,507,736	**46,626,884**
2. Liabilities to customers		(19, 40-42)				
a) Savings deposits						
aa) with agreed notice period of three month			67,973			79,481
ab) with agreed notice periods of more than three months			2,139			1,954
				70,112		81,435
b) Other liabilities						
ba) Payable on demand			8,230,080			9,917,236
bb) With agreed maturities or notice periods			48,823,667			45,539,319
				57,053,747		55,456,555
					57,123,859	**55,537,990**
3. Securitised liabilities		(19, 41, 42, 70)				
a) Debentures issued				48,367,428		63,443,409
b) Other securitised liabilities				462,084		522,582
thereof: money market instruments	€ k 116,108 (P. year € k 182,630)				**48,829,512**	**63,965,991**
3a. Trading portfolio		(11, 43)			**10,119,788**	**-**
4. Trust liabilities		(44)			**320,596**	**366,720**
thereof: trust loans	€ k 19,690 (P. year € k 23,055)					
5. Other liabilities		(45)			**2,790,158**	**3,077,598**
6. Deferred income		(7, 19, 46)			**336,893**	**456,723**
6a. Deferred tax liabilities		(18, 47)			**136,717**	**-**
7. Provisions		(20)				
a) Provisons for pensions and similar obligations				603,178		416,045
b) Tax provisions				2,295		51,168
c) Other provisions		(48)		924,044		1,192,949
					1,529,517	**1,660,162**
8. Subordinated debt		(49)			**5,145,477**	**5,216,259**
9. Profit participation capital		(50)			**132,217**	**439,041**
thereof: maturing in less than two years	€ k 89,733 (P. year € k 384,702)					
10. Funds for general banking risks					**1,051,693**	**1,051,693**
of which special items under Section 340e (4) HGB	€ k - (P. year € k -)					
To be carried forward					**157,024,163**	**178,399,061**

Balance sheet of HSH Nordbank AG as at 31 December 2010

Liabilities	(Note)	€ k	€ k	31.12.2010 € k	31.12.2009 € k
	Carried forward			157,024,163	178,399,061
11. Equity capital	(51)				
a) Subscribed capital					
aa) Share capital		2,635,083			2,460,174
ab) Silent participations		1,839,431			2,410,699
			4,474,514		4,870,873
b) Capital reserves			1,028,429		1,509,175
c) Retained earnings					
Other retained earnings		708,391	708,391		1,007,966
d) Accumulated loss			(219,049)		(816,354)
				5,992,285	6,571,660
		Total liabilites		163,016,448	184,970,721
1. Contingent liabilities	(62)				
a) Liabilities from guarantee and indemnity agreements				8,115,551	9,208,687
2. Other commitments	(62)				
a) Irrevocable loan commitments				9,629,247	15,280,388

Statement of income of HSH Nordbank AG for the period 1 January to 31 December 2010

		(Note)	€ k	€ k	31.12.2010 € k	31.12.2009 € k
1. Interest income from		(52, 53)				
a) lending and money market transactions			9,610,889			11,824,463
b) fixed-interest securities and book-entry securities			838,014			1,142,623
				10,448,903		12,967,086
2. Interest expenses				8,967,033		11,618,331
					1,481,870	1,348,755
3. Current income from		(52)				
a) shares and other non-fixed-interest securities				127,544		131,459
b) equity holdings in non-affiliated companies				10,616		21,730
c) interests in affiliated companies				86,545		120,664
					224,705	273,853
4. Income from profit pooling, profit transfer or partial transfer agreements		(52)			5,159	813
5. Commission income		(52, 54)		234,820		292,395
6. Commission expenses		(54)		581,880		569,036
					(347,060)	(276,641)
7. Net expenses from the trading portfolio		(52)			182,453	54,768
8. Other operating income		(52, 55)			188,477	120,460
9. General administrative expenses						
a) Personnel expenses						
aa) Wages and salaries			311,245			296,768
ab) Compulsory social security contributions, expenses for retirement pensions and other employees benefits			65,284			79,938
				376,529		376,706
thereof: for retirement pensions	€ k 26,823					
	(P. year € k 41,230)					
b) Other administrative expenses		(56)		407,531		400,969
					784,060	777,675
10. Depreciation, amortisation and impairments on intangible assets and tangible fixed assets					17,243	18,152
11. Other operating expenses		(57)			149,255	45,296
12. Depreciation and impairments on loans (and advances) and certain securities and additions to provisions in the lending business					833,712	1,622,761
To be carried forward					(413,572)	(1,051,412)

Statement of income of HSH Nordbank AG for the period 1 January to 31 December 2010

	(Note)	€ k	€ k	31.12.2010 € k	31.12.2009 € k
	Carried forward			(413,572)	(1,051,412)
13. Depreciation and impairments on equity holdings in non-affiliated and affiliated companies and securities treated as fixed assets				-	418,873
14. Income from additions to equity holdings in non-affiliated and affiliated companies and securities treated as fixed assets			95,920	95,920	(418,873)
15. Expenses from the transfer of losses				191,337	147,776
16. Profit on ordinary activities				(508,989)	(1,618,061)
17. Extraordinary income			153,013		49,088
18. Extraordinary expenses			382,831		169,861
19. Extraordinary result	(58)			(229,818)	(120,773)
20. Income tax expenses			(416,042)		(363,586)
21. Other taxes not shown under item 11			282	(415,760)	207 (363,379)
22. Income from the assumption of losses	(59)			103,998	559,101
23. Annual net deficit				(219,049)	(816,354)
24. Loss carried over from the previous year				(816,354)	-
25. Withdrawals from the capital reserve				816,354	-
26. Accumulated loss				(219,049)	(816,354)

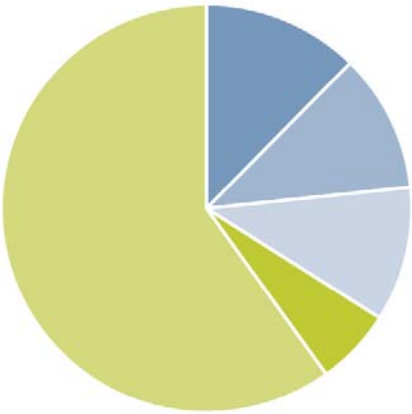
Notes for the 2010 Financial Year

GENERAL INFORMATION AND NOTES

(1) Die HSH Nordbank AG and its shareholders

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

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



- Free and Hanseatic City of Hamburg 12.37%
- Federal State of Schleswig-Holstein 10.97%
- Nine investor groups adviced by J.C. Flowers & Co LLC 10.66%
- Savings Banks Accociation for Schleswig-Holstein 6.08%
- HSH Finanzfonds AöR 59.92%

(2) Provisions of a guarantee facility

On 2 June 2009, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee facility in the amount of € 10 billion via the HSH Finanzfonds AöR in order to secure the future of the Bank. The agreement on the provision of the guarantee facility remains subject to approval by the European Commission in line with the law on state aid.

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

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

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee case for the full amount. HSH Nordbank AG may reduce the guarantee to € 4 billion between 1 January 2010 and the end of 2013 through partial cancellations of no more than € 3 billion per year. The guarantee may be cancelled in full from 2014 onwards. Once reduced, the maximum amount cannot be increased again. As a result of reduction of non-strategic portfolios, as well as improved portfolio liquidity seen in particular during the second half of 2010, the gradual reduction of the second loss guarantee provided by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg at the outset of the strategic realignment is planned starting in 2011. In February 2011, HSH Nordbank initiated the first partial reduction of the guarantee by approximately € 1 billion to € 9 billion. The Bank expects approval to be granted by the guarantor in the near future.

The guarantee had no security effect as at the reporting

date, as the cumulative credit rating-related impairments within the secured reference portfolio remained below the first loss piece to be borne by the Bank (cf. note 22).
In exchange for the guarantee HSH Nordbank AG pays a contractually agreed premium of 4% p.a. on the guarantee volume outstanding at the time. The EU Commission is currently reviewing the appropriateness of the remuneration as part of the state aid proceedings. Expenditure on the guarantee premium is recognised under commission expense. The premium payments are recognised as an expense pro rata temporis.

(3) Capital increase

The Management Board used the authorised capital 2008/1 in order to increase the Bank's capital by € 174.9 million. The capital was increased in exchange for the contribution of silent participations which were issued by HSH Nordbank AG.

The capital increase took effect upon entry in the commercial registers in Hamburg and Kiel on 29 December 2010.

For additional information, please refer to note 51.

(4) Deposit guarantee fund, guarantee obligation (Gewährträgerhaftung) and maintenance obligation (Anstaltslast)

HSH Nordbank is a member of the Landesbanken/ Girozentralen support fund, which falls under the support system of the German Savings Banks Finance Group. Within this system, the regional savings bank guarantee fund, the Landesbanken/Girozentralen support fund and the support fund of the Landesbausparkassen (cf. note 64) are part of a joint liability scheme (Haftungsverbund). The support system ensures the ongoing liquidity and solvency of all affiliated institutions.
The transitional agreement reached in the understanding with the EU Commission dated 17 July 2001 on the expiration of the maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) mechanisms on 18 July 2005 also applies to HSH Nordbank AG pursuant to Section 2 of the treaty signed by the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein on 4 February 2003 concerning the merger of the predecessor institutions. Liabilities entered into on or before 18 July 2001 are therefore covered by the guarantee obligation, regardless of their maturities. The guarantee obligation likewise covers liabilities created after this date but before 18 July 2005 if they do not mature after 31 December 2015. As previous owner of Landesbank Schleswig-Holstein Girozentrale, Landesbank Baden-Württemberg, Stuttgart is liable within the scope of the guarantee obligation described above for the liabilities agreed upon prior to its withdrawal effective 23 May 2003 and transferred to HSH Nordbank AG by way of the merger. Westdeutsche Landesbank, Düsseldorf, is liable for liabilities entered into before the expiry of the guarantee obligation.

(5) Accounting standards applied

We prepared the annual financial statements and the management report of HSH Nordbank AG as at 31 December 2010 in accordance with the provisions of the German Commercial Code (HGB), the German Stock Corporation Act (AktG), the German Bank Accounting Regulation (RechKredV) and the German Mortgage Bond Act (PfandBG). In addition, we complied with the applicable pronouncements of the Institute of Public Auditors in Germany, Incorporated Association - IDW.

(6) Effects of the German Accounting Law Reform Act (BilMoG)

Changes in the disclosure of certain balance sheet items (reclassifications) as well as effects reflected in P&L and income-neutral effects from the initial application of the modified rules resulted from the transition to the legal situation following the entry into force of the BilMoG. The relevant expenses and income are reported under the items “Extraordinary expenses” and “Extraordinary income” in the 2010 financial year income statement and affect, in particular, the changed legal situation with regard to pension provisions and valuation units. Changes in deferred taxes which have no effect on the income statement are recorded in an income-neutral manner. In addition, effects with relevance to the income statement result in changes in deferred taxes which are reflected in the income statement. Effects related to initial application without an effect on the income statement, in the amount of € 299 million, lead to a corresponding reduction in retained earnings.
The reclassifications and transition effects are presented in the following pro forma opening balance sheet as at 1 January 2010. As permitted, we have refrained from adjusting the previous years' figures in the balance sheet, income statement as well as in the Notes for the 2010 financial year.

Pro forma opening balance sheet / reconciliation HGB (BilMoG) as at 01 January 2010

Assets € k	31.12.2009	Adjustments to the balance sheet	Transition effects	01.01.2010
1. Cash reserve	945,901			**945,901**
2. Debt instruments issued by public institutions and bills of exchange	321,932			**321,932**
3. Loans and advances to banks	20,796,279	-3,169,596		**17,626,683**
4. Loans and advances to customers	110,819,631	-214,529		**110,605,102**
5. Debentures and other fixed-income securities	45,478,951	-3,558,788	-11,104	**41,909,059**
6. Shares and other non-fixed-interest securities	730,492	-49,949		**680,543**
6a. Trading portfolio	-	15,883,800		**15,883,800**
7. Equity holdings	539,080			**539,080**
8. Interests in affiliated companies	1,825,251			**1,825,251**
9. Trust assets	366,720			**366,720**
10. Intangible fixed assets	37,640			**37,640**
11. Tangible fixed assets	87,555			**87,555**
12. Other assets	1,659,827	-981,053		**678,774**
13. Prepaid expenses	330,873	-140,535		**190,338**
14. Deferred taxes	1,030,589		-199,794	**830,795**
15. Difference resulting from asset netting	-			-
Total assets	184,970,721	7,769,350	-210,898	192,529,173

Liabilities € k	31.12.2009	Adjustments to the balance sheet	Transition effects	01.01.2010
1. Liabilities to banks	46,626,884	-3.411,191		**43,215,693**
2. Liabilities to customers	55,537,990	-91,445		**55,446,545**
3. Securitised liabilities	63,965,991			**63,965,991**
3a. Trading portfolio	-	13,663,454		**13,663,454**
4. Trust liabilities	366,720			**366,720**
5. Other liabilities	3,077,598	-2,183,926		**893,672**
6. Deferred income	456,723	-128,468		**328,255**
6a. Deferred tax liabilities	-			**-**
7. Provisions	1,660,162	-79,074	320,635	**1,901,723**
8. Subordinated debt	5,216,259			**5,216,259**
9. Profit participation capital	439,041			**439,041**
10. Funds for general banking risks	1,051,693			**1,051,693**
11. Equity capital	6,571,660			**6,571,660**
Initial application effects recognised in the income statement			-231,958	**-231,958**
Initial application effects not recognised in the income statement			-299,575	**-299,575**
Total liabilities	184,970,721	7,769,350	-210,898	192,529,173

ACCOUNTING AND VALUATION PRINCIPLES

Accounting and valuation are based on the assumption that the Bank is a going concern. HSH Nordbank Group justifies this assumption primarily by the recapitalisation by the State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg in the course of the previous year and a viable restructuring concept which is intended to ensure the Bank's independent competitiveness. In evaluating the going concern status there are still material uncertainties at the time of preparation of the annual financial statements with regard to the conclusion of the EU state aid proceedings. The continuing existence of HSH Nordbank AG depends on the European Commission approving the stabilisation measures implemented by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein on a permanent basis within the foreseeable future. Furthermore, it is necessary for this approval to be subject only to conditions

- which can be met within commercially viable corporate planning, and
- specifically, do not endanger the regulatory effectiveness of the regulatory capital relief achieved with the stabilisation measures.

(7) Loans and advances

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

(8) Valuation allowances and loan loss provisions (risk provisioning)

In order to provide for possible loan losses, we make valuation allowances in accordance with the following principles. These adjustments are set off against the corresponding items in the balance sheet. Even if not specifically mentioned below, this is done for off-balance sheet transactions by creating provisions. In order to ensure that our risk provisioning covers all identifiable counterparty default and country risk, risk is determined in three steps:

1. Our loan exposures are monitored on an ongoing basis. We make individual valuation allowances in the amount of the anticipated loss for all counterparty default risks identifiable when examined individually. We calculate the exposure at default from the amount of loans and advances less the net present value of all payments still expected to be received. The expected incoming payments comprise in particular all expected interest and redemption payments as well as payments from the liquidation of collateral, with any liquidation costs taken into account.
2. In addition, we set up country-specific general loan loss provisions for exposures related to borrowers domiciled in countries rated as non-investment grade. The valuation allowance rates are scaled according to rating grades in 5% steps. Transactions in countries with a default rating (16-18) are 100% value-adjusted. In determining the basis for calculation, we take no account of any transactions of clients and banks in respect of which counterparty-related risk provisions have already been created. Similarly, other risk-mitigating factors (such as valuable collateral, for example) are taken into account.
3. Finally, we create general loan loss provisions for the remaining loan exposures 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 valuation allowances plus direct write-offs less payments on loans written off) over the past five years to the current risk exposure. The calculation procedure corresponds to the procedure recognised for tax purposes in accordance with the bulletin of the Federal Ministry of Finance dated 10 January 1994.

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

If the Bank determines that a (partial) receivable must be rated as unrecoverable, a resolution to derecognise the receivable is passed based on a decision memorandum and its derecognition is initiated.

(9) Determining fair value

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

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

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

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

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

Securities in the trading portfolio are valued using quoted market prices to a large extent. If no current price from a liquid market is available, interest-bearing securities are valued using the discounted cash flow method based on rating- and sector-dependent yield curves derived from market data of fixed-income securities.

In a few cases, no fair value can be determined for securities recognised under “Shares and other non-fixed-interest securities” on the assets side of the balance sheet (asset item 6). This is the case in the event of non negotiable public limited companies, which means that no direct market prices or observable market data are available for use in a valuation model. As with equity holdings (asset item 7), these items are recognised at amortised cost and regularly tested for permanent impairments.

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

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

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

(10) Securities

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

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

We value the securities held in the liquidity reserve in accordance with the strict lower-of-cost-or-market principle. We accordingly recognise the value of the securities at the lower of cost or exchange price, market price or fair value, irrespective of the permanent nature of the impairment.

For balance sheet treatment and the presentation of hedging relationships, please refer to our remarks under note 14.

Interest resulting from the Bank's own securities holdings is reported as interest income. In this connection, pro rata interest is recognised on an accrual basis. Valuation gains or losses and realised profits with regard to securities held in the investment portfolio are allocated to the net income from financial investments (item 13 in the income statement); in the case of securities held in the liquidity reserve, they are allocated to credit risk income/expense (item 12 in the income statement).

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

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

HSH Nordbank AG generated ECB eligible collateral in the amount of € 1,283 million via the vehicles "Northern Blue" and "Plato No. 1." For this purpose loans and advances to customers were transferred to the SPV via silent assignment. HSH Nordbank AG provided 100% of the refinancing in the amount of € 2,428 million by means of the purchase of SPV notes. As the risk was not transferred, HSH Nordbank AG will continue to recognise the assigned loans and advances to customers on its balance sheet. The value of the SPV notes is determined by the intrinsic value of the receivables assigned to the SPV. The SPV notes acquired are reported at no value to avoid duplicate recognition of the risk.

As at 31 December 2010, we have, for the first time, not carried securities borrowed as part of a securities lending transaction on the balance sheet – in accordance with the view in accounting practice that beneficial ownership remains with the securities lender – as this provides a more true and accurate view of the assets and financial position on the basis of generally accepted accounting principles. As at 31 December 2010, this results in a reduction of total assets in the amount of € 593 million.

(11) Financial instruments in the trading portfolio

We include in the assets and liabilities held for trading (asset item 6a and liability item 3a) all financial instruments which we acquired or sold for purposes of realising a short-term proprietary trading profit. In addition to securities, this includes in particular derivative financial instruments as well as certain receivables (e.g. promissory notes) as well as liabilities arising from the short-selling of securities. The criteria for defining the trading portfolio remained unchanged for the 2010 financial year.

We value all financial instruments in the trading portfolio at fair value less a risk discount. Where no market values are available for financial instruments, fair value is calculated on the basis of active market parameters using generally accepted valuation models (see also our remarks under note 9). Securities, receivables and derivatives with a positive fair value are stated under asset held for trading (item 6a); derivatives with a negative fair value and liabilities from the short sale of securities are stated under liabilities held for trading (item 3a). The risk discount represents a potential loss (value-at-risk) determined by financial mathematical models and is based on all the items in HSH Nordbank's trading portfolio. The value-at-risk (VaR) is calculated in such a way that a potential loss on items held for trading will not be exceeded within a liquidation period of ten days with a confidence level of 99%. The observation period for the VaR is 250 trading days. The VaR discount is calculated taking into account correlations between the individual transactions in the trading portfolio. In general, the risk discount is deducted from the assets held for trading. In those exceptional cases in which the liabilities held for trading are larger than the assets held for trading, a risk mark-up is instead stated under liabilities held for trading. As at 31 December 2010, a VaR discount in the amount of € 13 million was recognised in profit or loss.

Income and expenses (current income and expenses, realised and unrealised valuation income and expenses) from financial instruments held for trading are generally stated under the net income/net expenses of the trading portfolio. Current income and expenses from securities, receivables and short sales are exempt from the forego-ing. Consistent with HSH Nordbank AG's internal man-agement, they are stated under interest income, interest expense/current income from shares and other non-fixed-interest securities.

Starting with the 2010 financial year, for every year in which HSH Nordbank AG states net income for the trading portfolio, we will state 10% of such net income under the special item "Funds for general banking risks" (liability item 10). Reversals of this item are only possible in order to balance net expenses in the trading portfolio or if the item exceeds 50% of the average of the past years net income in the trading portfolio. Expenses from the addition and income from the reversal of the item are stated respectively under the net income or net expense or the trading portfolio. No amounts were added to the special item during the financial year just expired.

(12) Derivative financial instruments

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

As at 31 December 2010, accounting for internal deriva-tives resulted in interest income in the amount of € 3,629 million and interest expense in the amount of € 3,090 million. Reverse effects are reported in the net income of the trading portfolio.

We recognise purchased and/or written options which are not part of the trading portfolio in the amount of the premium paid or received under "Other assets" or "Other liabilities". If necessary, we conduct write-downs or create provisions to comply with the lower-of-cost-or-market or the recognition-of-loss principle (Imparitätsprinzip).

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

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

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

(13) Structured products

Structured products are carried in accordance with the IDW accounting practice statements IDW FS HFA22. Structured products measured at fair value or in accor-dance with the strict lower-of-cost-or-market principle are not subject to separate accounting. Structured assets that are valued in accordance with the moderate lower-of-cost-or-market principle are subject to separate accounting with regard to the derivative components and the host instrument. The separated derivative components are included in valuation units (see note 14).

(14) Hedge accounting via valuation units

Hedging relationships with regard to which the clear assignment of hedged items to hedging items is docu-mented in a comprehensible manner in risk management are accounted for as valuation units within the meaning of Section 254 HGB in accordance with the draft standard IDW ERS HFA 35 in cases where the requirements for the application of Section 254 HGB are met. Hedged items included in valuation units are assets and liabilities in the form of receivables, securities, liabilities as well as derivative financial instruments. Hedging instruments are derivative financial instruments. Hedged risks may be any form of market risk, however by far the largest share of valuation units has the purpose of hedging interest rate risks. The clear assignment of the hedged item to the related hedging instrument, the determination of the risk hedged as well as the risk management strategy, infor-mation as to the prospective effectiveness and to the methods for determining effectiveness are documented for balance-sheet hedging relationships. In addition, the intention to retain or the period of time for which the hedging relationship is to remain in place is included in the documentation. In principle, the intention is to main-tain all hedging relationships for the full residual maturity of the hedged transaction. In individual cases, hedging relationships are designated only for a certain term of hedged items and/or hedging instruments.

We present not only micro hedges but also portfolio

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

The depiction of hedging relationships accounted for as valuation units is made in two steps. In the first step, the changes in value to be attributed to the hedged risk from the hedged item and the hedges are determined with regard to a valuation unit. We apply the so-called "net hedge presentation method." Changes in value are recognised neither in the carrying amount of the hedged items/hedging instruments on the face of the balance sheet nor in the income statement. Loss surpluses from the netting of such changes in value are included for expense purposes as non-realised losses included in a provision for contingent losses under the recognition-of-loss-principle which is then stated under other provisions. In the case of additions to risk provisions holdings in the liquidity reserve are recognised in the income statement under write-downs and impairment losses as to receivables and certain securities as well as additions to loan loss provisions. In the case of reversals holdings in the liquidity reserve are recognised under income from additions to loans and advances and certain securities as well as income from the reversal of loan loss provisions. Other holdings are reported under other operating expenses. In the second step, the residual change in fair value of the hedged item and hedging instrument are determined on the basis of the individual transaction. This represents the change in fair value attributable to the non-hedged risks. This is depicted as part of an individual valuation under the so-called recognition-of-loss principle based on general accounting rules. In the second step loss surpluses with regard to holdings in the liquidity reserve are disclosed in the same manner as in the first step.

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

Amount of hedged items and hedging instruments included in valuation units

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

Hedged items	31.12.2010		01.01.2010	
€ k	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Assets				
Loans and advances to banks	118,212	-	174,956	-
Loans and advances to customers	907,166	-	959,079	-
Debentures and other fixed-interest securities	2,735,057	6,121,887	3,162,937	5,887,509
Liabilities				
Liabilities to banks	371,750	-	470,284	-
Liabilities to customers	3,660,483	-	3,874,625	-
Securitised liabilities	4,210,508	-	5,744,190	-
Subordinated debt	15,379	-	15,379	-
Positive market values of derivatives	438,929	-	511,953	-
Negative market values of derivatives	558,546	-	526,354	-

Hedging instruments	31.12.2010		01.01.2010	
€ k	Micro valuation units	Portfolio valuation units	Micro valuation units	Portfolio valuation units
Positive market values of derivatives	1,294,711	8,315	1,246,698	17,570
Negative market values of derivatives	1,342,840	311,581	1,238,333	303,656

In relation to the underlying nominal values, interest rate risks are being hedged in approximately 89% of the valuation units. The other risks largely involve currency and equity risks.

Amount of the risks hedged in valuation units

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

Hedged items	31.12.2010				01.01.2010			
	Micro valuation units		Portfolio valuation units		Micro valuation units		Portfolio valuation units	
€ k	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value	Positive change in value	Negative change in value
Assets								
Loans and advances to banks	4,794	33	-	-	7,134	624	-	-
Loans and advances to customers	137,336	167	-	-	113,240	967	-	-
Debentures and other fixed-interest securities	460,601	48	154,052	-	439,980	3,475	150,758	-
Liabilities								
Liabilities to banks	771	12,633	-	-	634	10,518	-	-
Liabilities to customers	28,527	174,054	-	-	72,667	130,485	-	-
Securitised liabilities	3,265	162,129	-	-	7,200	158,831	-	-
Subordinated debt	0	1,293	-	-	0	1,312	-	-
Derivatives	156,409	53,169	-	-	154,465	42,600	-	-

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

(15) Equity holdings in non-affiliated companies and interests in affiliated companies

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

(16) Intangible fixed assets

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

Purchased software is valued at acquisition costs.

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

(17) Tangible fixed assets

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

Tangible asset category	Useful life in years
Buildings	50
Leasehold improvements	The useful life is determined on the basis of the remaining period of the lease.
IT equipment	4
Other operating equipment	3 to 13
Leasing assets	Customary useful life
Low-value items (€ 150 to € 1,000)	5

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

Any acquisition cost subsequently incurred is capitalised and depreciated in line with the adjusted depreciation schedule. Expenditures for the maintenance of property, plant and equipment are recognised as expenses in the appropriate accounting period.

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

(18) Deferred taxes

Deferred taxes are calculated based on the different carrying amounts for assets and liabilities in the balance sheet drawn up for accounting and tax purposes. We recognise deferred taxes on differences that are expected to offset in future financial years and will thereby lead to future tax burdens or reductions. Deferred tax assets are additionally attributed to tax losses carried forward to the extent the realisation of the tax benefit from the losses carried forward is expected to occur within the next five years. For purposes of calculating deferred tax effects, tax rates applicable in 2010 to the legal entities were used. The overall bank is subject to an overall tax rate of 31.66%. As prescribed, we do not discount deferred taxes. Deferred tax assets and deferred tax liabilities are stated in the balance sheet on a non-net basis (asset item 14 and liability item 6a).

(19) Liabilities

Liabilities are stated at the amount repayable. Premiums and discounts are shown as deferred income or prepaid expenses respectively and are reversed over the term. Pro-rata interest is treated on an accrual basis and reported in the corresponding liabilities line item.

(20) Provisions

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

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

	2010	2009
Salary growth	2.0%	2.0%
Personnel growth	0.5%	0.5%
Pension growth		
Employment contract 1/old pension provision rules	individual	individual
New pension provision rules	2.0%	2.0%
Employment contract 4	2.0%	2.0%
Staff turnover		
Age 20	6.0%	6.0%
Age 20-55	Linear decline to zero	Linear decline to zero
Age above 56	0.0%	0.0%
Retirement age	Pursuant to the 2007 AGAnpassG	Pursuant to the 2007 AGAnpassG

Provisions for pensions and similar obligations are discounted using the average market interest rate which results from the assumption of a residual maturity of fifteen years. The discount rate applied as at the balance sheet date was 5.15% p.a. (previous year: 6.00% p.a.).

Due to the changed valuation requirements contained in the German Accounting Law Reform Act (BilMoG), there is an extraordinary requirement to increase the pension provisions in the amount of approximately € 176 million. We increased the amount of the provisions for pensions and similar obligations during the financial year by this amount; cf. note 58.

We have offset assets the sole purpose of which is the fulfilment of pension obligations and to which no other creditors have access (fund assets) against provisions for pensions and other obligations. The acquisition costs of the assets amounted to € 6 million; this also corresponds to their fair value.

(21) Currency translation

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

Currency translation with regard to financial instruments included in the trading portfolio is an implicit part of the valuation of such transactions (see comments under note 11).

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

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

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

(22) Accounting treatment of the guarantee facility

The guarantee facility granted by the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg did not have any effect on the balance sheet as of the reporting date as the cumulative impairments due to credit ratings of the hedged reference portfolio are below the threshold for the first loss piece to be borne by HSH Nordbank AG in the amount of € 3.2 billion (cf. note 2).
As soon as the first loss piece has been used up due to defaults, write-downs or newly-created risk provisions, and following the reversal of general loan loss provisions related to the hedged portfolio, a compensation claim against HSH Finanzfonds AöR will be recognised under loans and advances to customers (asset item 4) and taken into account in the income statement. Income will be reported under the item in which the expense from the reference asset is entered.

NOTES ON BALANCE SHEET ASSETS

(23) Receivables on associated savings banks

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

€ k	31.12.2010	31.12.2009
	908,435	1,181,186

(24) Affiliated companies

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

€ k	31.12.2010	31.12.2009
Loans and advances to banks	1,330,112	2,290,295
Loans and advances to customers	1,765,574	2,419,093
Debentures and other fixed-interest securities Bonds and debentures	811,591	855,532

(25) Non-affiliated companies

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

€ k	31.12.2010	31.12.2009
Loans and advances to banks	3,621	266,915
Loans and advances to customers	1,468,044	1.559,159
Debentures and other fixed-interest securities Bonds and debentures	1,284	15,215

(26) Subordinated assets

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

€ k	31.12.2010	31.12.2009
Loans and advances to banks Other receivables	157,252	158,620
Loans and advances to customers	320,754	390,424
Debentures and other fixed-interest securities Bonds and debentures	554,523	345,571
Shares and other non-fixed-interest securities	-	1,121
Trading portfolio	7,259	2,450

(27) Residual maturities

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

€ k	31.12.2010	31.12.2009
Loans and advances to banks		
Other receivables		
Due within 3 months	2,740,317	8,322,539
Due between 3 months and 1 year	632,955	1,767,977
Due between 1 year and 5 years	2,237,728	2,926,116
Due in more than 5 years	861,170	1,897,960
Loans and advances to customers		
Due within 3 months	18,440,398	16,255,975
Due between 3 months and 1 year	12,572,109	14,729,701
Due between 1 year and 5 years	40,648,467	46,214,907
Due in more than 5 years	27,799,818	33,619,048
Debentures and other fixed-interest securities		
Due in the following year	3,829,569	12,960,470

(28) Assets held for trading

Assets held for trading are comprised of the following:

€ k	31.12.2010
Derivative financial instruments	9,173,327
Loans and advances	7,933
Debentures and other fixed-interest securities	1,659,037
Shares and other non-fixed-interest securities	15,364
Other assets	662
Risk discount	-12,555
Total	**10,843,768**

(29) Negotiable securities

	Listed		Unlisted		Total	
€ k	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Debentures and other fixed-interest securities	28,119,250	32,803,527	5,518,188	12,675,424	33,637,438	45,478,951
Shares and other non-fixed-interest securities	29,868	47,577	412,876	270,493	442,744	318,070
Equity holdings	6,811	51,352	31,636	448,895	38.447	500,247
Interests in affiliated companies	-	-	251,525	1,255,072	251,525	1,255,072

(30) Negotiable securities not valued using the lower-of-cost-or-market principle

€ k	31.12.2010	31.12.2009
Debentures and other fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	15,006,208	14,752,847
Carrying amount of securities reported above their fair value	10,327,670	9,920,105
Market value of securities reported above their fair value	9,238,315	8,732,363
Unrealised losses	1,089,355	1,187,742
of which unrealised losses from securities which are not part of a valuation unit	930,198	0
Shares and other non-fixed-interest securities		
Carrying amount of securities valued using the moderate lower-of-cost-or-market principle	243,897	125,850
Carrying amount of securities reported above their fair value	209,700	99,277
Market value of securities reported above their fair value	209,700	96,144
Unrealised losses	0	3,133

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

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

€ k	Securities rating	31.12.2010	31.12.2009
No "trigger events" have occurred		**429,249**	**394,790**
	Rating investment grade or better	417,372	364,184
	Rating lower than investment grade	11,877	30,606
"Trigger events" have occurred		**660,106**	**792,952**
	Rating investment grade or better	605,937	754,680
	Rating lower than investment grade	54,169	38,272
Total		**1,089,355**	**1,187,742**

As at 31 December 2010, unrealised losses related to securities contained in valuation units, which are not to be allocated to the hedged risk (mostly from the credit-worthiness of the issuer), amounted to € 394 million. Due to valuation at the moderate lower-of-cost-or-market principle, the hedged risk is not recorded. These also include securities which would show an unrealised loss without taking a valuation unit into account.

If there is no permanent, but rather only a temporary impairment of securities to be expected which generally is not induced by changes in the credit rating, a write-down to fair value is not undertaken (cf. note 10).

(31) Investment assets

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

Name of the fund € k	Investment objectives	Carrying amount	Unit value within the meaning of Section 36 InvG	Difference	Distributions in the financial year
A-Westküsten-Fonds	Special funds (mixed assets)	19,707	20,333	626	701
Nord/LB AM 89 Beeke	Special funds (mixed assets)	9,000	9,035	35	135
LRH-Fonds	Special funds (mixed assets)	16,271	18,722	2,451	384
RE-Fundmaster	Special funds (mixed assets)	14,992	15,764	772	521

The units in the above-named special funds may be returned to the investment company on demand without limitation. Please see comments under note 10 for valuation of the units.

(32) Trust assets

Trust assets are comprised of the following balance sheet items:

€ k	31.12.2010	31.12.2009
Loans and advances to banks	990	990
Loans and advances to customers	319,606	365,730
Total	**320,596**	**366,720**

(33) Other assets

The major components of other assets are:

€ k	31.12.2010	31.12.2009
Internal investment portfolio transactions	633,425	0
Receivables from profit and loss transfer agreements and from dividends	291,781	419,029
Receivables on fiscal authorities	274,467	520,022
Premiums paid from options trading and from interest limitation agreements	81,439	364,431
Units of closed-end real estate fund	16,434	21,023
Adjustment item for currency translation	15,976	1,290
Cheques, bonds due for payment, interest and dividend coupons, other papers for collection	3,488	-
Receivables from security deposits	1,234	2,161
Adjustment item for outstanding trading book profits	0	201,919

The new item “Internal investment portfolio transactions” results from the allocation of components of internal transactions to the investment and the trading portfolio. Previously, effects from internal transactions were offset under this balance sheet item due to identical valuation and disclosure. Now the investment portion of this item is retained which principally contains amounts accrued.

Changes to the items “Premiums paid from options trading and from interest limitation agreements” and “Adjustment item for floating trading book profits” are principally based on the first-time application of the German Accounting Law Reform Act (BilMoG) and the reporting of these holdings in the trading portfolio.

(34) Prepaid expenses

The major items disclosed here are:

€ k	31.12.2010	31.12.2009
Prepaid expenses from interest rate swaps, swaptions and options	55,553	158,644
Discount accruals from issuing business	76,812	88,972
Premium accruals from claims	20,697	38,404
Discount accruals from liabilities	20,583	18,493

(35) Deferred taxes

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

€ k	31.12.2010
Assets	
Loans and advances to customers	594,190
Debentures and other fixed-interest securities	128,698
Equity holdings	60,417
Interests in affiliated companies	789
Tangible fixed assets	1,977
Other assets	63,171
Deferred income	22,430
Liabilities	
Deferred income	10,943
Provisions	255,100
of which provisions for deferred taxes	0
Losses carried forward	293,351
Total	**1,431,066**

(36) Genuine repurchase agreements

As a borrower in genuine repurchase agreements, we have sold assets in the following carrying amounts and simultaneously contracted to repurchase the same assets. The assets continue to be carried on our balance sheet; the consideration received in return for the assets is reported under the corresponding liability item.

€ k	31.12.2010	31.12.2009
Carrying amount of repo asset items	10,962,350	4,543,842

(37) Assets transferred as collateral

In addition to assets sold under repurchase agreements (cf. note 36) and the receivables serving as the cover pool for bonds issued (cf. note 70), we have transferred further assets as collateral. These are mainly securities lodged as collateral for participation in stock exchanges and clearing organisations, and with central banks and Eurex as collateral for refinancing. In addition, HSH Nordbank AG securitised customer loans as part of structured transactions and thereby generated senior notes eligible for refinancing at central banks which were received by the ECB pledged securities account in the amount of € 1,283 million (previous year: € 866 million).

€ k	31.12.2010	31.12.2009
Assets transferred as collateral, thereof for	6,213,606	34,392,274
Liabilities to banks	401,336	33,778,206
Liabilities to customers	612,381	614,068
Liabilities held for trading	5,199,889	0

Starting with the annual financial statements as at 31 December 2010, the carrying amounts of securities deposited in portfolios at central banks, are reported only in the amount of the share of the draw-down of the lending value of such deposited portfolios.Taking into account this change in method, as at 31 December 2009, assets in the amount of € 16 billion were transferred as collateral.

(38) Statement of changes in fixed assets

€ k	Historical cost of acquisition	Additions[1]/ write-ups	Disposals[1]	Trans-fers	Cumulative depre-ciations	Depre-ciation	Carrying amount	Carrying amount
	01.01.2010	2010	2010	2010	31.12.2010	2010	31.12.2010	31.12.2009
Securities	18,178,037	3,431,223	4,767,627	-	536,056	94,474	16,305,577	17,367,587
Equity holdings	772,133	86,255	59,100	-52	268,522	41,702	530,714	539,080
Interests in affiliated companies	2,474,053	181,642	520,265	52	799,272	150,470	1,336,210	1,825,251
Land and buildings	48,069	72	426	-	13,007	1,048	34,708	36,084
Plant and equipment	71,688	1,925	3,881	-	40,631	5,449	29,101	34,008
Leasing assets	22,144	1,375	-	-	5,633	952	17,886	17,463
Intangible fixed assets	181,220	13,661	3,710	-	149,909	9,793	41,262	37,640
Total	21,747,344	3,716,153	5,355,009	-	1,813,030	303,888	18,295.458	19,857,113

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

The reported real estate includes land and buildings used for the Bank's own business activity with the following carrying amounts:

€ k	31.12.2010	31.12.2009
Carrying amount of land and buildings used for business purposes	21,736	22,009

NOTES ON BALANCE SHEET LIABILITIES

(39) Liabilities to associated savings banks

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

€ k	31.12.2010	31.12.2009
	1,056,588	1,713,402

(40) Affiliated companies

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

€ k	31.12.2010	31.12.2009
Liabilities to banks	3,169,806	3,985,025
Liabilities to customers	4,354,555	4,363,847

(41) Non-affiliated companies

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

€ k	31.12.2010	31.12.2009
Liabilities to banks	10,722	193,836
Liabilties to customers	89,620	84,049
Securitised liabilities		
Debentures issued	96,982	99,310

(42) Residual maturities

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

€ k	31.12.2010	31.12.2009
Liabilities to banks with an agreed maturity or notice period of		
up to 3 months	9,708,715	16,235,728
between 3 months and 1 year	5,428,785	13,495,604
between 1 year and 5 years	10,762,692	8,041,139
more than 5 years	2,346,779	6,376,590
Liabilities to customers		
Savings deposits with an agreed notice period of more than 3 months		
up to 3 months	-	257
between 3 months and 1 year	633	399
between 1 year and 5 years	1,506	1,298
Other liabilities with an agreed maturity or notice period of		
up to 3 months	17,838,151	12,043,365
between 3 months and 1 year	6,881,276	6,631,554
between 1 year and 5 years	12,119,257	10,223,597
more than 5 years	11,984,983	16,640,803
Securitised liabilities		
Debentures issued		
due in following year	9,617,345	22,039,931
Other securitised liabilities		
up to 3 months	237,624	375,356
between 3 months and 1 year	216,955	147,226
between 1 year and 5 years	7,505	-

(43) Liabilities held for trading

Liabilities held for trading are comprised of the following:

€ k	31.12.2010
Derivative financial instruments	10,117,071
Liabilities	2,717
Total	**10,119,788**

(44) Trust liabilities

Trust liabilities are reported under the following balance sheet items:

€ k	31.12.2010	31.12.2009
Liabilities to banks	1,384	1,427
Liabilities to customers	319,212	365,293
Total	**320,596**	**366,720**

(45) Other liabilities

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

€ k	31.12.2010	31.12.2009
Security deposits for assumption of debt	1,230,287	1,186,240
Adjustment item for currency valuation	567,029	678,465
Pro rata interest on subordinated debt, profit participation rights and silent participations	364,593	321,563
Liabilities from profit and loss transfer agreements and dividends	192,021	179,784
Premiums received from options trading and interest limitation agreements	60,260	420,390

Changes to the items “Premiums received from options trading and interest limitation agreements” are principally based on the first-time application of the German Accounting Law Reform Act (BilMoG) and the reporting of these holdings in the trading portfolio.

(46) Deferred income

Deferred income principally includes the following:

€ k	31.12.2010	31.12.2009
Deferred income from interest rate swaps, swaptions and options	202,781	315,401
Discount deferrals from receivables	49,479	76,302
Premium deferrals from issuing business	13,415	11,166

(47) Deferred tax liabilities

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

€ k	31.12.2010
Assets	
Loans and advances to customers	98,201
Equity holdings	38,516
Total	**136,717**

(48) Other provisions

Other provisions primarily relate to the following items:

€ k	31.12.2010	31.12.2009
Provisions in the credit business	387,379	537,008
Provisions for securities trading and financial derivatives	226,378	243,493
Provisions for litigation risks and costs	98,020	41,688
Provisions for restructuring measures	73,403	146,015
Provisions for personnel expenses	73,070	52,829
Provisions for invoices outstanding	38,473	41,850
Provisions for archiving costs	6,500	5,500
Provisions for deposit guarantee fund	-	10,000
Provisions for guarantee commission	-	60,000

(49) Subordinated debt

Subordinated debt was issued in the form of promissory notes, registered or bearer bonds and is denominated in EUR, JPY and USD. The original maturities range from five years to 40 years and interest rates from 0.473% p.a. to 6.51% p.a.

Individual items exceeding 10% of total subordinated debt:

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

[1] 3 month Euribor +0.84% from 14 February 2012 – 13 February 2017.

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

[3] 3 month Euribor +0.80% from 14 February 2012 – 13 February 2017.

The terms and conditions for subordinated debt meet the requirements of Section 10 (5a) German Banking Act (KWG) on inclusion of liable capital. Subordinated debt in the amount of € 146 million (previous year: € 200 million) will mature in less than two years.

For the 2010 financial year, interest expense arising from subordinated debt amounted to € 141 million (previous year: € 164 million).

(50) Profit participation capital

The claims of profit participation certificate holders to repayment of capital are subordinate to other claims. The other terms and conditions of profit participation capital are also such as to meet the requirements of Section 10 (5) of the German Banking Act (KWG) for recognition as liable capital. Profit participation capital in the amount of € 90 million (previous year: € 385 million) will mature in less than two years.

Registered profit participation certificates with a total nominal value of € 167 million have original maturities between 10 and 17 years and bear interest between 5.5% p.a. and 7.35% p.a. Payment of interest on the profit participation capital is tied to the distributable profits of HSH Nordbank AG. No current interest was payable for the 2010 financial year due to the net loss.

The profit participation rights bear a loss of € 7 million for the 2010 financial year.

(51) Equity capital

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

The share capital of HSH Nordbank AG amounts to € 2,635 million and is divided into 263,508,277 registered shares with a notional par value of € 10 per share. All the issued shares have been fully paid up. As of the balance sheet date there were no outstanding subscription rights to shares in HSH Nordbank AG.

The Management Board, with the consent of the Supervisory Board, used the authorised capital 2008/1 in order to increase the Bank's capital in exchange for contributions in kind. The capital increase was accomplished by issuing 17,490,909 new shares with a par value of € 10 per share in exchange for the contribution of silent participations which were issued by HSH Nordbank AG. The capital authorised per the Articles of Association was fully utilised for purposes of the capital increase. The carrying amount of the contributions amounts to € 510 million on the conversion of the new shares. The amount exceeding share capital of € 335 million will be allocated to the capital reserve. The capital increase took effect upon entry in the commercial registers in Hamburg and Kiel on 29 December 2010.

As at the reporting date, HSH Finanzfonds AöR, Hamburg, was the largest shareholder with 59.92% of the voting rights (previous year: 64.18%). The voting rights held by the Free and Hanseatic City of Hamburg including the indirect share held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH amounted to 12.37% (previous year: 10.89%). The Federal State of Schleswig-Holstein holds voting rights of 10.97% (previous year: 10.43%). The share of voting rights held by the Sparkassen- und Giroverband für Schleswig-Holstein (Savings Bank Association for Schleswig-Holstein) equals 6.08% (previous year: 5.31%). As at 31 December 2010 the nine groups of investors advised by J.C. Flowers & Co. LLC held 10.66% of the voting rights (previous year: 9.19%).

HSH Finanzfonds AöR, with its registered offices in Hamburg, has notified us in accordance with Section 20 (1) of the German Stock Corporation Act (AktG) that it directly owns more than one-quarter of the shares of HSH Nordbank AG, and at the same time in accordance with Section 20 (4) AktG it owns a majority interest. The shares of HSH Nordbank AG held by Finanzfonds AöR are apportioned to the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein in accordance with Section 16 (4) AktG. Furthermore, the shares of HSH Nordbank AG held by HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH, a subsidiary of the Free and Hanseatic City of Hamburg, are also apportioned to the Free and Hanseatic City of Hamburg in accordance with Section 16 (4) AktG. Neither HSH Nordbank AG, nor any affiliated or majority-owned companies holds treasury stock of HSH Nordbank AG. There is no cross-shareholding as defined by Section 19 AktG.

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

If a net loss is incurred for the current financial year, no distributions related to profit participation capital or silent participations can be made. In addition, these equity instruments must participate in the net loss for the year. For the 2010 financial year, the silent participations shared in Bank's loss to the amount of € 97 million (previous year: € 473 million). The silent participations have been placed on the international capital markets (€ 1,269 million) as well as with the Bank's domestic institutional investors (€ 570 million).

NOTES ON THE INCOME STATEMENT

(52) Breakdown of income items by geographical markets

€ k	2010				2009			
	Germany	Rest of Europe	Asia	America	Germany	Rest of Europe	Asia	America
Interest income	8,755,527	966,995	122,031	584,350	10,757,975	1,533,182	165,588	490,341
Regular income from shares and other non-fixed-interest securities, equity holdings in non-affiliated and affiliated companies	161,915	61,256	-	1,534	260,230	12,952	-	671
Income form profit pooling, profit transfer or partial profit transfer agreements	5,159	-	-	-	813	-	-	-
Commission income	153,877	30,214	4,093	46,636	216,602	59,428	4,132	12,233
Net income from the trading portfolio	-211,223	-4,142	364	32,548	59,679	-122,079	378	7,254
Other operating income	159,039	19,665	393	9,380	102,040	11,392	544	6,484

(53) Net interest

Net interest income includes € 2 million and net interest expenses include € 33 million from the discount/accrual of provisions.

In addition, net interest income includes one-time gains from promissory notes in the amount of € 122 million (previous year: € 19 million).

(54) Net commission income

Net commission income is comprised of the following:

€ k	2010	2009
Lending business	118,907	119,558
Payment and account transactions	12,522	5,270
Foreign business	3,685	10,123
Securities business	1,314	-1,705
Guarantee business	-486,736	-433,546
Other	3,248	23,659
Total	**-347,060**	**-276,641**

Net commission income as at 31 December 2010 includes expenses for the guarantee from HSH Finanzfonds AöR in the amount of € 405 million (previous year: € 364 million) as well as for the guarantee facility from the Financial Market Stabilisation Fund (SoFFin) in the amount of € 114 million (previous year: € 118 million).

(55) Other operating income

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

€ k	2010	2009
Reversal of provisions for guarantee commission (AöR)	60,000	-
Cost allocations and reimbursement of expenses	27,191	8,371
Income from the reversal of other provisions	23,362	61,987
Tax refunds	20,041	26,725
Income from the reversal of provisions for contingent losses	12,687	-
Income from the reversal of provisions for derivatives in the investment book	6,129	-
Proceeds from disposal of collateral	6,053	1,817
Rental income	3,487	3,629
Income/loss on foreign exchange for positions in the investment book	2,914	-
Income from leasing transactions	2,086	1,329
Income from interest on receivables from the tax office	1,237	346

(56) Fees for work by the statutory auditors

As parent company, HSH Nordbank AG is included in the consolidated financial statements of HSH Nordbank AG.

Accordingly, in accordance with Section 285 No. 17 of the German Commercial Code (HGB), the total fee paid to the external auditor is not disclosed.

(57) Other operating expenses

Other operating expenses primarily include the following items:

€ k	2010	2009
Expenses from the creation of provisions for litigation costs	48,052	1,487
Income/loss on foreign exchange for positions in the investment book	12,566	-
Expenses from additions to other provisions	8,519	2,625
Additions of provisions for OTC equity options	8,067	-
Expenses for the acquisition of temporarily acquired assets	6,585	3,546
Refund of charges from the re-valuation of pension obligations (BilMoG) for subsidiaries	5,857	-
Interest expenses pursuant to Section 233 AO	5,681	14,193
Expenses for payment of damages	5,234	-
Canteen expenses	2,800	2,588
Write-downs on shares of closed-end real estate funds	1,200	4,500
Losses on the disposal of fixed assets	1,169	4,296

(58) Extraordinary result

Extraordinary expenses resulted primarily from the initial application of the rules amended by the German Accounting Law Reform Act (BilMoG). € 176 million of these are attributable to additions to the provisions for pensions as well as € 2 million to other provisions. Additional € 162 million relate to the presentation and valuation of valuation units as well as the individual valuation of derivatives in the non-trading portfolio. Extraordinary income in the amount of € 108 million resulted from the creation of deferred tax assets.

In addition, the extraordinary result includes restructuring expenses connected to the restructuring of the Bank in the amount of € 43 million (previous year: € 170 million). These were offset by income from the reversal of restructuring provisions in the amount of € 45 million (previous year: € 49 million).

Results from the initial adjustment effects relate to taxes on income and profits in the amount of € 108 million (previous year: € 0 million) and affect extraordinary result.

(59) Income from the assumption of losses

Income from the assumption of losses resulted from participation in losses on the part of profit participation capital (€ 7 million, previous year: € 86 million) as well as from participation in losses on the part of the silent participations (€ 97 million, previous year: € 473 million).

(60) Non-distributable amounts

A total of € 1,294.9 million of the reserves available for distribution are barred from being distributed. Of this amount, € 0.4 million results from the capitalisation of internally-created intangible fixed assets less the deferred tax liabilities created in relation thereto. Euro 1,294.5 million correspond to the amount by which the deferred tax assets capitalised in the balance sheet exceed the other deferred tax liabilities.

OTHER NOTES

(61) Leasing business

Assets related to the leasing business include € 274 million (previous year: € 252 million) shown under loans and advances to customers and € 18 million (previous year: € 17 million) shown under tangible fixed assets. Liabilities from the leasing business are reported at € 30 million (previous year: € 97 million) under liabilities to banks and € 47 (previous year: € 43 million) under liabilities to customers.

(62) Contingent liabilities and other commitments

Contractually agreed obligations the realisation of which is unlikely as at the reporting date constitute contingent liabilities. This item mainly contains to financial guarantees provided in the course of our lending business which contain a legally possible call right and it is unlikely that they will be drawn upon. Irrevocable loan commitments are reported under other commitments. Credit guarantees and irrevocable loan commitments are subject to the Bank's loan loss provisions process (cf. note 8). As part of this process, the relevant commitments are continually reviewed with respect to the existence of acute default risks on the basis of certain criteria. In the event there are indicators that the borrower's financial situation makes the complete repayment of the loan unlikely and there is a threat of a call on the guarantee, the default risk of is covered by the creation of a provision. Provisions are additionally created for irrevocable credit commitments where a draw-down is likely and the borrower is not expected to repay the agreed-to loan amount, in whole or in part, due to financial difficulties. Provisions are shown on the liability side of the balance sheet. Contingent liabilities or other commitments are reduced accordingly. To this extent, there is not an acute credit risk for the Bank with regard to the contingent liabilities and other commitments shown on the balance sheet as at the reporting date. Due to the borrower's credit rating, a draw-down of the contingent liabilities and other commitments reported is not likely as at the reporting date.

As was the case in the previous year, there are no placement or assumption commitments in place as at 31 December 2010.

(63) Letters of comfort

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

(64) Other financial obligations

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

There are shareholder liabilities of € 281 million for outstanding payments on subscribed nominal capital that have not yet been called in (previous year: € 335 million).

In connection with the restructuring of HSH Private Equity GmbH, Hamburg, HSH Nordbank AG undertook the obligation to make available to HSH Private Equity GmbH funds in the amount of € 55 million for new direct investments. This obligation is limited to the end of 2011.

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

The maximum funding obligation that would result from membership of the Haftungsverbund (joint liability scheme) of the Sparkassen-Finanzgruppe, if a case occurs where support is needed, is € 280 million (previous year: € 422 million). If the resources of the savings bank guarantee fund are insufficient for the financial rescue, the additional funding can be claimed immediately.

Further obligations in the amount of € 151 million (previous year €190 million) result from long-term leases for land and buildings used for business purposes. Additional obligations amounting to €112 million (previous year: € 152 million) result from leasing agreements for IT services.

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

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

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

(65) Other transactions necessary for an assessment of the Bank's financial situation

In order to ensure adequate liquidity, HSH Nordbank AG has obtained a guarantee facility from the Financial Market Stabilisation Fund (SoFFin) for the issue of debt instruments up to a total of € 30 billion of which the Bank used € 9 billion as at 31 December 2010. As agreed, the SoFFin framework guarantee expired on 31 December 2010. Independently thereof, the SoFFin guarantee applies to the issues in the amount of € 9 billion.

As a supplemental measure to provide protection against risks, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank AG a guarantee in the amount of € 10 billion via the HSH Finanzfonds AöR. The guarantee takes effect as soon as risks in defined portfolios exceed the Bank's agreed first loss piece of € 3.2 billion (cf. note 2).

(66) Notes on shareholdings

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

List of shareholders pursuant to Section 285 No. 11 HGB

Affiliated companies - foreign banks

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
1	HSH Nordbank Private Banking S.A., Luxembourg, Luxembourg [1]	100.00	100.00	EUR	35,899,064.68	6,191,232.80
2	HSH Nordbank Securities S.A., Luxembourg, Luxembourg	100.00	100.00	EUR	690,464,754.42	0.00

Affiliated companies - other domestic companies

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
3	Arbutus GmbH, Hamburg	100.00	100.00	EUR	29,421.08	490.22
4	Arilius Beteiligungs GmbH, Hamburg [1]	100.00	100.00	EUR	32,398.05	-1,789.43
5	Arilius Management GmbH (former: Fay Gesellschaft mit beschränkter Haftung), Hamburg [1]	94.00	94.00	EUR	58,344.81	-7,784.38
6	AVUS Achte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	-5,474.85	-26,417.42
7	AVUS Dritte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,396,959.09	86,879.02
8	AVUS Erste Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,551,366.05	124,486.99
9	AVUS Fondsbesitz und Management GmbH, Berlin [1] [3]	100.00	100.00	EUR	28,452.72	-1,461,512.46
10	AVUS Fünfte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,795,697.74	137,623.78
11	AVUS Grundstücksverwaltungs-GmbH, Berlin [1] [3]	100.00	100.00	EUR	25,000.00	27,553,93
12	AVUS Siebte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	4,288.83	-26,472.34
13	AVUS Vierte Grundstücksbeteiligungs-GmbH & Co. KG, Berlin [1]	100.00	100.00	EUR	1,482,968.76	50,231.83
14	BALIBU Beteiligungsgesellschaft mbH, Willich [1]	100.00	100.00	EUR	7)	7)
15	Bavaria Office GmbH & Co. KG, Hamburg [1]	100.00	100.00	EUR	9,198,467.34	-908,651.06
16	BINNENALSTER-Beteiligungsgesellschaft mbH, Hamburg	100.00	100.00	EUR	2,377,887.15	91,497.55
17	BTO Grundstücksvermietungsgesellschaft mbH & Co. Verwaltungs KG, Munich	94.00	94.00	EUR	-5,970,245.97	-92,265.93
18	Bu Wi Beteiligungsholding GmbH (former IMCAFi 135. Verwaltungs GmbH), Hamburg	100.00	100.00	EUR	9,117.55	-8,193.93
19	CAPCELLENCE Dritte Fondsbeteiligung GmbH (former Capcellence Dritte Fondsbeteiligung GmbH i.G.), Hamburg [1]	100.00	100.00	EUR	25,000.00	6)
20	CAPCELLENCE Erste Fondsbeteiligung GmbH (former Capcellence Erste Fondsbeteiligung GmbH i.G.), Hamburg [1]	100.00	100.00	EUR	25,000.00	6)
21	Capcellence Private Equity Beteiligungen GmbH & Co. KG, Hamburg [1]	100.00	100.00	EUR	65,086,511.52	-4,548,824.99
22	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	17,254,192.18	-3,811.15
23	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	18,836,914.36	-3,811.15
24	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	28,955,185.62	-4,456,778.17
25	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	100.00	EUR	36,761.10	-95,882.78
26	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG, Hamburg [1]	83.33	99.75	EUR	5,124.31	-804,378.45
27	CAPCELLENCE Zweite Fondsbeteiligung GmbH (former Capcellence Zweite Fondsbeteiligung GmbH i.G.), Hamburg [1]	100.00	100.00	EUR	25,000.00	6)
28	CHIOS GmbH, Hamburg	100.00	100.00	EUR	29,396.23	-5,603.77
29	Credaris Portfolio Management GmbH, Kiel	100.00	100.00	EUR	4,047,970.35	-26,238.46
30	DMS Beteiligungs GmbH, Radolfzell [1]	100.00	100.00	EUR	4,800,000.00	4,306,911.10
31	Dolus Grundstücksverwaltungsgesellschaft mbH, Wiesbaden, Mainz-Kastel	100.00	100.00	EUR	22,692.51	3,035,653.56
32	DYNAMENE GmbH, Hamburg [1]	100.00	100.00	EUR	51,186.52	-4,344.83
33	Dynamic Microsystems Semiconductor Equipment GmbH, Radolfzell [1]	100.00	100.00	EUR	21,827.67	-2,243.63
34	Einkaufs-Center Plovdiv G.m.b.H. & Co. KG, Hamburg [1]	75.00	75.00	EUR	40,353,785.57	-496,271.59

Affiliated companies - other domestic companies (Continued)

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
35	Endor 6. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	393,449.40	1,593,296.50
36	Endor 7. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	416,872.13	-69,477.04
37	Endor 8. Beteiligungs GmbH & Co. KG, Hamburg [1)]	94.80	94.80	EUR	2,482,825.34	129,387.62
38	EQUILON GmbH, Hamburg	100.00	100.00	EUR	71,875,593.10	-8,465,349.46
39	Fastlane 1. Real Estate GmbH, Hamburg [1)]	100.00	100.00	EUR	1,276,811.62	-47,270.92
40	Fastlane 2. Real Estate GmbH, Hamburg [1)]	100.00	100.00	EUR	926,090.99	-62,566.59
41	Feronia GmbH, Hamburg [1)]	100.00	100.00	EUR	431,253.42	285,695.53
42	Fonds III - Imbuschweg GbR, Berlin (former: GEHAG-Fonds III GbR, Berlin) [1)]	69.97	69.97	EUR	-8,181,334.93	-121,406.81
43	GBVI Gesellschaft zur BeteiligungsVerwaltung von Immobilien mbH & Co. KG, Hamburg	100.00	100.00	EUR	32,018.92	-2,753.68
44	GODAN GmbH, Hamburg	100.00	100.00	EUR	2,353,602.23	94,653.68
45	Gropius-Haus GmbH, Berlin [1)]	100.00	100.00	EUR	3,836.18	-13,130.98
46	Grundstücksentwicklungsgesellschaft Gartenstadt Wismar mbH & Co. KG, Hamburg	100.00	100.00	EUR	643,576.96	26,699.24
47	Grundstücksgesellschaft Barstraße GbR (GEHAG-Fonds 18), Berlin[1)]	69.75	69.75	EUR	-9,698,292.37	-48,969.25
48	Grundstücksgesellschaft Goerzallee GbR (GEHAG-Fonds 15), Berlin[1)]	72.57	72.57	EUR	-6,377,739.54	-132,142.66
49	Grundstücksgesellschaft Porstendorf mbH & Co. KG, Hamburg [5)]	100.00	100.00	EUR	-2,013,333.05	54,677.22
50	Grundstücksgesellschaft Rudow-Süd/Straße 633 GbR (GEHAG-Fonds 20), Berlin[1)]	66.99	66.99	EUR	-5,645,698.89	9,860.98
51	Grundstücksgesellschaft Rudow-Süd/Straße 634 GbR (GEHAG-Fonds 17), Berlin[1)]	79.21	79.21	EUR	-6,237,146.98	248,267.32
52	Hamburgische Betriebsverwaltungs-Gesellschaft am Gerhart-Hauptmann-Platz m.b.H., Hamburg	100.00	100.00	EUR	563,146.46	-30,440.01
53	HGA Bavaria Office GmbH, Hamburg [1)]	100.00	100.00	EUR	386,387.39	-38,612.61
54	HGA Capital Grundbesitz und Anlage GmbH, Hamburg [1)3)]	100.00	100.00	EUR	2,575,856.27	2,494,804.32
55	HGA CareConcept 1 Verwaltungs-GmbH, Hamburg [1)]	100.00	100.00	EUR	7,747.89	-7,497.55
56	HGA Fondsbeteiligung GmbH, Hamburg [1)]	100.00	100.00	EUR	37,349,814.30	-630,383.63
57	HGA Mikado I AG & Co. KG, Hamburg [1)]	64.22	64.22	EUR	7,667,803.76	-907,112.60
58	HGA Objekt Hamburg 4 GmbH , Hamburg [1)3)]	100.00	100.00	EUR	25,000.15	-67,915.50
59	HGA Objekte Hamburg und Hannover GmbH & Co. KG, Hamburg (excl. shares in trust) [1)]	80.50	80.53	EUR	14,902,264.30	-4,167,771.46
60	HGA USA IV fifth Avenue GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	34,032.94	-2,877.11
61	HGA USA V GmbH & Co. KG, Hamburg [1)]	93.93	93.62	EUR	24,116.55	114,394.57
62	HGA USA VI GmbH & Co. KG, Hamburg [1)]	99.76	99.51	EUR	26,399,216.10	58,242.05
63	HGA USA VII GmbH & Co. KG, Hamburg [1)]	99.99	99.72	EUR	22,262,476.74	-903,884.55
64	HGA/COLONIA CareConcept 1 Beteiligungsgesellschaft mbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	4,817,381.58	49,308.66
65	HGA/COLONIA CareConcept 1 Fondsgesellschaft mbH & Co. KG, Cologne [1)]	58.71	55.96	EUR	30,462,558.02	-2,305,152.21
66	HGA/Hamburg Bavaria Office GmbH & Co. KG, Hamburg [1)]	99.96	99.96	EUR	1,090,056.01	-1,472,747.90
67	HGA/Wohnportfolio Deutschland I GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	6,229,695.85	1,338,280.93
68	HSG Hamburgische Städtebauförderungsgesellschaft mbH, Hamburg [1) 3)]	100.00	100.00	EUR	155,000.00	-21,121.33
69	HSH Auffang- und Holdinggesellschaft mbH & Co. KG, Hamburg	100.00	100.00	EUR	1,273,755.79	-17,055.86
70	HSH Baltic Sea GmbH, Kiel [1) 4)]	100.00	100.00	EUR	25,600.00	-273,822.19
71	HSH Capitalpartners GmbH, Hamburg [1) 3)]	100.00	100.00	EUR	24,694.45	-326,591.51
72	HSH Care+Clean GmbH, Hamburg [1) 4)]	51.00	51.00	EUR	25,000.00	23,016.88
73	HSH Corporate Finance GmbH, Hamburg	100.00	100.00	EUR	17,736,688.30	2,996,415.80
74	HSH Einkauf+Rechnungswesen GmbH, Kiel [1) 4)]	100.00	100.00	EUR	25,000.00	150,633.70
75	HSH Equitypartners GmbH, Hamburg [1)]	100.00	100.00	EUR	1,016,037.88	-1,180,946.89
76	HSH Facility Management Holding AG, Kiel [12]	100.00	100.00	EUR	205,600.00	747,652.14
77	HSH Finance & Science GmbH, Kiel	100.00	100.00	EUR	275,144.59	7,636.25
78	HSH Gastro+Event GmbH, Hamburg [1) 4)]	100.00	100.00	EUR	25,000.00	270,180.64
79	HSH Immobilien Management GmbH, Kiel [1) 4)]	100.00	100.00	EUR	50,000.00	455,254.45

Affiliated companies - other domestic companies (Continued)

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
80	HSH Invest GmbH, Kiel 2)	100.00	100.00	EUR	1,100,000.00	-119,958.95
81	HSH Move+More GmbH, Kiel 1) 4)	51.00	51.00	EUR	25,000.00	70,020.75
82	HSH N Composits GmbH, Kiel	100.00	100.00	EUR	15,863,912.94	15,838,912.94
83	HSH N Real I GmbH, Kiel 2)	100.00	100.00	EUR	32,155.71	-47,973.86
84	HSH Print+Logistics GmbH, Hamburg 1) 4)	100.00	100.00	EUR	25,000.00	1,610,830.17
85	HSH Private Equity GmbH, Hamburg 2)	100.00	100.00	EUR	550,000.00	-19,340,983.58
86	HSH RE 2. Beteiligungs GmbH, Hamburg 1)	100.00	100.00	EUR	22,020,658.13	-10,037.58
87	HSH RE 3. Beteiligungs GmbH, Hamburg 1)	100.00	100.00	EUR	22,020,658.13	-10,037.58
88	HSH RE 4. Beteiligungs GmbH, Hamburg 1)	100.00	100.00	EUR	22,020,658.13	-10,037.58
89	HSH RE 5. Beteiligungs GmbH, Hamburg 1)	100.00	100.00	EUR	22,020,655.55	-10,040.16
90	HSH RE 6. Beteiligungs GmbH, Hamburg 1)	100.00	100.00	EUR	22,020,658.13	-10,037.58
91	HSH RE 7. Beteiligungs GmbH, Hamburg 1)	100.00	100.00	EUR	13,018,810.57	-10,037.58
92	HSH RE Beteiligungs GmbH, Hamburg 1) 3)	100.00	100.00	EUR	21,310.59	-3,276,752.13
93	HSH Real Estate AG, Hamburg 2)	100.00	100.00	EUR	249,993,774.78	-127,754,268.91
94	HSH Real Estate Care Invest GmbH, Hamburg 1) 3)	100.00	100.00	EUR	23,938.73	-9,161.22
95	HSH Real Estate Treuhand GmbH, Hamburg 1)	100.00	100.00	EUR	4,479,110.45	74,430.75
96	IHG Biron GmbH, Hamburg 1)	100.00	100.00	EUR	203,265.84	-40,303.03
97	IHG Inamori Beteiligungs GmbH & Co. KG, Hamburg 1)	100.00	100.00	EUR	611,018.77	-5,350.78
98	JANTAR GmbH, Hamburg	100.00	100.00	EUR	7,674,628.60	232,864.38
99	KAPLON GmbH & Co. KG, Hamburg 1)	100.00	100.00	EUR	13,712,269.46	-8,484,867.45
100	Kontora Family Office GmbH (former Kontora GmbH), Hamburg 2)	75.02	75.02	EUR	500,000.00	62,547.05
101	Lamatos GmbH, Hamburg	100.00	100.00	EUR	2,489,518.28	1,422,676.70
102	LB Immo Invest GmbH, Hamburg 1) 3)	100.00	100.00	EUR	5,000,100.00	3,599,222.28
103	LB Invest GmbH, Hamburg 1)	100.00	100.00	EUR	25,568.09	2,144.92
104	Leashold Verwaltungs-GmbH & Co. KG, Hamburg 5)	100.00	100.00	EUR	46,848,826.24	3,110,246.03
105	Mandarin I Verwaltungs GmbH, Hamburg 1)	100.00	100.00	EUR	1,340,864.81	-14,312.39
106	Marc Marco Polo Ventures GmbH & Co. KG, Krefeld 1)	90.91	90.91	EUR	379,609.95	9)
107	Mesitis GmbH, Hamburg	100.00	100.00	EUR	6,563,159.62	-29,162.55
108	MINIMOA GmbH, Hamburg	100.00	100.00	EUR	22,045,311.52	2,014,322.65
109	Niederelbe Beteiligungs GmbH, Hamburg	100.00	100.00	EUR	744,826.20	-4,073.19
110	Nubes GmbH, Lockstedt	100.00	100.00	EUR	-1,309,270.08	-11,425,504.64
111	Pateon 3. Verwaltungs GmbH, Hamburg 1) 3)	100.00	100.00	EUR	23,960.23	-15,457.13
112	Pateon 5. Verwaltungs GmbH, Hamburg 1)	100.00	100.00	EUR	21,141.30	-1,911.98
113	PERIMEDES GmbH, Hamburg	100.00	100.00	EUR	20,861.91	-3,631.09
114	PREGU GmbH, Hamburg	100.00	100.00	EUR	85,870,108.51	-13,649,863.61
115	Quartett IV GmbH & Co. KG, Hamburg 1)	66.67	66.67	EUR	35.48	-264.28
116	Real Estate Venture Capital Fonds 1 GmbH, Hamburg 1)	85.10	85.10	EUR	569,198.66	29,738.26
117	RELAT Beteiligungs GmbH & Co. Vermietungs-KG, Pullach i. Isertal	94.00	55.29	EUR	-985,500.99	120,951.95
118	Semos 4. Verwaltungs GmbH, Hamburg 1)	100.00	100.00	EUR	21,827.67	-2,243.63
119	Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG, Hamburg	99.26	99.50	EUR	353,641,935.56	-10,080,508.75
120	Swift Capital Partners GmbH, Hamburg	90.00	90.00	EUR	1,235,392.45	1,210,392.45
121	Swift Capital Partners Verwaltungs-GmbH, Hamburg	100.00	100.00	EUR	10,108.97	-4,090.30
122	Swift Treuhand GmbH, Hamburg	100.00	100.00	EUR	72,457.98	16,214.40
123	TALAOS GmbH, Hamburg 1)	100.00	100.00	EUR	3,287.85	-2,523.38
124	TERRANUM "die Zweite" AG & Co. KG, Hamburg 1)	100.00	100.00	EUR	5,243,896.70	50,782.20

Affiliated companies - other domestic companies (Continued)

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
125	TERRANUM Gewerbebau Verwaltungs-GmbH, Hamburg [1)]	100.00	100.00	EUR	121,950.09	-7,673.13
126	Teukros GmbH, Hamburg	100.00	100.00	EUR	-4,500,691.35	-55,255.96
127	THESTOR GmbH, Hamburg	100.00	100.00	EUR	6,746,040.65	4,657,038.74
128	Turis 1. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	25,615,040.38	-5,007,648.99
129	Turis 2. Beteiligungs GmbH & Co. KG, Hamburg [1)]	100.00	100.00	EUR	3,564.17	-1,138.00
130	Turis 3. Beteiligungs GmbH & Co. KG, Hamburg [1)]	94.90	94.90	EUR	211,969.71	17,542.20
131	Unterstützungs-Gesellschaft der Hamburgischen Landesbank mit beschränkter Haftung, Hamburg	100.00	100.00	EUR	2,769,882.88	-54,020.32
132	USTXVII Beteiligungs GmbH, Hamburg [1)]	100.00	100.00	EUR	-100,225.87	247,499.66
133	Verwaltung AVUS Immobilien-Treuhand GmbH, Berlin [1) 3)]	100.00	100.00	EUR	25,000.00	-15,485.22
134	Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel [2)]	100.00	100.00	EUR	25,600.00	3,896.88
135	Verwaltungsgesellschaft Gartenstadt Wismar mbH, Hamburg	100.00	100.00	EUR	34,045.95	2,524.34

Affiliated companies - other foreign companies

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
136	AGV Irish Equipment Leasing No. 1 unlimited, Dublin, 0 Dublin 1, Ireland [5)]	100.00	100.00	USD	68,019,473.00	3,650,219.00
137	AGV Irish Equipment Leasing No. 4 Limited, Dublin 1, Ireland [5)]	100.00	100.00	USD	26,825,239.00	2,229,934.00
138	Alliance HC I Limited Partnership, Chicago, USA [1)]	99.90	99.90	USD	34,062,372.00	-1,280,924.00
139	Alliance HC I Mezz Limited Partnership, Chicago, USA [1)]	85.09	85.09	USD	18,218,397.00	-2,859,263.00
140	Alliance HC II Limited Partnership, Chicago, USA [1)]	95.00	95.00	USD	25,920,569.00	-2,414,318.00
141	Alliance HC III Mezz Limited Partnership, Chicago, USA [1)]	92.40	92.40	USD	25,472,934.00	-4,369,934.00
142	Amentum Capital (Singapore) Pte. Ltd., Singapore, Singapore	100.00	100.00	SGD	45,169.00	2,824.00
143	AMENTUM CAPITAL LIMITED, Dublin 2, Ireland	100.00	100.00	EUR	1,463,315.00	-705,067.00
144	Amentum Lux S.a.r.l., Luxembourg, Luxembourg [5)]	100.00	100.00	EUR	-57,532.66	-27,770.88
145	Asian Capital Investment Opportunities Limited, Hongkong, China [1)]	51.00	51.00	HKD	115.00	-13.00
146	BEAGLE CONTAINERS LIMITED, Majuro, Marshall Islands [1)]	100.00	100.00	USD	453.05	9)
147	BURGVILLE INVESTMENTS LIMITED, London EC2M 6UJ, Great Britain	100.00	100.00	EUR	24,330,065.00	462,963.00
148	CRE Financial Group LLC (former: Roki LLC), Wilmington DE 19808, USA	100.00	100.00	USD	9)	9)
149	DEERS Green Power Development Company, S.L., Zaragoza, Spain [1)]	99.00	99.00	EUR	9,693,985.00	14,384,007.00
150	Dynamic Micro Systems (Shanghai) Traiding Co., Ltd, Shanghai, China [1)]	100.00	100.00	CNY	292,136.18	0.00
151	Dynamic Microsystems L.L.C., Phoenix, USA [1)]	99.98	99.98	USD	108,672.74	-12,999.77
152	EALING INVESTMENTS LIMITED, London EC2M 6UJ, Great Britain	100.00	100.00	EUR	-32,518,688.00	8,900,393.00
153	Enders Holdings LLC, Dover, USA [2)]	100.00	100.00	USD	15,600,041.00	-691,272.00
154	European Capital Investment Opportunities Limited, St. Helier, Jersey [1)]	51.00	51.00	EUR	77.00	5.00
155	Freebay Holdings LLC, Dover, USA [2)]	100.00	100.00	USD	-13,601,605.00	-2,493,263.00
156	Galileo Containers Limited, Majuro, Marshall Islands [1)]	100.00	100.00	USD	9)	9)
157	HSH Containers Security Trustee AB, Stockholm, Sweden	100.00	100.00	SEK	132,565.00	36,067.00
158	HSH Debt Advisory ApS, Kopenhagen, Denmark	100.00	100.00	DKK	6)	6)
159	HSH N Finance (Guernsey) Limited , St. Peter Port, Guernsey [5)]	100.00	100.00	EUR	335,054.00	41,307.00
160	HSH N Financial Securities LLC, Wilmington, USA	100.00	100.00	USD	4,892,041.00	-547,945.00
161	HSH N Funding I, George Town, Cayman Islands [1)]	66.32	100.00	EUR	1,011,078,786.00	26,395,786.00
162	HSH N Funding II, George Town, Cayman Islands	56.33	100.00	USD	654,194,110.00	27,179,246.00
163	HSH N Management Situations Limited, St. Helier, Jersey	100.00	100.00	GBP	2.00	0.00
164	HSH N Real Estate Management Ingatlankezelö Kft (in english HSH Real Estate Management Property Management Limited Company), Budapest, Hungary [1)]	100.00	100.00	HUF	155,090,000.00	20,546,000.00

Affiliated companies - other foreign companies (Continued)

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
165	HSH N Residual Value Ltd., Hamilton, Bermuda	100.00	100.00	USD	4,230,736.00	-769,264.00
166	HSH N Structured Situations Limited, St. Helier, Jersey	100.00	100.00	USD	703,577.00	703,574.00
167	HSH REAL ESTATE ASIA-PACIFIC PTE LTD, Singapur, Singapore 1)	100.00	100.00	SGD	76,461.00	-10,839.00
168	HSH Real Estate Debt Advisory ApS, Kopenhagen, Denmark	100.00	100.00	DKK	6)	6)
169	HSH Real Estate Lux S.á.r.l., Luxembourg, Luxembourg 1)	100.00	100.00	EUR	123,878.01	-16,821.01
170	HSH Restructuring Advisory ApS, Kopenhagen, Denmark	100.00	100.00	DKK	6)	6)
171	Indian Infrastructure Development Seed Asset Limited, Cybercity, Mauritius 1)	100.00	100.00	USD	2,754,282.00	-35,544.00
172	International Fund Services & Asset Management S.A., Luxembourg, Luxembourg 1)	51.51	51.51	EUR	3,153,489.08	776,000.00
173	Kipper Corporation, Wilmington, USA	100.00	100.00	USD	360,700.00	39,669.00
174	Neptune Finance Partner II S.á.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	20,000.00	-6,503.48
175	Neptune Finance Partner S.á.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	20,000.00	429.73
176	Neptune Ship Finance (Luxembourg) S.á.r.l. & CIE, SECS., Luxembourg, Luxembourg 5)	100.00	100.00	USD	20,000.00	-56,864,487.20
177	Neptune Ship Finance (Luxembourg) S.á.r.l., Luxembourg, Luxembourg	100.00	100.00	USD	20,000.00	-3,184.99
178	NORDIC BLUE CONTAINER II LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	500.00	9)
179	NORDIC BLUE CONTAINER III LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	500.00	9)
180	NORDIC BLUE CONTAINER IV LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	500.00	9)
181	Nordic Blue Container Limited, Ajeltake Island, Marshall Islands	100.00	100.00	USD	500.00	9)
182	NORDIC BLUE CONTAINER V LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	500.00	9)
183	NORDIC BLUE CONTAINER VI LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	500.00	9)
184	NORDIC BLUE CONTAINER VII LIMITED; Majuro, Marshall Islands	100.00	100.00	USD	500.00	9)
185	Regional Jet Leasing 3 C.V., KJ's-Gravenhage, Netherlands	53.33	53.33	USD	-387,807.00	-608,936.00
186	SBF II, LLC, Wilmington, USA 1)	100.00	100.00	USD	-3,182,996.09	-3,182,996.09
187	SB-HSH Seed Holding Limited, Cybercity, Republic of Mauritius	100.00	100.00	USD	2,881,590.00	-10,413.00
188	Solar Holdings S.á.r.l., Luxembourg, Luxembourg	100.00	100.00	EUR	12,500.00	52,319.20
189	Sotis S.á.r.l., Luxembourg, Luxembourg 1)	100.00	100.00	EUR	23,613.91	1,954.18
190	TCP Trimontium Center Plovdiv EOOD, Sofia, Bulgaria 1)	100.00	100.00	BGN	58,752,000.00	77,000.00
191	Teukros Canada Inc., Nova Scotia B3J 2X2, USA 1)	100.00	100.00	CAD	14,766,415.00	2,674,988.00

Share of 20% or more

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
192	Aeolis Wind Power Corporation, Sidney BC, Canada	21.39	21.39	CAD	5,785,335.00	-12,564,443.00
193	AGV Irish Equipment Leasing No. 7 Limited, Dublin 1, Ireland 1)	49.00	49.00	USD	-6,170,374.00	5,731,551.00
194	Alchemy Plan (HLB) LP, St. Peter Port, Guernsey 1)	99.50	0.00	GBP	7,062,982.00	342,379.00
195	Alchemy Plan (HSH) L.P., St. Peter Port, Guernsey 1)	99.50	0.00	GBP	15,563,304.00	117,453.00
196	ALIDA Grundstücksgesellschaft mbH & Co. KG, Hamburg	45.00	45.00	EUR	114,595,000.00	-17,616,186.00
197	ALIDA Grundstücksverwaltungs GmbH, Hamburg	45.00	45.00	EUR	36,754.93	-3,740.00
198	Amentum Aircraft Leasing No. Eleven Limited, Dublin 2, Ireland 1)	49.00	49.00	USD	100.00	6)
199	Amentum Aircraft Leasing No. Five Limited, Dublin 2, Ireland 1)	49.00	49.00	USD	-5,502,520.00	-5,441,146.00
200	Amentum Aircraft Leasing No. Nine Limited, Dublin 2, Ireland 1)	49.00	49.00	USD	100.00	0.00
201	Amentum Aircraft Leasing No. Seven Limited, Dublin, Ireland 1)	49.00	49.00	USD	-1,458.00	-1,602.00
202	Amentum Aircraft Leasing No. Six Limited, Dublin 2, Ireland 1)	49.00	49.00	USD	-5,641,263.00	-5,641,402.00
203	Amentum Aircraft Leasing No. Ten Limited, Dublin 2, Ireland 1)	49.00	49.00	USD	100.00	6)
204	Amentum Aircraft Leasing No. Three Limited, Dublin 2, Ireland 1)	49.00	49.00	USD	-3,357,834.00	-1,240,483.00

Share of 20% or more (Continued)

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
205	Amentum Aircraft Leasing No. Two Limited, Dublin 2, Ireland [1)]	49.00	49.00	USD	185,007.00	130,056.00
206	Araguari Real Estate Holding LLC, Wilmington, USA	31.25	31.25	USD	109,931,364.95	0.00
207	AUGUR Financial Opportunity SICAV, Luxembourg, Luxembourg	22.54	22.50	EUR	114,436,337.36	24,654,411.59
208	Azur Grundstücksverwaltungsgesellschaft mbH & Co. LBSH KG, Pöcking	94.00	50.00	EUR	-943,000.22	462,519.74
209	BALIBU Indoor-Freizeitanlagen Beteiligungs-Holding GmbH & Co. KG, Willich [1)7)]	39.00	39.00	EUR	7)	7)
210	BALIBU Management GmbH, Willich [1)7)]	33.00	33.00	EUR	7)	7)
211	BC Wind Power Corporation, V8L 5W5 Sidney BC, Canada	20.03	20.03	CAD	-97,978.00	-99,106.00
212	Belgravia Shipping Ltd., London, Great Britain [1)]	33.33	33.33	USD	54,428,000.00	29,428,000.00
213	BIG BAU - INVESTITIONSGESELLSCHAFT mbH, Kronshagen [1)]	40.50	40.50	EUR	20,448,185.39	261,208.15
214	BIG-ANTEILSVERWALTUNGS GmbH, Kronshagen [1)]	45.00	45.00	EUR	4,027,070.57	174,114.30
215	BIT Beteiligungs- & Investitions Treuhand AG, Neuwied [1)]	25.10	25.10	EUR	468,364.33	-920,489.89
216	BPE Institutional Partners GmbH, Hamburg [1)]	30.56	0.00	EUR	18,484,411.17	-2,450,957.89
217	BRINKHOF Holding Deutschland GmbH, Erfurt [1)]	100.00	0.00	EUR	11,901,471.54	-4,577,577.51
218	BRINKHOF Kraftwerks- und Industrieservice GmbH, Oberhausen [1)]	100.00	0.00	EUR	2,665,842.87	-839,791.54
219	BRINKHOF Personalservice GmbH, Cologne [1)]	100.00	0.00	EUR	3,876,521.35	1,614,396.30
220	CAPCELLENCE Mittelstandspartner GmbH (former: Capcellence Private Equity GmbH), Hamburg	25.00	25.00	EUR	-307,820.91	-347,820.91
221	Current, L.P., Dallas, USA [1)]	31.59	4.90	USD	13,230,472.00	-16,596,805.00
222	DAL Deutsche Anlagen-Leasing Geschäftsführung GmbH, Wiesbaden [1)]	40.00	40.00	EUR	83,908.75	21,908.75
223	DAL Deutsche Anlagen-Leasing GmbH & Co. KG, Wiesbaden [1)]	39.96	39.96	EUR	25,026,000.00	25,084,082.42
224	DOLANA Grundstücksverwaltungsgesellschaft mbH & Co. Objekt Sehnde KG, Bad Homburg v.d.H.	28.50	28.28	EUR	1,203.71	-998.99
225	DOL-ZIRCON Grundstücksverwaltungsgesellschaft mbH & Co., Objekt Hamburg KG, Bad Homburg v.d.H.	94.00	33.33	EUR	11,048.01	-23,366.90
226	Extended Care Portfolio Tenant, LLC, Wilmington, USA [1)]	24.90	24.90	USD	7,169,093.00	3,566,122.00
227	Extended Care Senior Living Portfolio, LLC, Wilmington, USA [1)]	51.62	50.00	USD	-20,371,554.00	-9,147,978.00
228	FHH Fonds Nr. 30 MS "Carelia" GmbH, Hamburg [1)]	33.33	33.33	EUR	30,223.52	0.00
229	FREIGHTER LEASING S.A., Luxembourg, Luxembourg	22.62	22.22	USD	16,499,307.00	1,169,005.00
230	gardeur Beteiligungs GmbH, Hamburg [1)]	88.50	40.00	EUR	266,178.01	-5,320,949.27
231	GeRo Real Estate Aktiengesellschaft für Projektentwicklung und Consulting, Bell-heim[1)]	35.00	35.00	EUR	239,973.85	534,530.21
232	Global Format GmbH & Co. KG, Munich	28.57	28.57	EUR	775,354.12	-81,316.28
233	GmbH Altstadt Grundstücksgesellschaft, Wiesbaden [1)]	50.00	50.00	EUR	-436,691.62	32,925.50
234	Granville Private Equity Managers (Deutschland) Fund A Limited Partnership, London E1 8AF, Great Britain [1)]	59.39	0.00	EUR	1,485,996.00	-10,166.00
235	HAMBORNER REIT AG (former Hamborner Aktiengesellschaft), Duisburg [1)]	35.18	35.18	EUR	86,894,000.00	7,076,000.00
236	Hamburgische Grundbesitz und Anlage AG & Co. London-St. Georges House KG, Hamburg	61.22	62.42	EUR	21,278,683.66	1,366,070.72
237	Hanseatische Immobilienfonds Holland XIII GmbH & Co. KG, Bremen	63.68	63.68	EUR	3,046,717.67	-2,140,494.81
238	Harmonia HSH Beteiligungsgesellschaft mbH (former: BTA HSH Beteiligungsgesell-schaft Alstercampus mbH), Hamburg [1)]	50.00	50.00	EUR	868,766.03	-129,326.37
239	HGA Europa-Fonds Beteiligungs GmbH, Hamburg [1)]	49.00	49.00	EUR	464,124.58	20,342.29
240	H/H-Capital Management GmbH, Luxembourg, Luxembourg [1)]	50.00	50.00	EUR	7,552,869.00	-394,527.00
241	IHG Korund GmbH, Hamburg [1)]	50.00	50.00	EUR	239,755.04	1,034,058.55
242	Lyceum Capital Fund 2000 (Number Five) Limited Partnership, Stuttgart [1)]	80.00	0.00	EUR	2,584,115.00	2,121,171.00
243	MUST 4 GmbH & Co. KG, Munich [1)]	74.72	0.00	GBP	3,437,071.00	414,976.00
244	NBV Beteiligungs-GmbH, Hamburg	28.57	20.00	EUR	19,395,894.06	1,745,915.04
245	Next Generation Aircraft Finance 2 S.a.r.l., Luxembourg, Luxembourg [1)]	49.00	49.00	EUR	-105,276.55	-713,288.42
246	Next Generation Aircraft Finance 3 S.a.r.l., Luxembourg, Luxembourg [1)]	49.00	49.00	EUR	-141,271.36	-339,324.07
247	Next Generation Aircraft Finance S.a.r.l., Luxembourg, Luxembourg [1)]	48.80	48.80	EUR	12,500.00	918,990.61
248	NOBIS Asset Management S.A., Luxembourg, Luxembourg [1)]	40.00	40.00	EUR	7,722,747.04	2,300,180.99

Share of 20% or more (Continued)

Serial No.	Name/Place	Share	Voting rights	WKZ	Equity capital in respective currency	Income/loss in respective currency
249	Northam Real Estate Investment Fund VI, L.P., Toronto, Ontario, Canada 1)	29.34	29.34	CAD	31,423,419.00	14,683,795.00
250	Northern Diabolo (Holdings) S.á.r.l., Luxembourg, Luxembourg 1)	25.00	25.00	EUR	37,468.62	-24,883.66
251	PL Projekt-Anlagen Leasing Beteiligungsgesellschaft mbH, Hamburg	50.00	50.00	EUR	51,573.39	-4,590.68
252	PL Projekt-Anlagen Leasing Beteiligungsgesellschaft mbH & Co. Objekt Hemmingen, Hamburg	50.00	50.00	EUR	268,967.93	541.75
253	PLUTON Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	94.00	50.00	EUR	-6,750,685.55	62,235.53
254	PRIME 2006-1 Funding Limited Partnership, St. Helier, Jersey	47.50	0.00	EUR	7,508,685.00	-11,160,030.00
255	QUNDIS Management GmbH, Mühlhausen 1)	75.38	40.00	EUR	12,979,015.68	5,671,978.44
256	Railpool GmbH, Munich	50.00	50.00	EUR	942,294.86	-2,492,027.14
257	Railpool Holding GmbH & Co. KG, Munich	50.00	50.00	EUR	16,453,824.71	-107,353.15
258	SLK GmbH für Immobilien-Leasing & Co. KG Objekt Berlin Pohlstraße, Pöcking	94.00	40.00	EUR	-3,472,225.35	665,174.50
259	Spheros Management Holding GmbH, Gilching 1)	34.10	34.10	EUR	1,260,897.00	-2,834,133.00
260	TAPES GmbH & Co. KG, Pöcking	94.00	33.33	EUR	3,658,733.33	70,138.22
261	The Candover 2001 Fund L.P., London EC4M 7LN, Great Britain 1)	20.70	0.00	EUR	-52,004,000.00	969,000.00
262	Turis 4. Beteiligungs GmbH & Co. KG, Hamburg 1)	100.00	50.00	EUR	4,737.27	-362.73
263	Urbanitas Grundbesitzgesellschaft mbH, Berlin	50.00	50.00	EUR	-7,727,662.09	1,521,993.30
264	UST XXI NEW JERSEY, LTD., Orlando, USA 1)	24.00	24.00	USD	67,641,681.00	-113,734.00
265	Wilhelm Bartels Bavaria-Grundstücksgesellschaft mbH & Co. KG, Hamburg 1)	28.00	28.00	EUR	8,961.55	-4,471.72

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

Foreign exchange rates for € 1 as at 31 December 2010

Bulgaria	BGN	1.9558
China	CNY	8.822
Denmark	DKK	7.4535
Great Britain	GBP	0.86075
Canada	CAD	1.3322
Sweden	SEK	8.9655
Singapore	SGD	1.7136
Hong Kong	HKD	10.3856
Hungary	HUF	277.95
USA	USD	1.3362

HSH Nordbank AG is a partner with unlimited liability in Fernkälte Geschäftsstadt Nord, Hamburg, the GbR Realrace 2005, Hamburg, the GbR Tocotax, Hamburg, the GLB GmbH & Co. OHG, Frankfurt am Main, the Gesellschaft bürgerlichen Rechts der Altgesellschafter der Deutschen Leasing AG, Bad Homburg v.d.H. and the AGV Irish Equipment Leasing No. 1 unlimited, Dublin, Ireland.

In addition, the Bank owns equity holdings exceeding five percent of the voting rights in the following large corporations:

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

(67) Transactions with related parties

HSH Nordbank AG pays a contractually agreed premium of 4% p.a. for the guarantee of HSH Finanzfonds AöR which has been assessed as being fair market value by external third parties. The EU Commission is currently reviewing the appropriateness of the remuneration as part of the state aid proceedings.

(68) Notes on foreign currencies

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

€ k	31.12.2010	31.12.2009
Assets	64,551,679	67,555,259
Liabilities	20,949,822	23,279,326

(69) Derivatives business

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

In the 2010 financial year, the information, including previous year's figures, was disclosed separately for the trading portfolio and the non-trading portfolio for the first time.

Transactions within the non-trading portfolio serve mainly to hedge interest, currency exchange rate or market price fluctuations. The following presentation of the non-trading portfolio is made as of 31 December 2010 without the derivatives which are components of accounting valuation units.

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

Presentation of volumes and market values

Trading portfolio € m	Nominal values		Positive market values		Negative market values	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Interest rate swaps	378,290	460,867	7,784	10,975	7,119	10,074
FRA	4,122	5,958	-	-	2	4
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	1,585	1,924	58	152	-	-
Short positions	2,603	2,568	2	-	119	188
Caps, floors	17,261	23,997	205	256	146	190
Exchange-traded contracts	5,211	5,727	-	1	-	-
Other forward interest rate transactions	4,738	1,810	167	178	140	195
Interest rate risks	**413,810**	**502,851**	**8,216**	**11,562**	**7,526**	**10,651**
Interest rate/currency swaps	36,308	34,195	433	176	651	815
Interest rate and currency rinsks	**36,308**	**34,195**	**433**	**176**	**651**	**815**
Forward exchange transactions	8,805	12,167	209	214	195	255
Currency options						
Long positions	1,080	1,491	149	97	-	-
Short positions	1,038	1,404	-	-	130	95
Currency risks	**10,923**	**15,062**	**358**	**311**	**325**	**350**
Equity options						
Long positions	205	232	40	49	-	-
Short positions	118	140	-	-	36	45
Forward equity transactions	-	-	-	-	-	-
Exchange-traded contracts	657	72	6	6	7	17
Equity/index-based swaps	84	86	1	-	23	23
Commodity-based transactions	314	147	90	98	58	37
Shares and other price risks	**1,378**	**677**	**137**	**153**	**124**	**122**
Protection sold	292	1,964	3	28	3	18
Protection bought	411	2,022	51	29	3	26
Credit derivatives	**703**	**3,986**	**54**	**57**	**6**	**44**
Total	**463,122**	**556,771**	**9,198**	**12,259**	**8,632**	**11,982**

Non-Trading portfolio € m	Nominal values		Positive market values		Negative market values	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Interest rate swaps	25,331	56,179	778	1,994	936	1,964
FRA	-	986	-	1	-	1
Interest rate options	-	-	-	-	-	-
Swaptions						
Long positions	196	373	-	14	-	-
Short positions	135	1,145	-	-	11	93
Caps, floors	177	450	-	3	-	1
Exchange-traded contracts	-	563	-	-	-	-
Other forward interest rate transactions	9,284	11,458	149	16	234	11
Interest rate risks	35,123	71,154	927	2,028	1,181	2,070
Interest rate/currency swaps	5,249	7,666	258	605	283	465
Interest rate and currency rinsks	5,249	7,666	258	605	283	465
Forward exchange transactions	10,657	21,004	27	277	273	361
Currency options						
Long positions	779	617	184	104	-	-
Short positions	571	606	-	-	174	103
Currency risks	12,007	22,227	211	381	447	464
Equity options						
Long positions	264	409	2	10	-	-
Short positions	27	34	-	-	-	-
Equity/index-based swaps	204	276	1	3	30	41
Commodity-based transactions	2	229	-	38	-	79
Shares and other price risks	497	948	3	51	30	120
Collateral provider	263	503	3	4	2	5
Collateral taker	703	1,142	49	302	2	4
Credit derivatives	966	1,645	52	306	4	9
Total	53,842	103,640	1,451	3,371	1,945	3,128

Breakdown by maturity

Trading and non-trading portfolio

Nominal values € m	Interest rate risks		Credit risks		Currency risks		Equity and other price risks	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Residual maturity								
Up to 3 months	127,877	110,355	59	96	17,208	29,593	409	348
Up to 1 year	52,250	66,237	88	120	1,769	3,132	627	299
Up to 5 years	183,771	243,384	1,289	4,742	3,306	3,909	470	598
Over 5 years	126,592	195.890	233	673	647	655	369	380
Total	**490,490**	**615,866**	**1,669**	**5,631**	**22,930**	**37,289**	**1,875**	**1,625**

Breakdown by counterparty

Trading and non-trading portfolio

€ m	Nominal values		Positive market values		Negative market values	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
OECD banks	418,064	554,773	6,174	11,427	9,056	13,716
Non-OECD banks	377	160	14	9	4	1
Non-banks (incl. stock exchanges)	94,588	100,915	4,320	4,015	1,319	1,215
Public authorities	3,935	4,563	141	179	198	178
Total	**516,964**	**660,411**	**10,649**	**15,630**	**10,577**	**15,110**

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

Derivatives in the non-trading portfolio are in principle not recognised as they are pending transactions. There are exceptions in cases where HSH Nordbank AG has paid option premiums as purchaser or has received option premiums as the seller. These are capitalised under other assets/are expensed under other liabilities. In addition, the creation of provisions for contingent losses may be necessary where the individual valuation of derivatives results in negative market values. Furthermore, reconciliation items are recorded for currency transactions. As of 31 December 2010, the net amount of reconciliation items shown under other assets amounted to € 16 million (previous year: € 1 million) and the reconciliation items shown under other liabilities amounted to € 567 million (previous year: € 678 million).

€ m	Option premiums paid	Option premiums received
	31.12.2010	31.12.2010
Interest rate contracts	2	0
Currency contracts	21	40
Equity and other contracs	58	20
Total	**81**	**60**

We have created provisions for contingent losses in the amount of € 143 million (previous year: € 110 million) for financial instruments outside of the trading portfolio with regard to which an effective hedging relationship could not be shown.

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

The total amount of mortgage bonds, public sector bonds and ship mortgage bonds in circulation, and the corresponding cover funds, stated in terms of the nominal value, net present value and risk-adjusted present value in accordance with PfandBarwertV[5] are as follows:

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

€ m	Nominal value		Net present value		Risk-adjusted net present value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Mortgage bonds	4,943	4,235	5,084	4,360	5,204	4,486
Cover funds	6,107	4,746	6,412	5,020	6,433	5,070
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**1,164**	**511**	**1,328**	**660**	**1,229**	**584**

€ m	Nominal value		Net present value		Risk-adjusted net present value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Public-sector mortgage bonds	7,406	8,779	8,072	9,292	7,375	8,620
Cover funds	8,742	10,505	9,230	10,878	8,338	9,949
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**1,336**	**1,726**	**1,158**	**1,586**	**963**	**1,329**

€ m	Nominal value		Net present value		Risk-adjusted net present value	
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Ship mortgage bonds	2,560	2,580	2,584	2,651	2,574	2,617
Cover funds	3,299	4,398	3,442	4,391	2,956	3,700
thereof derivatives	-	-	-	-	-	-
Surplus coverage	**739**	**1,818**	**858**	**1,740**	**382**	**1,083**

Additional cover funds

€ m	Nominal value 31.12.2010	Nominal value 31.12.2009
Mortgage bonds	403	35
Public-sector mortgage bonds	104	146
Ship mortgage bonds	328	1,131

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

	Mortgage bonds		Cover funds	
Nominal value in € m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Up to one year	784	705	770	432
Between 1 year and 2 years	780	705	1,401	340
Between 2 years and 3 years	1,114	920	616	953
Between 3 years and 4 years	1,065	572	648	630
Between 4 years and 5 years	237	498	849	538
Between 5 years and 10 years	763	572	1,386	1,521
Over 10 years	200	263	437	332
Total	**4,943**	**4,235**	**6,107**	**4,746**

	Public-sector mortgage bonds		Cover funds	
Nominal value in € m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Up to one year	391	1,832	583	803
Between 1 year and 2 years	429	520	287	573
Between 2 years and 3 years	1,104	429	578	492
Between 3 years and 4 years	889	632	540	650
Between 4 years and 5 years	253	639	1,167	674
Between 5 years and 10 years	2,009	1,990	2,227	3,755
Over 10 years	2,331	2,737	3,360	3,558
Total	**7,406**	**8,779**	**8,742**	**10,505**

	Ship mortgage bonds		Cover funds	
Nominal value in € m	31.12.2010	31.12.2009	31.12.2010	31.12.2009
Up to one year	1,010	1,290	1,085	1,355
Between 1 year and 2 years	620	950	624	533
Between 2 years and 3 years	610	300	328	569
Between 3 years and 4 years	255	10	276	321
Between 4 years and 5 years	-	-	323	337
Between 5 years and 10 years	65	30	614	1,180
Over 10 years	-	-	49	103
Total	**2,560**	**2,580**	**3,299**	**4,398**

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

(a) Mortgage bond register

Nominal value in € m	Covering mortgages	
	31.12.2010	31.12.2009
Up to € 300,000	33	43
Between € 300,000 and € 5 million	1,368	1,092
Over € 5 million	4,133	3,436
Total	**5,534**	**4,571**

(b) Ship register

Nominal value in € m	Covering mortgages	
	31.12.2010	31.12.2009
Up to € 500,000	10	2
Between € 300,000 and € 5 million	1,017	522
Over € 5 million	1,859	3,874
Total	**2,886**	**4,398**

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

€ m	Residential			Commercial						31.12.2010
	Apart-ments	Single dwellings	Multiple dwel-lings	Office buil-dings	Retail properties	Industrial premises	Other com-mercial proper-ties	Unfin-ished newbuild-ings and building plots	thereof building plots	Total
Germany	1	12	1,210	705	601	8	711	55	-	3,303
Finland	-	-	-	63	-	-	10	-	-	73
France	-	-	-	776	5	-	-	-	-	781
Netherlands	-	-	48	604	46	-	83	-	-	781
Poland	-	-	-	73	-	-	-	-	-	73
Sweden	-	-	201	13	21	12	8	-	-	255
USA	-	-	-	256	-	-	-	-	-	256
Austria	-	-	-	12	-	-	-	-	-	12
Total	**1**	**12**	**1,459**	**2,502**	**673**	**20**	**812**	**55**	**-**	**5,534**

€ m	Residential			Commercial						31.12.2009
	Apart-ments	Single dwellings	Multiple dwel-lings	Office buil-dings	Retail properties	Industrial premises	Other com-mercial proper-ties	Unfin-ished newbuild-ings and building plots	thereof building plots	Total
Germany	1	9	1,047	647	567	11	579	-	-	2,861
Finland	-	-	-	63	-	-	10	-	-	73
France	-	-	-	649	5	-	-	-	-	654
Netherlands	-	-	49	562	59	-	83	-	-	753
Poland	-	-	-	-	-	-	-	-	-	-
Sweden	-	-	161	7	4	-	-	-	-	172
USA	-	-	-	46	-	-	-	-	-	46
Austria	-	-	-	12	-	-	-	-	-	12
Total	**1**	**9**	**1,257**	**1,986**	**635**	**11**	**672**	**-**	**-**	**4,571**

€ m	31.12.2010	31.12.2009
Germany	-	1
France including Monaco	-	-
Netherlands	3	-
Total of payments at least 90 days in arrears	**3**	**1**

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

€ m		Country	Regional public authority	Local public authority	Others	Total 31.12.2010
Germany	Nominal value	22	4,923	577	1,133	6,655
	Arrears	-	-	-	-	-
Belgium	Nominal value	250	20	-	-	270
	Arrears	-	-	-	-	-
France incl. Monaco	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Greece	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Great Britain / Northern Ireland / Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Ireland	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Italy	Nominal value	-	58	9	-	67
	Arrears	-	-	-	-	-
Japan	Nominal value	-	-	50	-	50
	Arrears	-	-	-	-	-
Canada	Nominal value	-	25	-	-	25
	Arrears	-	-	-	-	-
Lithuania	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Luxembourg	Nominal value	-	-	-	13	13
	Arrears	-	-	-	-	-
Netherlands	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Poland	Nominal value	28	-	-	-	28
	Arrears	-	-	-	-	-
Portugal incl. Azores and Madeira	Nominal value	125	-	100	-	225
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	304	-	-	304
	Arrears	-	-	-	-	-
Slovakia	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Slovenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Spain	Nominal value	-	141	-	25	166
	Arrears	-	-	-	-	-
Czech Republic	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Hungary	Nominal value	5	-	20	-	25
	Arrears	-	-	-	-	-
Austria	Nominal value	469	156	21	168	814
	Arrears	-	-	-	-	-
Total	Nominal value	**989**	**5,627**	**777**	**1,349**	**8,742**
	Arrears	**-**	**-**	**-**	**-**	**-**

€ m		Country	Regional public authority	Local public authority	Others	Total 31.12.2009
Germany	Nominal value	19	4,468	286	3,377	8,150
	Arrears	-	-	-	1	1
Belgium	Nominal value	250	21	-	-	271
	Arrears	-	-	-	-	-
France incl. Monaco	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Greece	Nominal value	50	-	100	-	150
	Arrears	-	-	-	-	-
Great Britain / Northern Ireland / Brit. Channel Islands	Nominal value	-	-	-	10	10
	Arrears	-	-	-	-	-
Ireland	Nominal value	-	-	-	-	-
	Arrears	-	-	-	-	-
Italy	Nominal value	-	76	9	-	85
	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	23	-	-	-	23
	Arrears	-	-	-	-	-
Portugal incl. Azores and Madeira	Nominal value	200	-	65	-	265
	Arrears	-	-	-	-	-
Switzerland	Nominal value	-	171	-	100	271
	Arrears	-	-	-	-	-
Slovakia	Nominal value	20	-	-	-	20
	Arrears	-	-	-	-	-
Slovenia	Nominal value	90	-	-	-	90
	Arrears	-	-	-	-	-
Spain	Nominal value	-	161	-	25	186
	Arrears	-	-	-	-	-
Czech Republic	Nominal value	12	-	-	-	12
	Arrears	-	-	-	-	-
Hungary	Nominal value	57	-	20	-	77
	Arrears	-	-	-	-	-
Austria	Nominal value	469	56	53	202	780
	Arrears	-	-	-	-	-
Total	Nominal value	**1,215**	**4,979**	**583**	**3,727**	**10,504**
	Arrears	**-**	**-**	**-**	**1**	**1**

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

€ m	31.12.2010 Ocean-going vessels	31.12.2010 Inland water vessels	31.12.2009 Ocean-going vessels	31.12.2009 Inland water vessels
Germany	2,101	-	2,524	-
Greece	38	-	5	-
Panama	153	-	175	-
Netherlands	-	-	30	-
Malta	90	-	34	-
Italy	-	-	7	-
Hong Kong	25	-	34	-
Marshall Islands	30	-	124	-
Cyprus	147	-	136	-
Liberia	232	-	154	-
Great Britain	-	-	4	-
Norway	50	-	40	-
Netherlands Antilles	5	-	-	-
Turkey	15	-	-	-
Total	**2,886**	**-**	**3,267**	**-**

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

Number	Commercial	Residential	Ocean-going vessels	Inland water vessels	2010 Total
Pending foreclosures and judicially-enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

Number	Commercial	Residential	Ocean-going vessels	Inland water vessels	2009 Total
Pending foreclosures and judicially-enforced receiverships	-	-	-	-	-
Foreclosures completed	-	-	-	-	-
Land and ships acquired to prevent losses	-	-	-	-	-

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

€ m	Commercial	Residential	Ocean-going vessels	Inland water vessels	2010 Total
Total amount of arrears on interest to be paid	-	-	-	-	-

€ m	Commercial	Residential	Ocean-going vessels	Inland water vessels	2009 Total
Total amount of arrears on interest to be paid	-	-	-	-	-

Of loans and advances to banks, the amount of € 2,533 million (previous year: € 3,404 million), and of loans and advances to customers the amount of € 20,131 million (previous year: € 20,815 million) is used to cover debentures issued.

(71) Average number of employees

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

	Male	Female	2010 Total	Male	Female	2009 Total
Full-time employees	1,839	927	2,766	1,987	1,076	3,063
Part-time employees	73	476	549	73	497	570
	1,912	1,403	3,315	2,060	1,573	3,633
Apprentices/trainees	35	26	61	48	34	82
Total	**1,947**	**1,429**	**3,376**	**2,108**	**1,607**	**3,715**

(72) 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 submitted a declaration of compliance within the meaning of Section 161 AktG and have made it available to the shareholders. The declaration of conformity is published on HSH Nordbank AG's website and printed in the 2010 Annual Report.

(73) Remuneration paid to members of the Management Board and Supervisory Board

HSH Nordbank AG approved a new compensation system for board members of the Bank in 2009 that has been applied since the start of 2010. The new system implements the limitation of monetary compensation of each board member to a maximum of € 500,000 per year (fixed compensation) as long as HSH Nordbank AG is not capable of making dividend distributions.

Variable performance-based compensation is dependent on the achievement of certain strategic goals as well as the Bank's financial success taking into account individual performance. It will not be paid if the bank is not able to make a dividend distribution as of 31 December 2012 or at the latest 2013. Only in such cases can any rights potentially acquired during 2010 and 2012 to a variable, performance-based compensation be paid in three annual tranches. The possibility of an after-the-fact reduction of payments not yet made is in this respect a part of the contract as is the limitation of payments upon departure.

Pension benefits in the amount of 20% of the fixed income portion, as well as reasonable in-kind benefits, are added. Remuneration for seats on external supervisory boards is offset against compensation in full.

The compensation system applicable to the member of the Management Board is still valid for two board members. This is comprised primarily of fixed compensation limited to € 500,000 – as long as HSH Nordbank AG is not able to pay a dividend – as well as a variable bonus which is dependent on the Bank's financial success – in particular the achievement of certain budget targets. In addition, there is a pension obligation as to one board member in a fixed amount as well as appropriate in-kind benefits for both board members. Remuneration for seats on external supervisory bodies is offset against the variable bonus above a certain limit.

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

Total remuneration of the Management Board for the 2010 financial year amounted to € 12,286 thousand (previous year: € 3,949 thousand). This included variable compensation in the amount of € 3,716 thousand. The increase in Management Board remuneration compared to the previous year resulted principally from payments in connections with the termination of employment relationships of board members and the variable compensation not paid in the previous year.

Mr Roth was relieved of his rights and duties as a member of the HSH Nordbank Management Board by Supervisory Board resolution dated 27 April 2009. Mr Roth's employment relationship ended as per agreement on 31 December 2010. His remuneration is included in the compensation of the management.

In the financial year under review, € 3,273 thousand (previous year: € 437 thousand) were added to pension obligations to active board members and to board members who left the Bank in the course of the financial year. As of 31 December 2010, they amounted to € 4,326 thousand (previous year € 2,521 thousand). In addition, during the reporting period payments were made for the first time for an external pension institution in the

amount of € 200 thousand.
Payments to former members of the Management Board and their surviving dependents totalled € 3,062 thousand (previous year: € 3,246 thousand) which, as was the case in the previous year, did not include a variable compensation elements. There were no provisions for current remuneration (previous year: € 0 thousand). In the financial year under review, € 11,242 thousand (previous year: € 2,225 thousand) were added to pension obligations to former board members and their dependents. Additions during the financial year included in particular one-time effects from the initial application of the rules amended by the Accounting Law Reform Act (BilMoG). As of 31 December 2010, a total of € 39,684 thousand (previous year: € 29,490 thousand) was added to provisions for pension obligations. This amount includes a reclassification in the amount of € 1,469 thousand (previous year: € 2,123 thousand) from provisions for active members of the Management Board.
The members of the Supervisory Board receive remuneration for their service in an amount determined by the annual general meeting. The expected total for the 2010 financial year of € 565 thousand has been recognised in provisions. This provision is offset by a reversal in the amount of € 1 thousand from the previous year's provision, as € 569 thousand of the amount set aside in the 2009 financial year (€ 570 thousand) was paid to members of the Supervisory Board. This includes VAT in the amount of € 91 thousand (previous year: € 66 thousand).

Advances, loans and other liabilities as at 31 December 2010 amounted to € 137 thousand (previous year: € 187 thousand) for members of the Management Board and € 279 thousand (previous year: € 1,343 thousand) for members of the Supervisory Board.

(74) Seats on supervisory bodies

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

(a) Members of the Management Board

Prof. Dr Dirk Jens Nonnenmacher	DekaBank Deutsche Girozentrale, Frankfurt am Main Hapag-Lloyd, Hamburg	Member of the Advisory Board Member of the Supervisory Board (since 1 June 2010)
Dr Martin van Gemmeren	HSH Nordbank Securities S.A., Luxembourg	Chairman of the Advisory Board
Bernhard Visker	HSH Nordbank Private Banking S.A., Luxembourg	Chairman of the Advisory Board
Constantin von Oesterreich	HSH Nordbank Securities S.A., Luxembourg	Member of the Advisory Board (since 4 February 2010)

(b) Employees

Peter Axmann	Sprinkenhof AG, Hamburg LB Immo Invest GmbH, Hamburg	Member of the Supervisory Board Member of the Supervisory Board
Carsten Bäcker	HSH Nordbank Securities S.A., Luxembourg	Member of the Advisory Board
Jan Duken	AEGROUP AG, Gerstungen	Chairman of the Supervisory Board
Dirk Gärtner	Closed Holding AG, Hamburg	Member of the Supervisory Board
Ulrich Geuss	HSH Nordbank Securities S.A., Luxembourg	Member of the Advisory Board
Torsten Heick	HSH Nordbank Private Banking S.A., Luxemburg Nobis Asset Management S.A., Luxembourg	Deputy Chairman of the Advisory Board Deputy Chairman of the Advisory Board
Boris Matuszczak	Gew obag Gemeinnützige Wohnungsbau-Aktiengesellschaft, Berlin	Member of the Supervisory Board
Reinhard Mix	Bürgschaftsbank Schleswig-Holstein, Kiel	Deputy Chairman of the Advisory Board
Matthias Müller	HSH Nordbank Private Banking S.A., Luxembourg	Member of the Advisory Board
Ulrich Voß	HSH Nordbank Securities S.A., Luxembourg	Member of the Advisory Board

(75) The Supervisory Board of HSH Nordbank AG

Hilmar Kopper, Rothenbach Chairman	Former spokesperson of the Management Board of Deutsche Bank AG
Olaf Behm, Tangstedt Deputy Chairman	Employee of HSH Nordbank AG
Sabine-Almut Auerbach, Neumünster	District secretary, ver.di Southern Holstein district
Astrid Balduin, Kiel	Employee of HSH Nordbank AG
Hans-Werner Blöcker, Helmstorf	Former Managing Director, Vereinigte Asphalt-Mischwerke GmbH & Co. KG
Berthold Bose, Hamburg	Regional financial services representative, ver.di Hamburg district
Detlev Bremkamp, Munich	Former member of the Management Board, Allianz AG Holding
Jürgen Friedland, Kiel	Employee of HSH Nordbank AG
Jens-Peter Gotthardt, Moorrege	Employee of HSH Nordbank AG
Torsten Heick, Rellingen	Employee of HSH Nordbank AG
Oke Heuer, Kiel	Deputy Head of Internal Audit, Savings Banks Association for Schleswig-Holstein
Dr Rainer Klemmt-Nissen, Hamburg	Managing Director, HGV Hamburger Gesellschaft für Vermögens- und Beteiligungsmanagement mbH
Lutz Koopmann, Altenholz	Former Chairman of the Management Board, Investitionsbank Schleswig-Holstein
Dr Joachim Lemppenau, Korschenbroich	Former Chairman of the Management Board, Volksfürsorge Versicherung
Manfred Lener, Kiel	Employee of HSH Nordbank AG
Rieka Meetz-Schawaller, Kiel	Employee of HSH Nordbank AG
Dr David Morgan, London	Managing Director, J.C. Flowers & Co. UK LLC
Dr Hans Reckers, Bad Homburg	Former member of the Executive Board, Deutsche Bundesbank
Edda Redeker, Kiel	ver.di, Northern district
Bernd Wrede, Hamburg	Former Head of the Executive Board of Hapag Lloyd AG

(a) Members of the Risk Committee

Dr Hans Reckers	Chairman
Dr David Morgan	Deputy Chairman (from 19 January 2010)
Astrid Balduin	
Olaf Behm	
Jürgen Friedland	
Torsten Heick	
Dr Rainer Klemmt-Nissen	
Hilmar Kopper	
Manfred Lener	
Bernd Wrede	

b) Members of the Audit Committee

Dr Joachim Lemppenau	Chairman
Lutz Koopmann	Deputy Chairman
Olaf Behm	
Jürgen Friedland	
Jens-Peter Gotthardt	
Oke Heuer	
Hilmar Kopper	
Rieka Meetz-Schawaller	

(c) Members of the Executive Committee

Hilmar Kopper	Chairman
Olaf Behm	
Oke Heuer	
Dr Rainer Klemmt-Nissen	
Lutz Koopmann	
Rieka Meetz-Schawaller	
Dr David Morgan	(from 19 January 2010)

d) Members of the Mediation Committee

Hilmar Kopper	Chairman
Olaf Behm	
Dr Rainer Klemmt-Nissen	
Manfred Lener	

(76) The Management Board of HSH Nordbank AG

Prof. Dr Dirk Jens Nonnenmacher Chairman Born in 1963	Responsible for the following divisions: Group Communications Legal Corporate Development Internal Audit Human Resources Also responsible on a temporary basis for: Taxes, Finance In addition organisational/disciplinary allocation for: IT, Operations
Dr Martin van Gemmeren Born in 1970	Responsible for the Restructuring Unit with the divisions Wind-down Loans Special Loans Divestments
Constantin von Oesterreich Born in 1953	Responsible for the following divisions: Credit Risk Management Group Risk Management Loan and Collateral Management Restructuring
Torsten Temp (since 1 May 2010) Born in 1960	Responsible for the following divisions: Shipping Transport[1)] Energy[1)]
Bernhard Visker Born in 1966	Responsible for the following divisions: Corporate Clients Private Banking Savings Banks Real Estate Clients In addition organisational/disciplinary allocation for: Group Treasury, Capital Markets Clients, Capital Markets Structuring & Trading, Asset and Investment Management[2)] (technical responsibility lies with the overall Management Board) Also responsible until 30 April 2010 for: Shipping, Transport[1)], Energy[1)]

[1)] Since the beginning of 2011, the former business unit Transport focuses on operations in the aviation sector and has been renamed "Aviation." The other areas within the business unit Transport, in particular infrastructure and rail, have been combined with the former business unit Energy into a new business unit "Energy & Infrastructure."
[2)] The business unit Asset and Investment Management was dissolved as part of the strategic realignment as of 31 December 2010.

In the capacity of Chief Operating Officer (COO) Mr Ulrich Voß is responsible for the divisions IT and Operations.

Mr Roth was relieved of his rights and duties as a member of the HSH Nordbank Management Board by Supervisory Board resolution dated 27 April 2009. Mr Roth's employment relationship ended as per agreement on 31 December 2010.

In its extraordinary meeting on 15 December 2010, the Supervisory Board approved the mutually agreed termination of the appointment of Prof. Dr Dirk Jens Nonnenmacher as Member and Chairman of the Management Board effective as of 31 March 2011. At the same time, the Supervisory Board approved the appointment of Dr Paul Lerbinger (born in 1955) as a Member of the Management Board effective as of 1 March 2011 and as Chairman of the HSH Nordbank AG Management Board effective as of 1 April 2011.

Hamburg/Kiel, 25 February 2011

Nonnenmacher van Gemmeren von Oesterreich

Temp 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 2010. 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 Wirtschaftprüfer [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 review opinion, we refer to the discussion in the management report in the paragraph "EU Beihilfeverfahren dauert an" [EU state aid proceedings continue]. Therein it is disclosed that the continued existence of HSH Nordbank AG as a going concern depends on whether the European Commission approves the stabilisation measures implemented by the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein in the foreseeable future on a permanent basis. It is also necessary that the EU approval should only be tied to requirements which can be implemented within the framework of reasonable business planning, and in particular, which will not conflict the effect of stabilization measures that relieve the regulatory capital.

The Auditor´s Report was issued in German language and refers to the consolidated financial statements that were issued in German language. Only the German version of the Auditor´s Report is legally binding.

Hamburg, 4 March 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Krall
Wirtschaftsprüfer

Madsen
Wirtschaftsprüfer

Responsibility statement by the Management Board

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

Hamburg/Kiel, 25 February 2011

Nonnenmacher   van Gemmeren   von Oesterreich

Temp   Visker

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