Disclosure Report
as at 31 December 2009

according to Section 26a of the Geman Banking Act (KWG)

HSH NORDBANK

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LIST OF ABBREVIATIONS

ABCP	Asset-backed Commercial Paper
ABS	Asset-backed Securities
AktG	Aktiengesetz (German Stock Corporation Act)
ALCO	Asset Liability Committee
AöR	Anstalt öffentlichen Rechts (institution incorporated under public law)
ABSE	Ancillary banking services enterprises (Section 1(3c) German Banking Act)
Avg.	Average
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
Basel II	Basel Framework Agreement
BU	Business Unit
CCF	Credit conversion factor
CDS	Credit default swaps
CFO	Chief Financial Officer
CI	Credit institution (Section 1 (1) German Banking Act)
CLD	Credit loss database
CLLP	Country loan loss provisions
CLN	Credit linked notes
CRO	Chief Risk Officer
CRM	Credit Risk Management
CRSA	Credit Risk Standardized Approach
DakOR	Datenkonsortium operationelle Risiken (Operational risk data consortium)
DQM	Data quality management
DRS	Deutsche Rechnungslegungs Standards (German Accounting Standards)
DSGV	Deutscher Sparkassen- und Giroverband (German Association of Savings Banks and Giro Banks)
EAD, EaD	Exposure at default (gross loan volume at the date of default)
ECB	European Central Bank
EL	Expected loss
FCR	Foreign currency rating
FE	Financial enterprise (Section 1(3) German Banking Act)
Fitch	Fitch Ratings
FSI	Financial services institution (Section 1(1a) German Banking Act)
GLLP	General loan loss provisions
GmbHG	GmbH-Gesetz (German Limited Liability Companies Act)
HGB	Handelsgesetzbuch (German Commercial Code)
IAA	Internal Assessment Approach
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
IRB	Internal Rating Based
IRBA	Internal Rating Based Approach
ISDA	International Swaps and Derivatives Association
KWG	Gesetz über das Kreditwesen/Kreditwesengesetz (German Banking Act)
LBO	Leveraged buyout
LCR	Local currency rating
LeDIS	Legal Database Information System
LGD	Loss given default
LLC	Limited liability company
LP	Limited partnership

Ltd	Limited
LVaR	Liquidity-Value-at-Risk
LWB	Country value adjustment
M	Maturity
MaRisk	Mindestanforderungen an das Risikomanagement (Minimum Requirements for Risk Management)
Moody's	Moody's Investors Service
NPNM	New products – new markets
OECD	Organisation of Economic Cooperation and Development
OpRisk	Operational risk
Oth	Other
PD	Probability of Default
P&L	Profit & Loss
PWB	Lump sum value adjustments (including lump sum provisions)
PQC	Process quality controlling
RechKredV	Kreditinstituts-Rechnungslegungsverordnung (Ordinance on the Accounting System for Banks)
RSU	RSU Rating Service Unit GmbH & Co. KG
RW	Risk weight
RWA	Risk-weighted assets
SFA	Supervisory Formula Approach
SLLP	Specific loan loss provisions
SoFFin	Sonderfonds Finanzmarktstabilizierung (German Financial Market Stabilization Fund)
SolvV	Solvabilitätsverordnung (German Solvency Regulation of 14 December 2006, as amended on 14 December 2007)
S & P	Standard & Poor's
SPC	Special purpose company
SPV	Special purpose vehicle
S Rating	S Rating Sparkassen Rating und Risikosysteme GmbH
TWR	Träger wirtschaftlichen Risikos (bearer of economic risk)
VaR	Value-at-Risk
VÖB	Bundesverband öffentlicher Banken Deutschlands (German Association of Public Sector Banks)
WZ	Wirtschaftszweigklassifikation (German Classification of Economic Activities)

1 INTRODUCTION

The disclosure requirements[1] under the German Solvency Regulation (Solvabilitätsverordnung - SolvV)[2] and the third pillar of the Basel Framework Agreement supplement the minimum regulatory capital requirements (Pillar 1) and the regulatory monitoring process (Pillar 2). The objective is to strengthen the market discipline of credit institutions. This is to be achieved through a series of disclosure requirements which enable market participants to assess core information on the scope of application of the Solvency Regulation, equity, risk exposure, risk management procedures and, following on from this, the capital adequacy of the institution. In general, disclosures are on a Group level. Under Section 321 (1) SolvV, annual disclosures are required.

During the second quarter of 2009, HSH Nordbank implemented a capital increase funded by its shareholders, the German Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg. In order to be able to present the effects of this capitalization on the minimum capital requirements as at 30 June 2009, HSH Nordbank voluntarily released an interim disclosure report based on Section 26a KWG for the reporting period 1 January through 30 June 2009. Complete compliance with the reporting requirements under Section 26a KWG in conjunction with Part 5 of SolvV was not the aim of that interim report. Rather, the focus was on a comprehensive presentation of the effects of the capital measures.

The disclosure requirements under Basel II are now met in this report as at 31 December 2009 for the financial year ending 31 December 2009. A comprehensive presentation of the effects of the capital measures is also part of this report.

In accordance with the resolutions of the Hamburg City Parliament and the Parliament of Schleswig-Holstein, the capital measures include an increase in equity as well as the grant of a guarantee framework via the HSH Finanzfonds AöR – an institution incorporated under public law established for this purpose by the shareholders of HSH Nordbank, the German Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg. As a result of the capital increase, HSH Nordbank's capital base was strengthened by EUR 3,000 million. In addition, the guarantee framework reduces risk-weighted assets, in that the Bank is protected from secondary losses in the guaranteed portfolios, up to EUR 10,000 million (the “risk shield”), as soon as the risks in the collateralized portfolios exceed the agreed first loss piece held by the Bank, which amounts to EUR 3,200 million. As a result of the capital measures, an overall ratio of 14.5% and a Tier 1 capital ratio of 9.5% were achieved for the HSH Nordbank Group at the 31 December 2009 reporting date (the figures are before adoption of the annual financial statements).

The changes between 31 December 2008 and the reporting date in the values and capital requirements shown in the report are due essentially to the execution of the guarantee transaction in the second quarter of 2009, which took regulatory effect as at 30 June 2009. In addition, they reflect the global conditions and associated deterioration in the risk parameters. Finally, they show the effect of the realignment concept adopted at the start of 2009 and the Bank’s associated concentration on its strategic core areas while at the same time significantly reducing total assets. Details of this are given in the consolidated management report in the 2009 HSH Nordbank annual report, in the chapter “Underlying conditions and business overview”.

All representations as at 31 December 2009 in this report take the effects of the guarantee framework into account. To the extent it is useful with respect to individual representations or tables, an alternative calculation, which does not take the guarantee framework into account, is presented in the Notes for informational purposes.

The disclosure report will be published in accordance with Section 320 (1) SolvV on HSH Nordbank’s website under Investor Relations. The date and communication medium of publication will be communicated to the supervisory authorities and announced electronically in the Federal Gazette.

[1] Section 26a of the German Banking Act (KWG), in conjunction with Part 5 of SolvV, constitutes the national statutory basis of disclosure in Germany.

[2] Regulations governing the capital adequacy of institutions, groups of institutions and financial holding groups (Solvency Regulation - SolvV) as at 23 December 2009, Sections 319 to 337.

2 SCOPE OF APPLICATION

Consolidation

HSH Nordbank AG is the parent company of the HSH Nordbank group (hereafter HSH Nordbank) as defined in Section 1 (7a) KWG. The disclosures reflect those entities belonging to the Group which form part of the regulatory consolidation group pursuant to Section 10a (1) and (2) KWG. The consolidation group recognized for financial accounting/reporting purposes under International Financial Reporting Standards (IFRS) as described in the annual report of the HSH Nordbank Group for the financial year ending 31 December 2009 differs from the regulatory consolidation group.

In Table 45 (see notes, chapter 10) the consolidation principle pursuant to Section 323 (1) no. 2 SolvV as well as the difference between the regulatory and IFRS consolidations are described. All entities to be consolidated and their allocation to the regulatory and/or financial accounting consolidation group are listed. The entities are allocated to entity types for the purposes of the regulatory consolidation on the basis of the definitions set out in Section 1 KWG. The entities listed in Table 45 under the accounting consolidation basis are fully consolidated as at the reporting date, proportional or at equity consolidation is not relevant for HSH Nordbank.

Those subsidiaries deducted from the equity capital of the HSH Nordbank Group are also shown in the table. The Bürgschaftsbank Schleswig-Holstein GmbH is the only subsidiary defined as a financial institution in accordance with Section 1 (1) KWG. With reference to Section 320 (1) SolvV the Bürgschaftsbank is classified as immaterial.

Apart from the parent institution HSH Nordbank AG, the regulatory consolidation group includes 151 entities. The financial accounting consolidation group comprises 46 entities. 15 entities and/or portfolios are included in the financial accounting consolidation report but not in the regulatory consolidation group due to their business activities. These are taken into account as risk-weighted positions for regulatory purposes.

HSH Nordbank applies Section 31 (3) KWG to the entities listed below and does not include these in the consolidation under the exemption pursuant to Section 10a (6) to (12), Section 12a (1) sentence 1 and Section 13b (3) and (4) KWG:

- HSH Immobilien Management GmbH, Kiel
- HSH INVEST S.A., Luxemburg
- HSH N Real I GmbH, Kiel
- HSH N Real II GmbH, Kiel
- Verwaltungs- und Treuhandgesellschaft von 1963 mbH, Kiel

The concept underlying all qualitative and quantitative information to be disclosed is the regulatory group of institutions per Section 10a KWG. Exceptions to this are indicated at the relevant points in this report. The German Commercial Code (“Handelsgesetzbuch” or “HGB”) is applied to determine the regulatory capital adequacy of HSH Nordbank and consequently also to the disclosures.

With regard to the regulatory capital adequacy of subsidiaries in which there are other shareholders in addition to the HSH Nordbank Group, a change in capital and/or own funds requires the approval of the co-shareholders and their respective committees.

In the case of subsidiaries which are also credit institutions, changes in capital must be approved where necessary by the appropriate banking supervisory authorities. This applies, for example, to subsidiaries in the USA in which the HSH Nordbank Group has an equity holding of more than 5% and which are subject to the regulations of the US banking supervisory authorities. Statutory restrictions such as, for example, the capital maintenance regulations as defined in the Limited Liability Companies Act (GmbHG) and the German Stock Corporation Act (AktG), under which it is difficult to transfer funds from a free capital reserve in the course of the fiscal year, must be adhered to by domestic subsidiaries.

With the exception of the above-mentioned restrictions as well as the statutory and regulatory requirements there are no other restrictions based on contractual agreements within the HSH Nordbank Group that have to be taken into account.

Principle of materiality

In accordance with Section 320 (1) SolvV all information disclosed within this report is subject to the principle of materiality. Information which is legally protected and/or confidential and whose disclosure could harm HSH Nordbank’s competitive position is not part of the disclosure report.

Provided that data from the accounting systems are presented in the Disclosure Report, in particular with regard to the risk provisions (Section 327 SolvV), HSH Nordbank has decided with regard to the internal bank definition of group entities to be consolidated to disclose material subsidiaries in addition to HSH Nordbank AG for the purposes of presentation in the Disclosure Report. These are HSH Nordbank Securities S.A., HSH Nordbank Private Banking S.A. and HSH Real Estate AG.

Waiver rule

Pursuant to Section 2a KWG the waiver rule is not currently being exercised, as at reporting date there are no other domestic institutions within the regulatory consolidation group of the HSH Nordbank Group, apart from HSH Nordbank AG, that meet the conditions pursuant to Section 2a KWG.

3 CAPITAL STRUCTURE AND CAPITAL REQUIREMENTS

3.1 CAPITAL MEASURES

3.1.1 Explanatory note on the going concern assumption

The consolidated financial statements are based on the assumption that the enterprise is a going concern. HSH Nordbank Group justifies this assumption primarily by the recapitalization in the year under review and a viable restructuring concept which will ensure the Bank's independent competitiveness.

The recapitalization ensures that the regulatory minimum capital requirements are complied with, and that the contractual obligations to the Financial Market Stabilization Fund (SoFFin) regarding the Tier 1 capital ratio are fulfilled. In particular, the measures include an increase in equity as well as the grant of a guarantee framework via the HSH Finanzfonds AöR – an institution incorporated under public law for this purpose by the shareholders of HSH Nordbank, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg. In turn this entity is backed by a counter guarantee from the public-sector shareholders.

The Bank's realignment concept formed the basis of a restructuring plan filed with the EU Commission on 1 September 2009. On 29 May 2009, the EU Commission granted preliminary approval for a period of six months for recapitalization measures, which were completed in mid-2009. In its decision dated 22 October 2009, the EU Commission opened a formal investigation of whether the restructuring plan and the aforementioned measures comply with state aid provisions. At the same time, the EU Commission extended its preliminary approval for these measures until the conclusion of its formal investigation.

Since that time, the Bank, together with the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein and under the leadership of the Federal Republic of Germany, has engaged in intensive and constructive discussions with the EU Commission. These resumed at the beginning of 2010. The EU Commission has subsequently approved in principle the Bank's realignment concept presented in the restructuring plan. HSH Nordbank is convinced that the EU Commission will grant final and permanent approval to the stabilization measures and the restructuring of HSH Nordbank once all open issues have been resolved. A decision from the EU Commission is expected by mid-2010.

3.1.2 Capital increase

The capital increase in the amount of EUR 3,000 million was approved by the owners of the Bank at an Extraordinary General Meeting on 20 May 2009. All new shares were subscribed for by the HSH Finanzfonds AöR. The capital was completely paid in during June 2009.

The capital increase became effective upon its entry in the commercial register on 25 June 2009.

3.1.3 Provision of a guarantee framework

Risk-shielding

As a supplemental measure to the capital increase, the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg granted HSH Nordbank a guarantee framework of EUR 10,000 million via the HSH Finanzfonds AöR on 2 June 2009. The guarantee framework is comprised of two legally independent guarantee contracts: a financial guarantee contract in accordance with International Accounting Standard (IAS) 39.9, and an additional partial guarantee.

The guarantor thus covers actual payment defaults on or after 2 June 2009 from a reference portfolio as at 31 March 2009, insofar as the agreed first loss piece to be borne by the Bank of EUR 3,200 million has been exceeded.

This secondary, loss-based, risk-shielding function of the guarantee framework is designated within HSH Nordbank as Sunrise or the Sunrise Transaction. This risk shield is structured as a synthetic securitization transaction which is recognized by the supervisory authorities so that assets remain on HSH Nordbank's balance sheet.

Reference portfolio

The HSH Finanzfonds AöR financial guarantee relates to a reference portfolio. This is comprised of fixed-maturity debt instruments of HSH Nordbank AG, as well as of its subsidiary HSH Nordbank Securities S.A., Luxemburg and of SIV Carrera Capital Finance Limited, Jersey, that are recognized in the consolidated financial statements and are selected based on defined criteria. At the reporting date, the reference portfolio had an exposure amount of EUR 136,600 million.

Derivatives, debt instruments with embedded derivatives that must be separated from their hosts under IAS 39, and equity instruments are not covered by the guarantee. Similarly not covered by the guarantee are pure market fluctuations as well as losses realized on the sale of non-impaired assets. The foreign exchange risk resulting from the financial guarantee being granted in euro to cover portfolios in different transaction currencies remains with

HSH Nordbank. Regulatory recognition of this currency mismatch in the Sunrise Transaction is explained in chapter 5.7.1.

The selection criteria for the chosen assets within the reference portfolio above result primarily from the requirements of the Federal Financial Supervisory Authority and the Deutsche Bundesbank with regard to supervisory authority in accordance with the Solvency Regulation as well as the requirements of the Federal State of Schleswig-Holstein and the Free and Hanseatic City of Hamburg. As a result, it is possible to recognize the guarantee as a financial guarantee under IAS 39.9 and to present it as a securitization transaction from a regulatory standpoint; the reference portfolio was composed so as to meet these requirements.

Financial guarantee

The HSH Finanzfonds AöR financial guarantee is structured so that credit rating-related losses within the reference portfolio from defaults are allocated to a primary loss, secondary loss and senior tranche, of which the credit rating-related losses of the secondary tranche are collateralized via the financial guarantee.

HSH Nordbank’s first loss piece amounts to EUR 3,200 million. The financial guarantee provides collateral for the secondary loss tranche, i.e. the credit rating-related losses above and beyond the Bank's first loss piece within the reference portfolio are shielded up to EUR 10,000 million as a secondary loss. These risks are transferred to HSH Finanzfonds AöR. In total, the guarantor is liable for actual defaults that exceed the individual risk provision created on 31 March 2009 related to the respective individual exposures, as well as the Bank's first loss piece amounting to EUR 3,200 million in relation to the reference portfolio.

Losses in excess of EUR 13,200 million are again borne by HSH Nordbank, i.e. the senior tranche is borne by HSH Nordbank. HSH Nordbank and the guarantor can mutually agree to reduce the Bank's first loss piece.

The default amount for an individual commitment is the outstanding amount after deducting the 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 and other sums due. Losses may only be allocated under the guarantee once the guarantee case has been examined and approved by the guarantor.

In the light of the reorganisation (see chapter 4), the guarantee framework was structured such that an apportionment would be possible following a potential legal segregation of the bad assets portfolios, in order to be able to retain the protection.

Partial guarantee

The initial guarantee of the German federal states will be recognized in the consolidated financial statements as a financial guarantee in accordance with IAS 39.9.

To the extent that, during the restructuring and winding-up process, measures in compliance with the guarantee are undertaken with respect to secured exposures that are incompatible with the recognition of the security instrument in the balance sheet as a financial guarantee in accordance with IAS 39.9, the commitments may, with the approval of the guarantor, be transferred to a partial guarantee under the framework agreement that is treated as a credit derivative under IFRS. The maximum amount guaranteed does not change as a result of the creation of the partial guarantee, as the sum of the individual amounts remains constant.

Upon creation of the credit derivative, the guarantee premium is allocated to the partial guarantees on a pro rata basis. Recognition and measurement of the derivative is based on the provisions of IAS 39.

During the year under review, the first commitments were notified to the guarantor and transferred to the partial guarantee of the credit derivative.

Im Berichtsjahr sind erste Engagements mit Anzeige an die Garantiegeberin in die Teilgarantie des Kreditderivates überführt worden.

3.1.4 Effects of the capital measures on the regulatory capital requirements

The HSH Finanzfonds AöR guarantee framework constitutes eligible credit protection in accordance with Section 162 ff SolvV. As it possesses the necessary characteristics, such as for example division into tranches and ranking (waterfall), it is treated as a securitized position under the advanced IRB approach in accordance with Section 226 (1) and (5) SolvV. The risk weight of the senior tranche is determined using the Supervisory Formula Approach in accordance with Section 258 SolvV.

Due to its structure, a corresponding easing of the strain on regulatory capital requirements may be achieved through the HSH Finanzfonds AöR guarantee framework under Section 258 SolvV.

Based on the securitization regulations in SolvV, there is a choice for the first loss piece between a capital deduction and an allowance with a risk weight of 1,250%. HSH Nordbank has chosen the risk-weighted allowance, leading to lower volatility of the capital ratios. Therefore, significantly lower capital ratios than those relating to a capital deduction are accepted. The risk weight for the secondary loss tranche is 0%, and for the senior tranche was 7% at the reporting date.

The capital increase and financial guarantee resulted in a rise in the bank's regulatory capital ratios, which had previously declined on the back of losses sustained in 2008, so that regulatory capital requirements were more than satisfied after implementing the package of measures in 2009.

All representations as at 31 December 2009 in this report take the effects of the guarantee framework into account. Regulatory capital requirements continue to be determined without taking the guarantee framework into account, in the form of an alternative calculation, and are reported to the Federal Financial Supervisory Authority (BaFin) and the Deutsche Bundesbank in the form of an alternative presentation. To the extent it is useful, with respect to individual representations or tables contained in this report, the appropriate alternative calculations and/or presentations are contained in the Notes (chapter 10) for informational purposes.

Potential future regulatory modifications in SolvV may result in changes with respect to the reduction in burden on capital. The German Federal Government has published a first draft of an amendment to the German Banking Act (KWG) and SolvV, in which an increase of risk weights for re-securitizations is foreseen. A re-securitization is any securitization transaction of which the underlying securitized portfolio (reference portfolio) itself contains securitized positions.

In order to avoid the classification of the overall Sunrise Transaction as a re-securitization, a regulatory event was introduced, as a result of which all securitizations may be removed from the reference portfolio. In this event the guarantee contract provides for (among other options) the possibility of dividing the guarantee framework into an additional partial guarantee for the re-securitized portfolio.

For reporting purposes, the financial guarantee has not yet had a securing effect by the reporting date, as the cumulative credit rating-related impairments within the secured reference portfolio are below the threshold of primary losses which are to be borne by the bank.

3.2 STRUCTURE OF REGULATORY CAPITAL

The following presentation of the structure of regulatory capital is in accordance with Sections 10 and 10a of the German Banking Act (KWG). The consolidated regulatory capital of the bank group is determined using the aggregation method in accordance with Section 10a (6) KWG. The regulatory capital consists of Tier 1 capital (core capital), supplementary capital (Tier 2 capital) and subordinated capital (Tier 3 capital).

The components of Tier 1 capital per Section 10 (2a) KWG are set out in detail in Table 1, in accordance with Section 324 (2) SolvV. The material change in Tier 1 capital compared to 31 December 2008 is the increase in capital of EUR 3,000 million. EUR 1,600 million was paid into share capital and EUR 1,400 million into capital reserves. The capital increase became effective upon its entry in the commercial register on 25 June 2009.

HSH Nordbank's supplementary capital (Tier 2 capital) consists of longer-term subordinated liabilities, unallocated loss provisions under Section 340 ff HGB and liabilities for profit equity holdings.

Tier 3 funds comprise subordinated liabilities that cannot be classified as supplementary capital for regulatory purposes because Section 10 (2) sentence 4 KWG stipulates a cap.

Regulatory capital item	2009	2008
Subscribed capital	3,553	1,817
Reserves (capital reserve and other allocable reserves)	2,254	3,939
Interim profit (or interim loss)	-	-
Assets contributed by silent partners	2,036	2,385
Special reserves for general banking risks in accordance with Section 340 g HGB	1,052	1,052
(-) Other country-specific core capital components less other positions to be deducted under Section 10 (2a) sentence 2 KWG	-36	-33
Total core capital in accordance with Section 10 (2a) KWG	8,859	9,160
Total amount of supplementary capital in acc. with Section 10 (2b) KWG and of Tier 3 funds as per Section 10 (2c) KWG	4,856	5,379
Total of the positions to be deducted in accordance with Section 10 (6) and (6a) KWG of which expected losses in accordance with Section 10 (6a) no. 2 KWG	-542 (-293)	-1,616 (-1,242)
Total amount of modified available capital in accordance with Section 10 (1d) sentence 1 KWG and of allocable Tier 3 funds in accordance with Section 10 (2c) KWG	13,173	12,923

Table 1: Structure of regulatory capital in € m

3.3 TERMS AND CONDITIONS OF REGULATORY CAPITAL

As at the reporting date the regulatory capital instruments of the HSH Nordbank Group primarily comprise the following:

The subscribed capital amounts to EUR 3,553 million. The entities to be consolidated in the regulatory consolidation group have different types of subscribed share capital depending on the legal form.

The reserves of EUR 2,254 million consist of capital reserves (EUR 1,557 million) and other allocable reserves (EUR 697 million). Silent participations were allocated in the amount of EUR 2,036 million. An annual distribution is payable on assets contributed by silent partners, which, according to the structure of the agreement, is dependent either on the annual net income for the year or the distributable profit. In the year under review no distribution was made on silent participations as a result of the net loss for the year and insufficient distributable profit. Silent participations share in the net loss for the year of EUR 473 million (see the 2009 financial report of HSH Nordbank AG). For the most part, the silent participations are for an indefinite period and cannot be terminated by the investors. HSH Nordbank regularly has the right to terminate after the expiry of an agreed minimum period of time that is subject to the approval of the Federal Financial Supervisory Authority.

The supplementary capital amounts to EUR 4,562 million and comprises long-term subordinated liabilities, reserves allocated in accordance with Section 340 f of the HGB and liabilities under profit participation rights. Profit participation capital of EUR 65 million, not including the profit participation certificates not allocable under regulatory requirements, is allocated to supplementary capital. Holders of profit participation rights share in the net loss for the year to the extent of EUR 86 million, of which EUR 11 million is allocated to profit participation certificates allocable under regulatory requirements.

Subordinated liabilities were issued in the form of loan notes, registered or bearer bonds and are denominated in EUR, US Dollar and Japanese Yen. The original maturities range from five to 40 years. The interest rates payable are between 0.4% and 6.5% p.a. In total there are subordinated liabilities in the amount of EUR 5,084 million, of which EUR 4,429 million was included in supplementary capital as at the reporting date.

Tier 3 funds in the amount of EUR 294 million consist solely of subordinated liabilities that were not taken into account for regulatory purposes.

More detailed information on the terms and conditions on the allocable components of equity capital are set out in Table 2.

Equity instruments	Allocable total amount in € million		Residual maturity < 5 years in € m		Residual maturity > 5 years in € m		Avg.[1] residual maturity in years		Avg. interest rate in %	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Core capital										
Ordinary shares of HSH Nordbank AG	2,460	881	-	-	-	-	-	-	-	-
Allocable share capital of other entities included in the regulatory consolidation group	1,093	936	-	-	-	-	-	-	-	-
Silent participation, variable interest rate, fixed maturity	-	-	-	-	-	-	-	-	-	-
Silent participation, variable interest rate, indefinite maturity	625	976	-	-	-	-	-	-	-	-
Silent participation, fixed interest rate, indefinite maturity	1,268	1,266	-	-	-	-	-	-	7.6	7.8
Silent participation, fixed interest rate, fixed maturity	143	143	118	118	25	25	5	6	6.8	6.8
Silent participations (total of smaller participations)	-	-	-	-	-	-	-	-	-	-
Supplementary capital										
Preference shares		-		-		-		-		-
Profit participation certificates	65	139	65	139	-	-	2	2	7.0	7.0
Subordinated liabilities (before utilization of Section 10 Abs. sentence 2 of the German Banking Act (KWG)).	5,084	5,172	260	302	4824	4,870	10	10	2.7	4.3

[1] Avg.: average

Table 2: Terms and conditions of equity instruments

3.4 REGULATORY CAPITAL REQUIREMENTS

Since the beginning of 2008, HSH Nordbank has determined the amount of regulatory capital backing required for counterparty default, market and operational risks on the basis of SolvV. Following approval from the supervisory authority, the counterparty default risk positions are determined using the Advanced IRB Approach. Consequently the Bank is applying the same parameters already being used internally in risk management and counterparty default risk management for regulatory reporting. The amounts allocated to market risk positions are determined in accordance with the Standardized Approach. Operational risk is taken into account under the Standardized Approach. For the procedures used to calculate the regulatory capital requirement for counterparty default risks see chapter 3.4.1.

The total regulatory capital requirement of EUR 7,252 million is the sum of the amounts allocated to counterparty default, market and operational risks (see Table 3, pursuant to Section 325 (2) SolvV).

Counterparty default risk	Regulatory capital required 2009	Regulatory capital required 2008
CSRA		
Central governments	0	5
Regional governments and local municipalities	0	0
Other public institutions	2	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	3	68
Covered bonds issued by credit institutions	-	5
Companies	191	1,513
Retail banking	6	44
Positions secured by real estate	2	51
Investment certificates	17	112
Other positions	9	27
Past due positions	71	70
Advanced IRB Approach		
Central governments	12	46
Institutions	211	386
Retail banking	-	-
Companies	1,754	4,939
Other non-credit related assets	112	13
Risks from securitization positions		
Securitizations under the CSRA	18	156
Securitizations under the Advanced IRB Approach	4,030	110
Risks arising on equity holdings		
Equity holdings based on the continued use of the old methodology/grandfathering	75	114
Equity holdings excluded from the IRBA on a permanent basis or for a limited period	0	0
Equity holdings in accordance with market approaches (IRBA)	42	97
Simple risk weight approach	42	97
Listed equity holdings	7	23
Not listed, but belonging to a sufficiently diversified portfolio	17	24
Other equity holdings	18	50
Internal model approach	-	-
Equity holdings in accordance with the PD-LGD approach	25	37
Market risk in the trading book		
Market risk in accordance with the Standardized Approach	411	857
Settlement risk		
Settlement risk	0	0
Operational risk		
Operational risk in accordance with the Standardized Approach	261	291
Total[1]	7,252	8,942

[1] Differences in amounts are due to rounding

Table 3: Regulatory capital requirements in € m

3.4.1 Credit risks

HSH Nordbank determines all the risk parameters required to calculate risk weight internally using the Advanced IRB Approach (see chapter 5.9.1). However, as part of the temporary and/or permanent partial use, the Credit Risk Standardized Approach (CRSA) is applied to individual portfolios as well as to subsidiaries that are to be consolidated (see chapter 2). For this reason, the information on the regulatory capital requirement for credit risk is broken down between the Advanced IRB Approach and the CRSA as well as into receivables classes in accordance with the approaches applied.

Due to the special treatment applied to equity holdings and securitizations, the regulatory capital requirements for these portfolios are separately disclosed. In the case of equity holdings, HSH Nordbank determines the regulatory capital backing using the PD-LGD approach and the simple risk weight method. Furthermore, the equity holdings already held prior to 1 January 2008 and consequently “grandfathered” (portfolio protection) pursuant to Section 338 (4) SolvV are excluded from the Advanced IRB Approach until 31 December 2017 and treated in accordance with the rules applicable to the CRSA.

The total regulatory capital required for counterparty default risk amounts to EUR 6,580 million.

The change in capital requirements for counterparty risks between 31 December 2008 and the reporting date is due primarily to the Sunrise Transaction. As described in chapter 3.1, the Sunrise Transaction, which took effect on 30 June 2009 for regulatory purposes, is categorized as a securitization. This involves a recategorization from the relevant class of the asset in the reference portfolio to the IRBA securitizations class.

This also reflects the global conditions and associated deterioration in the risk parameters. In addition, it shows the effect of the realignment concept adopted at the start of 2009 and the Bank’s associated concentration on its strategic core areas while at the same time significantly reducing its total assets.

3.4.2 Market risks

HSH Nordbank currently applies the Standardized Approach for the purposes of determining the regulatory capital requirement for market risk, pursuant to Section 294 ff. SolvV. The regulatory capital requirement for market risk amounts to EUR 411 million as at the reporting date (see chapter 6.4).

3.4.3 Operational risks

HSH Nordbank applies the Standardized Approach pursuant to Section 272 ff SolvV for the purposes of determining the regulatory capital requirement for operational risk. In total, there is a regulatory capital requirement for the Group of EUR 261 million as at the reporting date (see chapter 7.4).

3.5 ADEQUACY OF REGULATORY CAPITAL

Capital adequacy is determined on the basis of the equity structure described above and the risk-weighted assets (RWA). The overall ratio is defined in Section 3 (1) SolvV in combination with Section 2 (6) SolvV, and shows the ratio of regulatory capital (numerator) and the total for RWA of counterparty risk and amounts for market and operational risks (denominator), expressed as a percentage. The regulatory capital used in the calculation is the total of the modified available equity and Tier 3 capital used. The required minimum ratio is 8.0%. The Tier 1 capital ratio (core ratio) is the ratio between core capital (Section 10 (2a) KWG) and the total from RWA for counterparty risks and amounts for market and operational risks.

In addition to the overall numbers for the Group the solvency ratios are disclosed at the individual entity level in Table 4 pursuant to Section 325 (2) No. 5 SolvV for the following entities:

- HSH Nordbank AG, Hamburg/Kiel
- HSH Nordbank Securities S.A., Luxemburg
- HSH Nordbank Private Banking S.A., Luxemburg

The rise in the solvency ratios for HSH Nordbank Securities S.A. and HSH Private Banking S.A. is primarily due to an extensive asset transfer from the Luxembourg subsidiaries to HSH Nordbank AG.

Company	Overall ratio in %		Core capital ratio in %	
	2009	2008	2009	2008
HSH Nordbank Group	14.5	11.6	9.5	7.5
HSH Nordbank AG	13.7	11.9	9.0	7.7
HSH Nordbank Securities S.A.	43.8	14.4	39.3	13.0
HSH Nordbank Private Banking S.A.	28.8	16.9	26.7	9.6

Table 4: Capital ratios of the HSH Nordbank Group

The HSH Nordbank Group and HSH Nordbank AG refer to HGB data for the purposes of determining the overall capital requirements. However, pursuant to the provisions stipulated by the Luxembourg Supervisory Authority (Circulaire CSSF 06/251 – circular issued by the Luxembourg Financial Sector Supervisory Commission), HSH Nordbank Securities S.A. and HSH Private Banking S.A. must prepare their solvency ratios and reports on the basis of International Financial Reporting Standards (IFRS). For this reason the overall and core capital ratios of both these subsidiaries to be shown in the Interim Disclosure Report are also based on IFRS financial data.

4 RISK MANAGEMENT

4.1 STRATEGIES AND PROCESSES

Stabilization of the financial markets and realignment of HSH Nordbank

The state of risk at HSH Nordbank has significantly improved overall in the course of the year under review. The capital increase and risk shield boosted the Bank's capital ratios, which had fallen as a result of the 2008 net loss, so that the regulatory capital requirements were clearly exceeded after implementation of these measures in 2009 (see chapter 3.4). The capitalization measures also increased the Bank's risk coverage potential, while the economic capital requirement fell by about half. This re-established the risk-bearing capacity of HSH Nordbank in the year under review. The calmer state of the financial markets also contributed to early achievement of the refinancing goals for 2009 as a whole.

The increased charges are the result of the consequences of the economic crisis. While the economy has recovered from its lowest point, default rates have continued to rise in recent months, as the crisis has left its mark on many companies. Loan loss provisions were increased significantly in 2009 (see chapter 5.4.4), much of which was for commitments to the shipping industry, an important one for HSH Nordbank

On 1 December 2009 HSH Nordbank completed the internal split into the Core Bank and Restructuring Unit, as planned. The Restructuring Unit is part of the fundamental strategic realignment. Its central function is to operate as a separate Board-level brief within the Bank to reduce in a controlled and gradual manner the positions in business areas no longer regarded as strategic and specific risk positions of HSH Nordbank, disposing of them with regard to results and liquidity in order to strengthen the Core Bank. Decisions on reducing portfolios are taken on the basis of defined principles, such as limiting losses in value, utilizing potential for write-ups, making careful use of liquidity and the risk shield, and cost efficiency. The transfer of responsibility for portfolios to the Restructuring Unit makes it possible for the Core Bank's front office units to focus more on their target customers.

Principles of risk management

Active risk management is a fundamental component of HSH Nordbank's overall bank management. This was the position from which the Bank started in 2008 to work systematically through the points for improving the risk culture which had been identified in the course of the crisis, e. g. by strengthening the market tracking function.

HSH Nordbank defines risk to mean unfavourable future developments that may have an adverse impact on the Bank's asset, earnings or liquidity position. Material risks for the Bank are classified as default risk, market risk, operational risk, liquidity risk and other risks. The individual elements of risk management constitute, in their entirety, a system that ensures the identification, analysis, evaluation, management and ongoing monitoring and reporting of risks.

Responsibility for risk management is clearly assigned within the Bank. The Management Board bears overall responsibility for the Bank's risk management activities, including the methods and procedures to be applied in measuring, managing and monitoring risk. A risk manual, which is published throughout the Bank, sets out the methods and instruments used in risk management. Both the Management Board and the Risk Committee of the Supervisory Board are informed about the Group's risk situation in a comprehensive quarterly risk report. The Restructuring Unit as a separate Board-level brief of HSH Nordbank is fully integrated into the Group's risk management. The same methods and processes apply to it as at the Core Bank.

Risk strategy

Taking into account all material risk categories, the risk strategy represents the organizational and strategic focus of risk management. It includes the planned development of all key business activities taking account of risk strategy factors and, in particular, taking the capacity to bear risk into consideration.

This is reviewed annually and adjusted as needed. The basis for the risk strategy is the business strategy adopted by the Management Board. The current business strategy is based on HSH Nordbank's restructuring plan (see next chapter).

The Management Board as a whole sets the Bank's risk strategy annually as part of its overall responsibilities, and discusses this with the Risk Committee formed by the Supervisory Board. The contents of the risk strategy are subsequently communicated as required within the Bank, as the strategy is a framework for the actions of the employees.

The risk strategy is a key instrument in the Bank's risk culture. For detailed descriptions of procedural and methodological regulations, the risk strategy is augmented by the Credit and Risk Manual. The guiding principle of the risk strategy is ensuring risk-bearing capacity. HSH Nordbank has integrated the task of ensuring risk-bearing capacity into its internal risk management system. The components required in the ICAAP (Internal Capital Adequacy Assessment Process) have been implemented in a bank-wide limit system

Risk-bearing capacity

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

The economic capital required to protect against unexpected losses (overall risk) is regularly compared with the available economic risk coverage potential. This comparison takes place within the Bank's integrated limit system, which forms the basis for economic risk limitation for all risk categories across the Group.

The economic risk coverage potential is calculated using the net asset value approach. Besides equity (including changes in net asset value), the net asset value takes into account unrealized reserves and losses on securities, equity holdings and the lending business as well as negative effects on the income statement.

The guarantee provided by the states of Hamburg and Schleswig-Holstein reduce the risk coverage potential since the second quarter of 2009 by the first loss piece of HSH Nordbank of EUR 3,200 million. At the same time, the economic capital requirement for default risk is reduced generally, as there is no economic capital requirement for default risks after June 2009 for positions covered by the guarantee provided by the states of Hamburg and Schleswig-Holstein.

The full recognition of the guarantee in the risk coverage potential was completed as at 31 December 2009. This increased the risk coverage potential by reducing cost components in calculating the unrealized reserves and losses on the lending business. Conversely, recognition of the future guarantee costs to be paid to the states of Hamburg and Schleswig-Holstein lead to a reduction in the risk coverage potential.

In the course of the Bank's strategic realignment, a global limit for the overall risk was derived from the risk coverage potential in the third quarter of 2009; individual limits for default, market, operational and liquidity risks were then determined on this basis. As the full risk coverage potential is not allocated to the key risk categories, this leaves a buffer for covering specifically the risks under specific stress scenarios and risks which are currently unquantifiable.

The overall risk takes into account the default risk, market risk, operational risk and liquidity maturity transformation risk as part of liquidity risk. The economic capital requirement for default, liquidity and market risks is calculated by consistent use of a value at risk (VaR) approach with a confidence level of 99.9 % and a one-year risk horizon. The market risks are scaled up to the one-year horizon on the basis of VaR calculated daily. Since July 2009, different liquidation horizons have been assumed in this scaling for the Core Bank portfolio and the positions of the Restructuring Unit. Operational risks are calculated using the standard approach in the German Solvency Ordinance (SolvV). The economic capital requirements for the individual risk categories are aggregated into an overall economic risk. No risk-reducing correlations are applied. The analysis of the risk-bearing capacity is carried out quarterly at HSH Nordbank and also as part of the annual planning process.

To get better estimates of the anticipated effects of potential crises on the overall risk situation of HSH Nordbank beyond the utilization of risk coverage potential on the reporting date, we carry out regular stress tests which simulate the increase in economic capital requirements under specific scenarios for default, market and liquidity risks. When the overall risk at Group level under the simulated stress conditions still clearly exceeded the stressed risk coverage potential in the first quarter of 2009, the risk-bearing capacity as at 31 December 2009 (as in the two preceding quarters) was still adequate even in the stress situations.

HSH Nordbank uses the recognized risk management instruments for both regulatory and economic risk management. The Bank was, for example, one of the first banks approved by the Federal Banking Supervisory Office to calculate its capital cover for default risks on the basis of internal ratings (advanced IRB approach). In addition to these statistical risk management tools, HSH Nordbank manages risks on a classic approach. For this purpose, reviews are made repeatedly during the year under review of credit risks, with the goal of promptly implementing the necessary specific risk management processes as needed, e. g. in transferring a commitment to intensive supervision.

In the course of the portfolio analyzes, HSH Nordbank reviews its internal risk planning and identifies potential need for loan loss provisioning and possible RWA changes. A distinction is made in this between loss risks which are dealt with in the planned income statement (planned losses) and additional loss risks resulting from supplementary stress assumptions. RWA changes are treated similarly under plan and stress assumptions. The analysis of the customer lending business is done on the basis of detailed PD/LGD analyzes. The credit investment portfolio is also reviewed by internal experts on the basis of a market value analysis. Single event risks – i. e. risks from commitments with low probability of default but large volume – are also analyzed under stress conditions.

The results of risk planning provided the basis for the amount of the capital and guarantee measures by the states of Hamburg and Schleswig-Holstein and the corresponding agreement with SoFFin and in connection with the EU subsidy agreement.

4.2 STRUCTURE AND ORGANIZATION

The organization of risk management at HSH Nordbank is geared towards the requirements of the business model. The regulatory requirements are also taken into account. The risk and financial responsibility of the Chief Risk Officer (CRO) and Chief Financial Officer (CFO) were divided in the year under review between two Board positions.

The CRO is, as a member of the Management Board, responsible for risk controlling including risk monitoring and back-office functions in the Bank's Core Bank. Accordingly, he is responsible for the Group Risk Management and Credit Risk Management units. The Board member for the Restructuring Unit is responsible for back office functions in this segment. The CRO is also responsible for the second risk assessment for the Restructuring Unit.

In Credit Risk Management, Group Risk Management and the Restructuring Unit, the tasks of the independent back office function are bundled. In addition, Credit Risk Management functions include preparing the market independent risk assessment, the review and determination of ratings, the calculation of collateral value and the processes and regulations for the Bank's lending business. Group Risk Management is responsible for back office functions for work-out loans by the Core Bank and Restructuring Unit. The Restructuring Unit is responsible for decisions on reduction of positions in the commitments transferred to it. In addition to the market-independent risk assessment by the Restructuring Unit, a second assessment is carried out here by Credit Risk Management for non-problem and intensively managed loans.

The CRO and the Head of the Restructuring Unit make decisions independently of the Management Board members responsible for front-office and trading units. This ensures the functional separation of front-office and trading activities, on the one hand, and risk controlling, settlement and control and back-office activities, on the other, at all organizational levels of the Bank, as stipulated by the relevant regulatory requirements. The CRO regularly reports to the Management Board and the Supervisory Board's Risk Committee on the Group's risk situation.

The methods and instruments for measuring, managing and monitoring risk are developed centrally by Risk Controlling in the Group Risk Management unit. It ensures that the main risks to which the Group is exposed remain transparent and manageable. Transaction Services are responsible for the settlement and control of trading activities.

Active risk management for the Core Bank is carried out in particular in the front-office and trading units, whose business activities mean that they are directly responsible for risks and results. The risks are analyzed and monitored locally by portfolio managers in the business area concerned.

The Restructuring Unit created in December 2009 is responsible for positions of business areas no longer considered strategic and special risk positions. This also includes central responsibility for disposal of the credit investment portfolio, with regard to results and liquidity. Between October 2008 and November 2009, Group Risk Management was responsible for this.

To reflect the realignment of the Bank and the changes in the Management Board, responsibility for management of strategic positions of the overall bank, management of the risk-bearing capacity and capital measures during the course of the year was transferred on 8 December 2009 from the Asset Liability Committee (ALCO) to the Management Board.

Since June 2009, lending decisions for new loans above a certain amount are handled by a cross-divisional management group, which manages all liquidity outflows required on the assets side for the business. The group comprises market Board members and the Heads of the Group Treasury, Finance, Credit Risk Management and Capital Markets Credit business areas.

Internal Audit is an instrument established by the Management Board and is required to report directly to that body. It audits in a risk-oriented and process-independent manner the effectiveness and appropriateness of the Bank's risk management, covering both Core Bank and Restructuring Unit. Internal Audit plays a supporting role in key projects, whilst maintaining its independence and avoiding any conflicts of interest. Legal and Group Compliance as an independent unit monitors and manages the Group's legal and compliance risks.

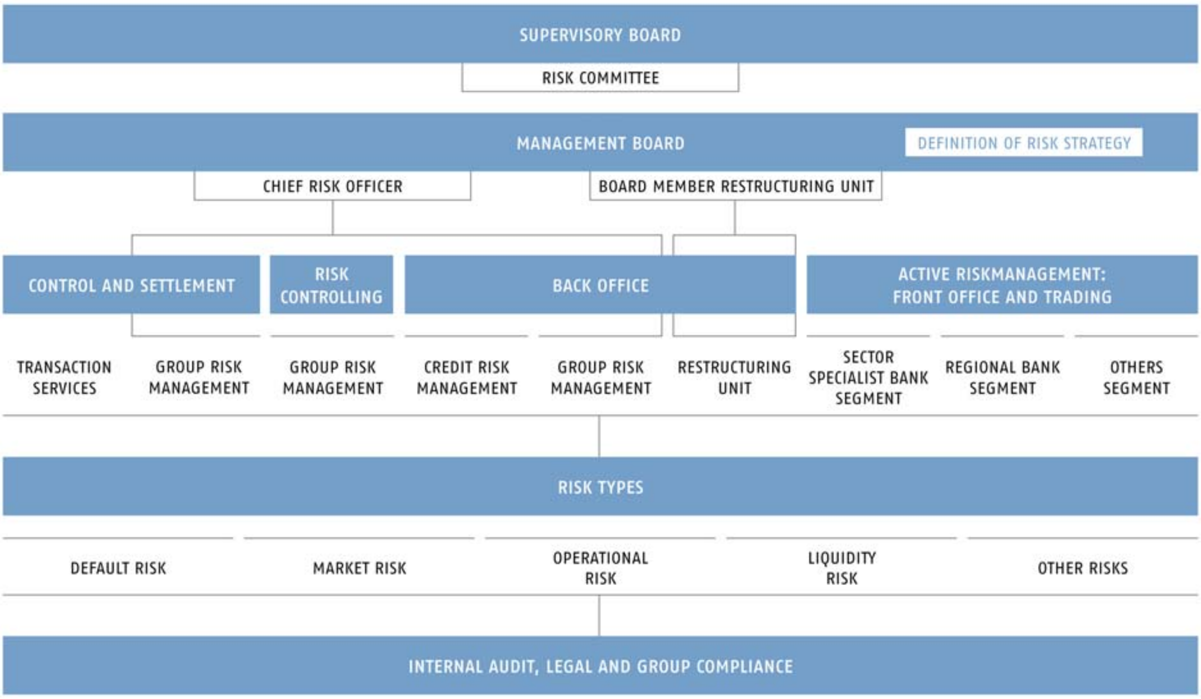

Figure 1: Organizational structure of risk management at HSH Nordbank

The global head principle helps to ensure uniform management of the divisions around the world. In line with this principle, the global heads – who are primarily directors of corporate divisions – assume responsibility for the global management of the divisions, administrative functions and services that are assigned to them. The global head principle is also applied to risk controlling, thus guaranteeing the ongoing evolution of uniform, Group-wide risk controlling.

The Bank has established rules according to which any transactions involving new products or new markets must be subject to a formal auditing process. The aim is to ensure that the recognition of the products in the relevant systems and their inclusion in the relevant process are ensured, and that such transactions are only entered into with the approval of the Board member.

As part of Group-wide risk management, the Bank takes into account each of the relevant subsidiaries when managing and controlling individual types of risk.

Modifications to HSH Nordbank’s systems, processes and organization (particularly for risk management in the capital market business area) were defined in 2008 and implemented in 2009. These include specifically the process for new products and markets, internal risk reporting, integration of further factors for market risk (e. g. credit spread risks) and liquidity risk controlling.

The lending decision process was further developed in the year under review by the Credit Risk Management unit (see chapter 5.1.) with the goal of strengthening the back office function to ensure a balance between risk and return goals, particularly for cyclical transactions. Together, these measures make a significant contribution to the further development of the risk culture. In the next step the Board member for Credit Risk Management has decided that the functions of credit analysis, loan management and collateral management will be integrated into the back office function in 2010. The lending decision process previously dominated by the front office areas will accordingly be replaced by a substantially risk oriented approach.

4.3 BASIC PRINCIPLES REGARDING THE HEDGING OR REDUCTION OF RISK

At HSH Nordbank the assumption of risk is subject to the overriding principle of risk-bearing capacity (see above). The hedging or reduction of risk as well as the continuous monitoring of measures taken to hedge or reduce risk are managed at the individual risk type level. Details on the measures taken for each relevant risk type are set out in the following chapters.

4.4 RISK REPORTING

The manner and scope of risk reporting is geared to the risk strategy and follows a uniform concept that is applied to all reports. This overall concept creates the conditions whereby the reporting is aimed at the recipient. It is thereby ensured that resources are utilized optimally, and inefficiencies and any overlapping in reporting as well as management errors caused by inconsistent data are avoided.

Reports are produced at different intervals. Reports produced monthly enable information relevant to the management process to be forwarded promptly to the recipients. Reports produced quarterly and annually support the management, planning processes and the strategy. BUs Group Risk Management and Finance are responsible for the content and dissemination of the reports on the overall risk and the individual risk types as well.

In Table 5 reports on the overall risk taking into account the relevant subsidiaries pursuant to the requirements of MaRisk, ICAAP and SolvV are listed. The recipients of the Group-wide risk reports are as a rule the Management Board and the Risk Committee as well as to a restricted extent the Heads of the BUs and the Supervisory Board. The reports are supplemented by specialized, internal reports.

The risk report constitutes the core element of risk reporting to the Management Board and the Risk Committee. It is prepared quarterly and shows the overall risk position of HSH Nordbank together with detailed information on the default, market, operational and liquidity risk types. Furthermore it contains as part of the MaRisk compliant reporting, amongst other things, statements on the development of the loan portfolio, the available risk coverage potential as well as the degree of utilization, the scope and development of new business as well as the movement in the risk provisions.

In addition to reports on the overall risk there are reporting tools based on the risk type, which are described in the following chapters.

Report	Recipient	Interval	Content	Objective
Risk Strategy	Management Board, Supervisory Board/ Risk Committee overall bank	Annually	Overall bank perspective of all types	Description of the organizational and strategic direction of risk management; presentation of the planned development of all material business activities from a risk strategy perspective and taking into account the risk-bearing capacity in particular.
Risk Report in the Annual Report	The public, (potential) investors, rating agencies	Annually	Risk management system; risk-bearing capacity; methods, processes, key ratios for the material risk types	Presentation of the risk situation of the Bank and the adequacy of its management; gradual, quantitative expansion as part of the enhancement of the Risk Report for the Risk Committee; compliance with the requirements under DRS, IFRS and HGB.
Risk Report	Management Board, Supervisory Board/ Risk Committee	Quarterly	View of the overall bank Default risk Market risk Operational risk Liquidity risks Across the board topics	Core element of the reporting of risk to the Management Board and the Risk Committee; reporting medium for adhering to the risk strategy, also contains analyzes of individual risks in addition to portfolio analyzes; consolidated presentation of contents relevant for the management process which are derived from the internal and external reporting objectives (e.g. utilization of the global limit and the Principle I ratio); ongoing enhancement of the internal management process in line with the requirements of the capital markets
Risk Report in the Interim report	The public, (potential) investors, rating agencies	Quarterly	The risk situation of the Bank	Presentation of the material changes to the risk position of the Bank and the adequacy of its management compared to the last report
Finance- and Riskreport	Management Board	Monthly	The earnings, liquidity and risk situation of the Bank	Summarized current presentation of the Bank's overall situation regarding earnings, liquidity and risk, with the separate goal of reporting the state of implementation of the restructuring.
MaRisk-Report Transaction Services	Management Board	Monthly	Information relevant to MaRisk: MaRisk violations and NPNM (New Products, New Markets) Report)	Information to the Management Board
Profit centre calculation	BUs' customer units, BU Heads, decentralized controllers	Monthly	Important management information	Management of the BUs

Table 5: Reports on the overall risk

5 DEFAULT RISK

In view of HSH Nordbank's strong orientation towards the lending business, entering into, managing and limiting default risks represent one of the Bank's key competencies. The default risk is broken down into credit, country, equity holding and settlement risks. In addition to traditional credit risk, credit risk also includes issuer and counterparty risk. Settlement risk consists of delivery risk and clearing risk. Clearing risk consists of possible loss of value if there are delivery or acceptance claims under a matured transaction which have not yet been met by both parties. Delivery risk arises where the Bank has performed its contractual obligations but the counterparty has yet to do so. All the elements of default risk referred to are taken into account within the context of the management of capital. For risk concentrations (in particular at borrower/country level) and equity holding risks, additional management measures are in place.

The organization and methods for managing default risk are constantly developed to reflect changes in market conditions and new regulatory requirements.

5.1 ORGANIZATION OF DEFAULT RISK MANAGEMENT

The organizational structure of HSH Nordbank ensures separation of front office from back-office and risk controlling functions for the lending business at all levels up to the Management Board.

The Credit Risk Management division in its independent back office function is responsible for formulating and implementing appropriate management for lending risks. Its tasks include quality assurance for risk evaluation in the lending business by preparing the market-independent risk assessment for lending decision documentation, the review and determination of ratings, the calculation of collateral value and the processes and regulations for the Bank's lending business. As a result of these responsibilities it is possible to identify systematic errors in evaluating credit risks and managing the lending business at an early stage.

There were decisive changes in the structure of the Credit Risk Management division in the year under review. To strengthen the back office function, the units dealing with preparing the back office assessment and setting ratings were given enhanced status within the organization. In addition, a separate monitoring unit was created, which is responsible for developing and operating an early warning system and segment risk analysis.

In the course of the measures taken by the Bank in the financial market crisis, the existing lending decision process was also intensively analyzed and significantly refined. For example, in 2009 the credit risk strategy was developed into an integrated market strategy and credit risk strategy for the individual front office units which consolidates the consideration of opportunities and risks in the relevant markets. The integrated market strategy and credit risk strategy also establishes a comprehensive, obligatory and exclusive framework for all lending business. Linking the market and risk perspectives allows us to ensure that lending guidelines ("lending standards") conform with current market developments and HSH Nordbank's standing in this market. Credit risk management manages and monitors the development of the integrated market strategy and credit risk strategy, which is reviewed semi-annually.

In November 2009, introduction of new competence guidelines established direct participation by the back office functions in the lending decision, in addition to the existing independent assessments by front and back office. In the event of any discrepancy between the front-office and back-office assessments, a decision is reached by means of an escalation process. This procedure eliminates transactions which go against the decision of the back office units. Competence levels for assessments and lending decisions are aligned with internal rating class and nominal volume. Until November 2009, the focus was on the economic capital requirement as a management variable.

HSH Nordbank makes use of the option to dispense with back-office risk assessment for all lending business classified as non-risk relevant that involves certain transactions types and for loans below certain amounts as set out by the escape clause in MaRisk. The definition of lending business classified as non-risk relevant has been focused on nominal volume since November 2009. Until that time, the focus was on the economic capital requirement as a management variable.

Operations in the lending area are based on the rules and internal guidelines set out in the HSH Nordbank Credit Manual, particularly the lending, competence, risk assessment, rating, collateral and LGD guidelines and the guidelines on the monitoring of exposure, the value calculation guidelines and the guidelines on the definition of default, which describe the main principles of the Bank's lending and credit monitoring activities. Under these principles, credit risks recorded in accordance with the extended definition as set out in Section 19 (1) of the German Banking Act (KWG) are viewed and treated individually according to the collateral provided, the type of loan, the rating class and the degree of credit risk. This is based on the aggregate exposure of the HSH Nordbank Group to the borrower unit in accordance with Section 19 (2) of the German Banking Act. For this purpose, the relevant borrower is always the economic risk-bearer.

With regard to the distinction between secured and unsecured loans, the types of collateral considered acceptable by the Bank are set out in the Bank's collateral and LGD guidelines. Compliance with the requirements of the Solvency Ordinance (e. g. identifiable market value, ability to realize collateral value, no correlation with secured loan, legal enforceability, matching of maturities) is taken into account. The list of recognized forms of collateral may be expanded by means of a review by a market-independent team of specialists from the Credit Risk Management, Group Risk Management and Legal and Group Compliance units through the RSU Rating Service Unit GmbH & Co. KG (RSU).

Management of individual credit risks is supplemented in particular by rules governing the monitoring of exposure and the early detection of risks.

With regard to the Core Bank, Group Risk Management is responsible for the independent monitoring of risks at portfolio level, independent reporting, managing country risks and the processing and management of restructuring cases and risk provisions. With regard to the Restructuring Unit, Group Risk Management is responsible for the independent monitoring of risks at portfolio level, independent reporting, managing country risks and the processing and management of restructuring cases and risk provisions.

Expertise in reducing portfolios is grouped within the Restructuring Unit as an independent Board-level brief with further back office functions. The Restructuring Unit is responsible for decisions on reduction of positions in the commitments transferred to it. In addition to the market-independent assessment by the Restructuring Unit, there is a second assessment by Credit Risk Management.

The Restructuring Unit processes and manages the restructuring cases for the positions for which it is responsible independently. It also handles processing of liquidation commitments for its own positions and positions of the Core Bank, where decision making authority for the latter is still vested in the relevant decision maker in the Core Bank.

To ensure Group-wide controlling of default risks, relevant subsidiaries such as HSH Nordbank Securities S.A., HSH Real Estate AG and HSH Nordbank Private Banking S.A. are included in risk reporting.

5.2 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 to enable it to analyze, evaluate and actively manage these risks.

The Bank's approach of applying the methods newly developed and refined with Basel II in mind is not only applied to determine the future regulatory capital requirement, but also incorporated in full at an early stage into the internal management system. This means that all of the parameters relating to Basel II form the basis for the integrated approach to overall bank management and risk management at HSH Nordbank.

See chapter 5.9.2 for information on the rating process and the LDG and CCF methods.

Stress tests

HSH Nordbank performs quarterly stress tests to determine the economic capital requirement for default risks. For this, the relevant risk parameters in calculating the economic capital requirement are varied, e.g. by changing the anticipated default probability and default rates. The result is a check whether the risk limit budgeted for default risk is met for the relevant stress scenarios. These stress tests also serve to meet the regulatory requirements of the Solvency Ordinance.

Early warning system

HSH Nordbank operates a market-independent early warming system which identifies potential deterioration in borrower ratings at an early stage, in order to initiate revaluation of the credit risk by the front and back office.

The current early warning system covers borrowers listed on the capital market, and evaluates both quantitative information based on a system of key ratios and risk-relevant qualitative information. In addition, daily changes in market data are monitored, e.g. share prices and CDS spreads.

Based on quantitative risk parameters, signals (limit over/undershoots) are generated by the early warning system. These signals are subsequently given qualitative review for economic relevance. Cases categorized as relevant for risk are subject to a defined review and decision process. This is done in a very short period, with clearly determined responsibilities for the front and back office.

Expansion of the early warning systems is planned to all relevant segments of the Bank, including outside the capital market. A separate organisational unit was formed for this in Credit Risk Management. This will implement appropriate techniques and processes so that the early warning function in future covers all the Bank's material portfolios.

Risk concentrations

Risk concentrations must be effectively limited for both regulatory and economic reasons. To manage and monitor risk concentrations effectively at borrower and country level, corresponding limits for economic capital have been set. These limits were derived from the risk coverage potential, taking into account the portfolio granularity. At least once a year the limits are examined on the basis of the Bank's risk-bearing capacity and approved by the Management Board in compliance with the risk strategy. Sector and rating-class-specific risk concentrations are monitored within the integrated limit system. This allows for early identification of unwelcome developments and the implementation of corresponding countermeasures. With regard to the limiting of risk concentrations at borrower level, the decision on any new lending business which would result in the limit being exceeded lies with the Management Board. The Management Board and Risk Committee were informed about all cases where limits have been exceeded in new and existing business, as well as about any measures introduced, as part of the quarterly risk report.

A further limit on risk concentrations is imposed at the level of regulatory borrower units (in accordance with Section 19 (2) KWG) as part of internal major risk management. The process used for managing large risks ensures compliance with the regulatory limits for large loans at both institution and institution group level, and allows the Bank to detect potentially excessively large loans at an early stage and take suitable precautionary measures before they actually arise. In addition, there are limits on classic lending and trading business.

Country risk

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

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

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

Given the intensified financial market crisis, country risk management has identified high-risk countries which will probably be particularly affected by the adverse macroeconomic effects of the crisis. Tight limits were introduced for these high-risk countries, which are subject to ongoing review. The country risk concept for these limits includes all country risks, going beyond the transfer risk described above. Because of the deterioration in their fiscal data, a number of countries in the euro zone are subject to increased monitoring. In April 2009, additional limits were imposed for Ireland, and in January 2010 for Greece.

Securitization

The securitization of loan portfolios is a key component of HSH Nordbank's risk management.

The Bank's securitization on portfolio is described in detail in chapter 5.7.

Equity holding risk

Equity holding risk is understood as the danger of a financial loss due to value impairments on equity holdings. The opportunities and risks of an equity holding commitment are analyzed in detail before entering into a transaction. Equity holdings are only entered into if they are in alignment with the Bank's strategic goals.

The Bank's equity holding portfolio is described in detail in chapter 4.4.

5.3 REPORTS ON DEFAULT RISK

In general, reporting of HSH Nordbank on default risk is integrated in the reports on the overall exposure of the Bank (see chapter 4.4). In addition HSH Nordbank uses different regular reporting tools to report exclusively on counterparty default risks (see Table 6). These reports are supplemented with information on the monitoring and management of country risk (see Table 7).

Report	Recipient	Interval	Content	Objective
Workout-loans	Management Board, BU Corporate Clients and BU Real Estate Clients	Half-yearly	Case descriptions, tables on specific case groups or risk-oriented overview of the portfolios processed in the workout, presentation of key individual cases	Information to recipients on nonperforming loans
Problem loan report/restructuring board	Management Board, selected BUs	Quarterly	Comprehensive information on the problem loan portfolio	Comprehensive information on the problem loan portfolio
Status of Basel II capital adequacy under SolvV	CRO	Quarterly	Presentation and commentary on SolvV ratios and their changes	Information to CRO on regulatory ratios
Stress test report	CRO	Quarterly	Stress test; short review of the scenarios developed; results at overall bank level; sensitivity tests	Evaluation of risk-bearing capacity and observance of the global limit for individual stress scenarios
Validation reports (RSU rating modules, LGD and CCF)	Rating multipliers, Supervisory Authority	Quarterly	Default risks	Information for recipients and fulfilment of requirements of the Supervisory Board
Basel II data quality management	Management Board	Monthly	Presentation on selected data quality issues with SolvV relevance	Information for Management Board on data quality

Table 6: Reports on default risk

Report	Recipient	Interval	Content	Objective
Country Risk Update	Management Board, Market BUs, BU heads (Version A), Staff BUs and operative level (Version B)	Quarterly	Country Risk Monitor; Country Risk Ticker; HSH Nordbank Foreign Exposure	Current information on specific country risk and cross-border commitment of HSH Nordbank
Country Risk Watchlist	BU CRM (risk assessment)	Monthly	Country risks	Condensed practical guidelines for high-risk countries/countries with special limits
Country Global Head Reporting	BU level, market units	Monthly	Utilization of special countries and GH limits	Information for Market BUs, limit monitoring tool
Country limit list	Management Board, Market BUs, Staff BUs	Weekly	Utilization of country limits	Information for Market BUs, limit monitoring tool

Table 7: Reports on country risk

5.4 COUNTERPARTY DEFAULT RISK: GENERAL DISCLOSURE REQUIREMENTS FOR ALL FINANCIAL INSTITUTIONS

5.4.1 Exposure values of receivables sorted by risk-bearing instruments

Below, exposure values of the portfolio of the HSH Nordbank Group are presented, divided into the main types of receivables (risk-bearing instruments), main regions, main sectors and contractual terms to maturity, in accordance with Section 327 (2) No. 1 to 4 of the German Solvency Regulation. The residual maturity of “1 day” includes all transactions due within one day, which also means transactions callable daily with indefinite maturity. Receivables which generally do not have fixed terms to maturity, like investment certificates, are included in the last maturity range with a flat residual maturity of 10 years.

On the basis of the new German Classification of Economic Activities (WZ 2008) issued by the Federal Statistical Office, HSH Nordbank introduced a refined hierarchy for the main sectors as at the reporting date. This resulted in an additional main sector “Other service activities” which was not reflected in the disclosure report as at 31 December 2008. No retroactive allocation of the values as at 31 December 2008 to the new branch hierarchy was carried out, so these figures are only shown as a total.

The exposure values are calculated after the application of CCFs in accordance with Sections 48 and 99 SolvV. However, with respect to the requirements stipulated in Section 327 (2) No. 1 SolvV, credit risk minimization techniques are not included in the calculation. The credit equivalent value is shown for derivative instruments. IRBA and KSA exposure values are combined. The division does not include equity holdings and securitizations. Securitizations and shareholdings are presented separately; securitizations in chapter 5.7 and equity holdings in chapter 5.8.

As at the reporting date, exposure values from risk-bearing instruments amount to EUR 45,800 million. In addition, there are receivables from miscellaneous assets amounting to EUR 1,100 million. These cannot be allocated to risk-bearing instruments and are therefore not presented in the following tables.

As described in chapter 3.1, the Sunrise Transaction, which took effect on 30 June 2009 for regulatory purposes, is categorized as a securitization. The change in values between 31 December 2008 and the reporting date is due primarily to the Sunrise Transaction. In addition, the realignment concept adopted at the start of 2009 and the Bank's associated concentration on strategic core areas have already significantly reduced total assets. Details of this are given in the consolidated management report in the 2009 HSH Nordbank annual report, in the section "Underlying conditions and business overview".

For informational purposes, the exposure values of the following tables without taking into account the guarantee framework are presented in the Notes (Tables 46 through 49).

	Loans		Loan commitments		Other non-derivative off-balance sheet assets		Securities		Derivative instruments	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Exposure value (total)	26,722	133,782	2,382	11,029	2,347	8,565	5,510	25,719	8,796	10,815

Table 8: Exposure values by risk-bearing instruments in € m

	Loans		Loan commitments		Other non-derivative off-balance sheet assets		Securities		Derivative instruments	
Main region	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Western Europe	22,176	107,981	2,121	8,708	1,898	6,681	5,002	22,273	6,933	8,197
North America	3,146	13,004	171	1,046	82	1,030	418	2,371	1,522	2,081
Asia Pacific Region	633	5,461	14	738	345	675	11	565	91	174
Latin America	45	1,425	25	125	2	29	59	187	7	59
Central and Eastern Europe	282	3,852	45	224	18	83	5	242	151	187
Middle East	92	1,699	2	142	4	54	0	0	93	117
African countries	38	346	0	42	0	13	0	0	0	0
Int. Organisations	0	0	0	0	0	0	10	75	0	0
Other	310	12	3	5	0	0	4	4	0	0
Total[1]	26,722	133,782	2,382	11,029	2,347	8,565	5,510	25,719	8,796	10,815

[1] Differences in amounts are due to rounding

Table 9: Exposure values by main regions in € m

Main sector	Loans 2009	Loans 2008	Loan commitments 2009	Loan commitments 2008	Other non-derivative off-balance sheet assets 2009	Other non-derivative off-balance sheet assets 2008	Securities 2009	Securities 2008	Derivative instruments 2009	Derivative instruments 2008
Credit institutions	5,043		90		682		2,065		3,296	
Other financial institutions	1,698		80		494		1,220		373	
Public sector	5,406		150		45		1,375		343	
Private households	287		28		3		0		52	
Properties and flats	2,125		226		97		0		918	
Shipping	3,445		300		83		562		1,407	
Industry	3,411		805		623		6		539	
Trade and transport	1,593		295		244		1		577	
Other service activities	3,511		408		75		282		1,274	
Other	203		0		0		0		18	
Total[1]	26,722	133,782	2,382	11,029	2,347	8,565	5,510	25,719	8,796	10,815

[1] Differences in amounts are due to rounding

Table 10: Exposure values by main sectors in € m

Contractual residual term	Loans 2009	Loans 2008	Loan commitments 2009	Loan commitments 2008	Other non-derivative off-balance sheet assets 2009	Other non-derivative off-balance sheet assets 2008	Securities 2009	Securities 2008	Derivative instruments 2009	Derivative instruments 2008
≤ 1 day	4,775	5,086	206	432	10	93	123	369	0	11
> 1 day ≤ 3 months	4,365	10,580	199	890	240	662	1,152	2,184	100	214
> 3 months ≤ 6 months	826	3,152	136	196	25	196	77	419	52	49
> 6 months ≤ 1 year	1,317	6,677	391	975	201	390	112	650	215	148
> 1 year ≤ 5 years	5,167	41,025	740	4,685	766	2,593	2,205	11,316	1,902	2,161
> 5 years	10,272	67,261	711	3,851	1,105	4,631	1,842	10,779	6,527	8,231
Total[1]	26,722	133,782	2,382	11,029	2,347	8,565	5,510	25,719	8,796	10,815

[1] Differences in amounts are due to rounding

Table 11: Exposure values by contractual residual terms in € m

5.4.2 Procedure for creating loan loss provisions for the purposes of financial reporting

As part of the risk monitoring process of HSH Nordbank risk provisions for loan commitments are created in accordance with Group-wide standards through specific loan loss provisions (SLLP) for receivables and allowances for contingent receivables and irrevocable loan commitments to the sum of the potential default. Furthermore, the Bank takes general loan loss provisions (GLLP) and country-specific loan loss provisions (CLLP) into account.

As part of on-going loan monitoring, the units responsible for the customers identify whether new risk provisions or adjustments are required. Furthermore, a statement on the necessity of creating or modifying risk provisions or for constant monitoring of borrowers on the restructuring and liquidation list is compiled with the half-yearly monitoring documents. Notification and recording of the creation or modification of risk provisions is performed immediately on identification of the pertinent events. Determination and recording of risk provisions are performed at the transactional, i.e. account, level.

The Bank must assess as at every reporting date whether there is “objective evidence” that a financial asset is impaired. Sustained impairment of the receivable is a precondition for the creation of risk provisions. Objective proof for impairment must be provided. Criteria for impairment are generally considerable financial difficulties of the obligor and indications based on current information that future capital service will not be possible, with no improvement foreseeable in the economic situation. Opening or applying for bankruptcy, insolvency or composition proceedings are also reasons to examine the recoverability of a financial instrument. Impaired performance or delayed payment in standard transactions of more than 90 days and/or in individual transactions without any fixed thresholds are further indications for an impairment.

Recognizable risks in the lending business are allowed for by creating an SLLP for the corresponding receivable. To calculate the sum of the SLLP the net present value of the expected cash flows for the receivable, i.e. the recoverable amount, is compared to the carrying amount of the receivable. Estimated future cash flows are composed of principal and/or interest payments as well as cash inflows from liquidating collateral less costs for obtaining and selling the collateral. If the carrying amount is higher than the recoverable amount, an SLLP is created for the difference.

Provisions for the lending business are reported in the balance sheet for expected defaults on off-balance sheet transactions. The amount of the allowances is the difference between the expected payment obligations of HSH Nordbank and the incoming payments expected from the obligor without discounting.

In contrast to SLLPs, GLLPs are not created for specific, but for latent credit risk. Latent credit risk is where receivables considered recoverable on the balance sheet date already contain risks which cannot be identified until later and which result in default. General loan loss provisions are created on that part of the loan portfolio which does not meet the requirements for specific loan loss provisions. These loans are also written down to their lower fair value based on the principle of prudence. Since allocation to particular receivables is not possible, general loan loss provisions are created. HSH Nordbank is therefore complying with the circular from the Federal Ministry of Finance dated 10 January 1994.

Provisions for country risks are generalized SLLPs. They are measured subject to the political and economic conditions of a country and created based on the overall credit commitment of the Bank in that country. The internal country rating of HSH Nordbank is the basis for the general CLLP. For all countries classified from 6 to 18 according to the rating of HSH Nordbank (see Table 32, page 45) a country-specific general loan loss provision is created. All claims (including those not reported in the balance sheet) against foreign obligors can be included in the basis for assessment, with value of collateral, receivables with maturity terms of less than one year and SLLPs being deducted. Increasing loan loss provisions are applied to the remaining sum according to the risk category. The loan loss provisions start at 5% for rating category 6 and increase by 5%-points per rating category to 50% for rating category 15. Higher rates are set for rating categories 16 to 18 depending on the risk evaluation for the countries concerned.

Non-recoverable receivables are written off directly in profit or loss.

The adequacy of risk provision is monitored continuously as part of problematic loan processing. The expected risk provision requirements for the current financial year are determined on a quarterly basis and are reported to the Management Board.

5.4.3 Definition of “non-performing” and “defaulting” for financial reporting purposes“

According to the German Commercial Code, both current assets and the receivables portfolio of the Bank must be written down to fair value, where this is lower than the carrying amount. The fair value of a receivable is determined by assessing the creditworthiness of the obligor, i.e. the ability to comply with the contractual terms for the receivable, together with interest and principal repayments. The loans are then divided into the following categories depending on the creditworthiness of the obligor:

No SLLP or allowances created	Loans without identifiable default risks. As at the reporting date these loans do not show any risk; no SLLPs are created for these credits, only GLLPs.	
	Earmarked loans (higher risk loans). These loans contain higher latent and/or not finally assessable risks and need to be monitored closely. SLLP is not required. GLLP is sufficient.	defaulting
Creation of SLLPs or allowances and/or direct write-off	Non-performing loans On the basis of objective criteria, for these loans (partial) default is expected; hence the creation of an adequate SLLP is required. No (additional) GLLP are created for these loans. Non-recoverable loans Such receivables can no longer be collected. No recoverable collateral available. These loans need to be written-off.	non-performing

Table 12: Division of receivables into *non-performing* and *defaulting*

An obligor is considered to have defaulted:

- if it is more than 90 consecutive calendar days in arrears with a significant part of his overall liability to the Bank from loans granted (90 days in arrears). The delayed payment is considered to be significant if the overall liability exceeds the current limits reported by more than 2.5%;
- if the Bank assumes that there is a high degree of probability that the borrower will not be able to meet his obligations in full, without the need for recourse to such actions as the realization of collateral (unlikeliness to pay). This basic assumption should be made when certain circumstances occur (e.g. restructuring) which are specified exactly in the Credit Manual.

5.4.4 Development of risk provisions in the lending business

Consistent with Section 327 (2) No. 6 SolvV, Table 13 lists the overall portfolio as well as the changes in risk provision types in the reporting year in accordance with HGB accounting regulations. Additions, changes due to exchange rate fluctuations as well as other changes to impairments were disclosed separately. In the year under review the HGB accounting for the formation of loan loss provisions was modified to match the IFRS procedure. Whereas the reversals reduced income from the write-back of loan loss provisions in the 2008 annual financial statements, interest income was recognized in 2009. At the same time, interest income on impaired loans is no longer recognized in net interest income in the HGB financial statements but as a repayment.

The continuing deterioration in the general economic situation in the year under review led to a significant increase in loan loss provisions for relevant industries and companies. Individual valuation allowances and provisions totalled EUR 4,378 million at the reporting date. EUR 1,681 million relate to the Sunrise Transaction. This represents loan loss provisions (including use) for the Sunrise Transaction reference portfolio formed after 31 March 2009. Resulting actual defaults are allocated to the financial guarantee as described in chapter 3.1.

	SLLP		Allowances		GLLP		CLLP	
Loan loss provision	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Portfolio at the beginning of the reporting year	2.560	1.121	444	140	198	201	163	33
Addition	2.881	2.116	569	437	18	3	33	136
Reversal	1.054	438	386	117	4	6	102	5
Utlisation	460	243	47	19	-	-	-	-
Interest income	112	-	-	-	-	-	-	-
Changes due to exchange rate fluctuations and other changes	-8	4	-9	3	-	-	-	-
Portfolio at the closing date[1]	3.807	2.560	571	444	213	198	95	163

[1] Differences in amounts are due to rounding

Table 13: Development of loan loss provisions in € m

5.4.5 Non-performing and defaulting receivables in the lending business by main sectors and main regions

Subsequently the non-performing and defaulting receivables are listed broken down by the main region and main sector consistent with Section 327 (2) No. 5 SolvV. Table 14 and Table 15 show values taken from HGB data.

As at the reporting date, receivables from non-performing loans (needing value adjustments, i.e. individual value allowances or loan loss provisions) totalled EUR 11,226 million, and receivables on loans in arrears (not needing value adjustments) totalled EUR 3,230 million. Of this, EUR 7,755 million and EUR 2,831 million respectively come within the Sunrise Transaction reference portfolio.

2009												
					Portfolio	Net additions/reversals of						
Main sector	Non-performing[1]	SLLP	GLLP	CLLP	Allow.	SLLP	GLLP	CLLP	Allow.	DW[2]	Receipts[3]	in default[4]
Credit institutions	355	301			-	37			-			9
Other financial institutions	2,004	695			103	-73			63			158
Public sector	132	41			21	10			12			185
Private households	190	86			3	9			-7			136
Properties and flats	2,167	628			86	307			34			619
Shipping	2,735	805			258	824			21			1,370
Industry	1,686	537			66	345			37			353
Trade and transport	697	289			18	146			17			158
Other services	1,255	421			14	218			6			242
Other	5	5			-	5			-			-
Total[5]	11,226	3,807	213	95	571	1,827	15	-69	183	35	4	3,230

2008												
					Portfolio	Net additions/reversals of						
Main sector	Non-performing[1]	SLLP	GLLP	CLLP	Allow.	SLLP	GLLP	CLLP	Allow.	DW[2]	Receipts[3]	in default[4]
Credit institutions	665	316			0	315			0			19
Other financial institutions	1,210	726			39	742			-37			158
Public sector	506	294			18	179			11			267
Private households	184	91			10	11			10			94
Properties and flats	2,000	554			93	153			74			846
Shipping	101	61			257	40			258			42
Industry	742	303			22	136			2			257
Trade and transport	447	212			3	101			3			199
Other	2	1			1	1			0			1
Total[5]	5,857	2,560	198	163	444	1,678	-3	131	320	11	11	1,885

[1] Non-performing loans (with need for loan loss provisions) [2] Direct write-offs [3] Recoveries on receivables written off

[4] Defaulting loans (without need for loan loss provisions) [5] Differences in amounts are due to rounding

Table 14: Non-performing or defaulting receivables by main sector in € m

	Non-performing[1]		SLLP portfolio		GLLP portfolio		CLLP portfolio		Allowances portfolio		in default[2]	
Main region	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Western Europe	8,831	4,452	2,989	2,153			23	40	555	416	3,028	1,522
North America	1,532	1,076	477	223			-	-	13	27	76	205
Asia Pacific Region	157	184	66	98			6	58	1	1	40	2
Latin America	161	22	45	13			7	14	0	0	13	89
Central and Eastern Europe	222	84	68	37			57	35	1	0	28	62
Middle East	315	40	162	36			1	1	-	0	43	0
African countries	9	-	1	-			1	16	-	-	4	5
Int. Organisations	-	-	-	-			-	-	-	-	-	-
Other	-	0	-	0			-	-	-	0	-	0
Total[3]	11,226	5,857	3,807	2,560	213	198	95	163	571	444	3,230	1,885

[1] Non-performing loans (with need for loan loss provisions) [2] Defaulting loans (without need for loan loss provisions) [3] Differences in amounts are due to rounding

Table 15: Non-performing or defaulting receivables by main region in € m

5.5 COUNTERPARTY DEFAULT RISK: CRSA AND/OR IRBA RECEIVALBLE CLASSES

5.5.1 Names of nominated rating agencies

Under CRSA the required risk weighting for calculation of regulatory capital backing is stipulated by the supervisory authority. The risk weighting depends on the type of receivable, its external rating and any collateral. If external ratings are being used HSH Nordbank takes only those into account which are issued by agencies approved by the supervisory board (Section 44 SolvV). Different rating or export insurance agencies can be appointed for each category of receivable. The CRSA or IRBA receivables category for securitizations allows rating agencies to be appointed at the transaction level; for all other CRSA exposures they are appointed per receivables category related to credit assessment.

If an external rating from a recognized rating agency is used this external rating must be converted to a rating on the rating master scale. A check should be made for each of the recognized rating agencies if an external rating is available. If there is more than one external rating available, of the two ratings leading to the lowest CRSA risk weightings, the rating with the higher CRSA risk weighting is decisive. The issuer rating should always be used, except for ABS transactions where the external rating for the transaction is used

HSH Nordbank has appointed the following rating agencies.

Receivables category	Receivables class	Rating agency
States	Central governments Regional governments Other public sector entities Institutions Covered bonds issued by banks	Fitch Moody's S & P
Banks	Multilateral development banks	External ratings not used
Companies	Companies	External ratings not used
Investment certificates	Investment certificates	External ratings not used
Securitizations	IRBA exposures in acc. with Section 85 (6) 1 No. 1 SolvV CRSA securitization exposures IRBA securitization exposures	Fitch Moody's S & P

Table 16: Rating agencies by receivables category

5.5.2 Transfer of ratings from issues to receivables

Issuer ratings are necessary to determine the CRSA and IRBA risk weighting for securitizations as well as the amounts of eligible collateral for CRSA and IRBA exposures. In addition, issuer ratings may have to be provided for the receivables class Investment certificates. Regarding the emission ratings for the receivables class Securitizations HSH Nordbank has nominated the rating agencies Fitch, Moody's and S&P. The emission ratings for this receivables class are maintained in the internal IT systems.

HSH Nordbank does not use the creditworthiness assessment via comparable exposures and obligor creditworthiness due to the minor relevance of the low exposure.

5.5.3 CRSA and IRBA exposure values when applying regulatory risk weighting

In order to determine the equity capital requirements, both the CRSA and the Advanced IRB Approach require risk-weighted exposure values (the product of risk weighting and exposure value) to be created. For CRSA the risk weighting is set globally by the supervisory authority by receivables category and external rating. Table 17 shows the CRSA exposure values before and after credit risk reduction measures in accordance with Section 328 (2) SolvV. Substitution effects mean that exposure values with risk weightings that were originally higher are replaced with those with a lower risk weighting.

In contrast, the Advanced IRB Approach always calculates the risk weightings using parameters assessed internally. The IRBA receivables classes Special Financing and Equity holdings are exceptions. In these cases it is possible to determine risk weighting using the "simple risk weighting". Risk weighting is set by the supervisory authorities depending on fixed criteria. However, within the HSH Nordbank Group the simple risk weighting approach is only used partially for equity holdings at present. Depending on whether the equity holding exposure is not quoted on the stock exchange but diversified sufficiently, is quoted on the stock exchange or is another equity holding exposure, it is assigned a risk weighting of 190%, 290% and/or 370%. These exposure values are also listed in Table 17 in accordance with Section 329 (2) SolvV. This classification does not include securitizations since they are separately disclosed in chapter 5.7.

The figures in the following table take into account the Sunrise securitization transaction, which took regulatory effect on 30 June 2009. The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 50).

	CRSA before credit risk reduction		CRSA after credit risk reduction		Advanced IRBA approach	
Risk weighting in %	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
0	167	1,514	167	1,516	-	-
10	-	607	-	607	-	-
20	161	3,273	277	3,017	-	-
35	-	-	63	971	-	-
50	0	184	107	792	-	-
70	-	-	-	-	-	-
75	167	1,686	100	728	-	-
90	-	-	-	-	-	-
100	3,637	22,411	3,414	21,045	-	-
115	-	-	-	-	-	-
150	586	630	574	482	-	-
190	-	-	-	-	112	165
200	-	-	-	-	-	-
250	-	-	-	-	-	-
290	-	-	-	-	30	98
350	-	-	-	-	-	-
370	-	-	-	-	61	170
1,250	-	-	-	-	-	-
Capital deduction	-	-	-	-	-	-
Other risk weights	580	1,803	580	1,803	-	-
Total[1]	5,297	32,108	5,282	30,960	203	433

[1] Differences in amounts are due to rounding

Table 17: CRSA/IRBA exposure values by regulatory risk weighting in € m

5.6 DERIVATIVE COUNTERPARTY DEFAULT RISKS

5.6.1 Nominal value of derivative transactions

Derivative financial instruments have been implemented to a considerable extent to ensure efficient risk protection, exploit market opportunities and cover specific financing needs of customers.

The nominal volume of derivative transactions amounted to EUR 656 billion as at the balance sheet date (previous year: EUR 744 billion). The reduction in 2009 is due to a decrease in the positive market value of derivatives. Around 83% of nominal volume involves banks with their registered office in an OECD country.

5.6.2 Internal capital allocation and assignment of upper limits for credits to counterparties

The usual credit approval procedures must be complied with when creating derivative counterparty default risk exposures. The risk classification, limitation and monitoring processes of the classic lending business apply accordingly (see chapter 4.1). The eligible sums for derivative counterparty default risk exposures are included in the Bank-wide economic management, capital allocation and limitation together with the other exposures subject to credit risk.

5.6.3 Procedure for receiving collaterals

Derivative transactions for securing interest rate, foreign exchange and other similar risks are generally concluded with single counterparties and governed by existing master agreements. A differentiation should be made between the German Master Agreement for Financial Transactions and the international Master Agreement of the International Swaps and Derivatives Association (ISDA).

In addition, collateral agreements supplementing a number of Master Agreements were concluded, mostly with major banks in Germany and abroad, but also with other companies in individual instances. For the German Master Agreement, this involves the schedule, and for the ISDA Master Agreement it involves the ISDA Credit Support Annex (Transfer – English Law). The following information applies equally to both Master Agreements and the associated collateral agreements.

The collateral agreements include agreements on thresholds which are unsecured, eligible collateral, other collateral arrangements and the scope of the collateral agreement. The agreed collateral is generally cash, plus in several cases interest-bearing securities from G10 nations or other EU nations with good ratings, which are received or delivered through (generally daily) margining.

Cash collateral amount in convertible and freely transferable currencies (normally Euro or US dollars).

The Master Agreements and the collateral agreements are entered in the Legal Database Information System (LeDIS). LeDIS checks legal opinions on collateralization and eligibility for netting under supervisory law.

5.6.4 Evaluation of derivates and creation of loan loss provisions

Counterparty risk is calculated using the market valuation method in accordance with Section 18 et seq. SolvV.

Derivatives are recognized and measured in accordance with German commercial law. Internal transactions are required to comply with uniformly determined conditions. In particular, they must be conducted on arms-length terms. Like other assets and liabilities, options purchased or written are recognized in the amount of the premium paid or received. If necessary we conduct writedowns or create provisions to comply with the lower-of-cost-or-market principle and the recognition-of-loss principle. To the extent that a margin system is applied in the case of innovative financial instruments, the margin payments are recognized as assets and liabilities as appropriate. We comply with the recognition-of-loss principle by setting up provisions as necessary. For further information on recognition and measurement of derivatives, see the 2009 annual report, chapter “Accounting policies”.

5.6.5 Dealing with correlations of market and counterparty risk

The management of derivative counterparty default risks includes determining both market and counterparty risks and providing capital backing. A reduction due to correlations of both these types of risks is not applied at present.

5.6.6 Effect of the collateral amount which the Bank must provide when the rating is downgraded

HSH Nordbank has entered into individually negotiated Master Agreements with its counterparties. These agreements are based on netting agreements recognized under supervisory law. The collateral agreements to these Master Agreements include individual clauses which could require the HSH Nordbank to supply collateral or additional collateral in the event that an external rating of the Bank is downgraded. As at the reporting date, a downgrade by the S&P rating agency would have resulted in additional collateral of EUR 0.6 million, which would not have affected HSH Nordbank’s risk-bearing capacity.

5.6.7 Positive net replacement costs before and after application of credit risk reduction

Table 18 shows to what extent HSH Nordbank Group is committed to different types of counterparty as defined by Section 326 (2) No. 1 SolvV and to what extent derivative netting agreements and collateral netting is used. The counterparty default risk according to the approach used (regulatory market assessment approach) is given in Table 19 in accordance with Section 326 (2) No. 2 SolvV. Derivatives forming part of securitizations are not shown in the following table as they are described separately in the next chapter.

	Positive replacement value *before* netting and collateral		Netting options		Nettable collateral		Positive replacement value *after* Netting and collateral	
	2009	2008	2009	2008	2009	2008	2009	2008
Interest-related contracts	15,158	16,857						
Currency-related contracts	756	4,752						
Securities/index-related contracts	194	287						
Loan derivatives	55	231						
Goods-related contracts	180	266						
Other contracts	0	247						
Total[1]	16,343	22,641	10,414	14,503	1,064	435	4,865	7,702

[1] Differences in amounts are due to rounding

Table 18: Positive replacement costs in € m

	Market assessment method	
	2009	2008
Counterparty default risk item	8,795	10,829

Table 19: Counterparty default risk in € m

5.6.8 Credit derivatives

Credit derivates purchased to hedge the loan portfolio of HSH Nordbank Group are shown in accordance with Section 326 (2) No. 3 SolvV in Table 20. Credit derivatives forming part of securitizations are not shown in the following table as they are described in the next chapter separately.

	Nominal value of collateral	
	2009	2008
Credit derivatives (secured party)	563	564

Table 20: Nominal value of credit derivatives eligible for collateral in € m

HSH Nordbank Group acts as both buyer and seller of credit derivatives (see Table 21 in accordance with Section 326 (2) No. 4 SolvV). There were no brokerage transactions as at the reporting date.

	Use for own credit portfolio protection buyer		Use for own credit portfolio protection seller		Brokerage activity	
	2009	2008	2009	2008	2009	2008
Credit Default Swaps	2,585	4,242	2,204	4,191	-	-
Credit Linked Notes	-	-	-	-	-	-
Total Return Swaps	-	-	-	-	-	-
Credit Options	-	-	-	-	-	-
Other contracts	-	-	-	-	-	-
Total	2,585	4,242	2,204	4,191	-	-

Table 21: Nominal values of credit derivatives in € m

5.7 SECURITIZATION

5.7.1 Aims, functions and scope of securitization activities

Securitizations are an important instrument for banks in refinancing, capital relief and risk management. Banks can play different roles in a securitization transaction, transferring credit risk themselves as originators, managing the portfolio to be securitized as sponsors, or acquiring securities from the securitization as investors. HSH Nordbank is involved in various activities which have securitization structures. In the process, the Bank plays the role of originator, investor and sponsor.

Securitization transactions in which HSH Nordbank acts as originator are used for risk management and to reduce credit risk. Overall risk is managed through strategic sale of selected receivables (traditional securitization) by eliminating or reducing cluster risk. In the period under review the emphasis was on the synthetic securitization transaction Sunrise, with the goal of taking pressure off risk-weighted assets. The Sunrise Transaction is described in detail in chapter 3.1.

Part of the securitization transactions as at the reporting date 31 December 2009 were resecuritized in the Sunrise Transaction. As a result, these are not recognized separately. For information purposes, the quantitative information in this chapter is presented in the Notes (Tables 51-53) as an alternative presentation excluding the effect of the guarantee. Comparison between the tables in this chapter and those in the Notes makes possible a quantitative estimate of the resecuritized receivables and securitization positions in the Sunrise Transaction. The presentation selected in the Notes also allows a comparison of securitization activities within HSH Nordbank with the annual report for the previous year.

In addition to its role as originator, HSH Nordbank acts as investor in securitizations sponsored by third parties by investing in tranches of securitizations issued by third parties (e.g. residential mortgage backed securities , commercial mortgage backed securities, collateralized debt obligations) or by providing liquidity or credit enhancement. These investment positions were partly resecuritized in the Sunrise Transaction.

HSH Nordbank acts as a sponsor in the Poseidon transaction, which is a conduit issuing asset backed commercial paper (ABCP).

The securitized portfolio which underlies the Sunrise Transaction includes foreign currency positions with a share of around 46% in the total portfolio. This means that there is a mismatch in currencies between the guarantee in euro and part of the hedged portfolio. To allow for these currency mismatches, the risk shield is not measured in terms of the nominal value of the guarantee (EUR 10 billion) but in terms of the value adjusted for the currency mismatches. The difference of roughly EUR 0.5 billion is allocated to the senior tranche. As at the reporting date the Sunrise Transaction has a value of EUR 136.6 billion. This is divided into the senior tranche (EUR 123.9 billion), the secondary loss tranche (EUR 9.5 billion) and the first loss piece (EUR 3.2 billion).

In calculating the figures in this chapter, credit risk minimization techniques involving substitution are ignored. As a result, the figures include the secondary loss tranche of EUR 9.5 billion in the Sunrise Transaction. In the course of credit risk minimization, the secondary loss tranche as a financial guarantee is substituted in the IRBA central government class.

HSH Nordbank has carried out securitization transactions on a limited scale with full retention. In the NorthernBlue 2009 securitization transaction, securities to a value of roughly EUR 1.2 billion were transferred to a special purpose company (SPC), with HSH Nordbank retaining all positions. As no risks are transferred in this transaction (no material risk transfer in accordance with Section 232 SolvV), there is no securitization benefit in terms of supervisory law. The motivation for the transactions lies instead in increasing HSH Nordbank’s holdings of securities eligible for rediscount at central banks. Securitization activities with full retention are accordingly not recognized in the quantitative part.

Overall, the CRSA and IRBA value of all securitization positions retained or sold by HSH Nordbank (including Sunrise) as at the reporting date total EUR 139.8 billion.

5.7.2 Determination of risk-weighted exposure for securitization transaction to be considered

The methods to be used in calculating the regulatory capital for securitization positions are stated in SolvV. Under the IRB securitization rules, HSH Nordbank uses the ratings-based approach, if ratings by external providers are available in the market. The Bank uses the external ratings from S&P, Moody’s or Fitch. For securities positions which do not have an eligible external rating HSH Nordbank applies the alternative approaches established in SolvV (Section 243 (2-4) SolvV for CRSA securitization positions and Sections 255-260 SolvV for IRBA securitization positions).

In accordance with Section 266 (1) SolvV, there is the option for CRSA or IRBA securitization positions for which a risk weight of 1,250% has been calculated of making a capital deduction or applying this risk weight to determine the total counterparty risk capital charge. In the context of the Sunrise Transaction this option is particularly important for the treatment of the first loss piece and calculating capital ratios. HSH Nordbank has opted for treatment as a risk-weighted asset, as the volatility of the capital ratios is lower as a result. The significantly lower capital ratios compared to a capital deduction are consciously accepted. HSH Nordbank does not currently use any internal assessment approach (IAA) under Section 259 SolvV to calculate risk weights for positions from ABCP programmes.

The Poseidon securitization transaction is a conduit issuing asset backed commercial paper (ABCP). The ABCP are used to refinance notes acquired by Poseidon through the Rasmus 5 and Rasmus 9 acquisition companies. Capital requirements are calculated at the level of the acquisition companies (under Section 249 SolvV to determine the maximum risk weighted CSRA position value). Carrera is a conduit which also issues ABCP. The programme is based on ABSs. Under the Sunrise Transaction, all other securitization positions where HSH Nordbank is the originator (except for the Poseidon transaction and ABS paper in the Carrera pool) are resecuritized.

Securitization activity	Type of securitization	Approach	Procedure to determine the risk-weighted exposure
Carrera (ABCP-Programm) [1]	Traditional securitization	IRBA	Risk weight in line with external rating
Poseidon (ABCP-Programm) [1]	Traditional securitization	CRSA	Cap-regularisation
Rasmus 5	Traditional securitization	CRSA	CRSA look-through approach
Rasmus 9	Traditional securitization	CRSA	CRSA look-through approach
Prime 2006-1 [2]	Traditional securitization	CRSA	Risk weight in line with external rating
Scandinotes II [2]	Traditional securitization	IRBA	Risk weight in line with external rating
Scandinotes III [2]	Traditional securitization	IRBA	Risk weight in line with external rating
Scandinotes IV [2]	Traditional securitization	IRBA	Risk weight in line with external rating
Scandinotes V [2]	Traditional securitization	IRBA	Risk weight in line with external rating
Sunrise	Synthetic securitization	IRBA	Formula approach under supervisory law acc. to Sect. 258 SolvV

[1] Partly re-securitized as part of the Sunrise Transaction. [2] Fully re-securitized as part of the Sunrise Transaction.

Table 22: Determination of risk-weighted exposure for securitization transactions

5.7.3 Accounting policies for securitizations

Acquired securitization positions which meet the definition of securities in the Kreditinstituts-Rechnungslegungs-verordnung (Ordinance on the Accounting System for Banks – RechKredV) are recognized and measured in accordance with the standard methods for securities.

Primary receivables of HSH Nordbank AG which the Bank allocates to synthetic securitizations without material transfer or risk (NorthernBlue 2009 securitization transaction) are still recognized in the original classes. Assumption of risks by third parties is taken into account as collateral when calculating impairments. If the risk has not been transferred through securitization or if the guarantee is impaired, the receivable is written down.

Receivables transferred under true sale securitizations are shown as disposals. Risks retained by the Bank are still recognized and measured here in accordance with the standard methods for receivables.

As HSH Nordbank prepares parent company financial statements under HGB and consolidated financial statements under IFRS, Table 23 shows the effects of both sets of accounting standards. It shows the securitization transactions which were not resecuritized.

			IFRS		HGB
Securitization transaction	True sale Yes/No	Approach	Disposal Yes/No	Consolidation Yes/No	Disposal Yes/No
Carrera	Yes	IRBA	-	Yes	-
Sunrise	No	IRBA	No	-	-

Table 23: Accounting policies for receivables securitized as originators

5.7.4 Rating agencies used for securitizations

The securitizations issued by the HSH Nordbank Group were externally rated. The rating agencies used and the type of receivables underlying the securitization portfolio are shown in Table 24 in accordance with Section 334 (1) no. 6 SolvV. The rating agencies used for investment in third party securitization transactions are shown in Table 16 on page 33.

Securitization transaction	Type of securitization	Type of receivable	Rating agency
Carrera (ABCP-Programm)[1]	Traditional securitization	ABS	Moody's, S & P
Poseidon (ABCP-Programm)[1]	Traditional securitization	ABS, leasing claims	Moody's, S & P
Prime 2006-1[2]	Traditional securitization	Profit participation rights	Fitch, Moody's, S & P
Scandinotes II[2]	Traditional securitization	Receivables from Danish regional banks	Moody's
Scandinotes III[2]	Traditional securitization	Receivables from Scandinavian regional banks	Moody's
Scandinotes IV[2]	Traditional securitization	Receivables from Danish regional banks	Moody's
Scandinotes V[2]	Traditional securitization	Receivables from Danish regional banks	Moody's

[1] Partly re-securitized as part of the Sunrise Transaction. [2] Fully re-securitized as part of the Sunrise Transaction.

Table 24: Securitization transactions initiated by HSH Nordbank

5.7.5 Exposure values of securitized receivables

For securitizations, a distinction must be made between securitizations with transfer of receivables (traditional or true sale securitizations) and securitizations without transfer of receivables (synthetic securitizations). Depending on the nature of the securitized receivables, securitizations are also allocated to different product classes, which have the characteristics of specific receivables.

In accordance with section 334 (2) no. 1 SolvV, Table 25 shows the value at the reporting date of the securitized receivables at HSH Nordbank, broken down by securitization transaction with or without transfer of receivables and the nature of the securitized receivables.

The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 51).

	Exposure value	
Securitization portfolio	2009	2008
Traditional securitizations		
Real estate	-	-
Ships	-	-
Retail banking	315	-
ABS	1.221	1.064
Other	98	1.251
Sub-total	1.634	2.315
Synthetic securitizations		
Real estate	-	-
Ships	-	-
Retail banking	-	-
ABS	-	140
Other	-	-
Sunrise	136.579	-
Sub-total	136.579	140
Total	138.213	2.455

Table 25: Exposure values of securitized receivables in € m

5.7.6 Exposure values of retained or purchased securitization exposures

In accordance with Section 334 (2) no. 3 SolvV, Table 26 shows a list of the securitization positions held by the Bank. This includes retained tranches from the Bank's own securitization transactions (e.g. for the purpose of credit enhancement), liquidity facilities provided by the Bank for securitization transactions and investments in third party securitization transactions.

The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 52).

Securitization items	CRSA exposure value 2009	CRSA exposure value 2008	IRBA exposure value 2009	IRBA exposure value 2008
Balance-sheet items				
Credit enhancements[1]	160	5	-	158
Participations in ABS transactions	620	6.670	2.390	5.503
Other balance-sheet items	-	3	98	8
Sunrise	-	-	136.579	-
Sub-total	779	6.678	139.068	5.669
Off-balance sheet items				
Liquidity facilities	-	132	-	193
Derivates	-	-	-	-
Other off-balance sheet items	-	-	-	15
Sub-total	-	132	-	208
Total[2]	779	6.811	139.068	5.877

[1] Measures to improve credit quality [2] Differences in amounts are due to rounding

Table 26: Exposure values of retained or purchased securitization exposures in € m

5.7.7 Risk weight ranges and exposure values of securitization

In accordance with Section 334 (2) no. 4 SolvV, Table 27 shows the Bank's individual securitization positions (see Table 26) allocated to risk weighting bands, and the resulting capital requirements. As at the reporting date, the first loss pieces from the Sunrise Transaction of EUR 3.2 billion and the Carrera, Omega 52 and 55 securitization transactions are assigned a risk weighting of 1,250% in accordance with Section 255 (1) sentence 2 SolvV. As at 31 December 2008 the first loss piece from the Circle 2002 securitization transaction was assigned a risk weighting of 1,250% in accordance with Section 255 (1) sentence 2 SolvV. The other securitization transactions with a risk weighting of 1,250% are deducted from equity in accordance with Section 266 (1) SolvV. These positions accordingly do not have any capital requirement.

The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 53).

					Securitized items retained/purchased			
	CRSA exposure value		IRBA exposure value		CRSA capital requirement		IRBA capital requirement	
Risk weight range in %	2009	2008	2009	2008	2009	2008	2009	2008
0 ≤ 10	-	-	134.015	4.223	-	-	698	26
> 10 ≤ 20	501	5.899	1.281	669	6	94	4	5
> 20 ≤ 50	166	230	32	431	7	9	1	9
> 50 ≤100	30	283	24	82	2	23	3	6
> 100 ≤ 350	49	223	217	243	4	25	12	51
> 350% ≤ 650	-	-	22	5	-	-	8	2
> 650 < 1,250	-	-	-	-	-	-	-	-
1,250 or capital deduction	35	176	3.478	224	-	5	3.303	11
Total[1]	779	6.811	139.068	5.877	18	156	4.030	110

[1] Differences in amounts are due to rounding

Table 27: Exposure values and capital requirements for retained or purchased securitization items acc. to risk weight ranges in € m

5.7.8 Non-performing and in-arrears securitized receivables and actual losses

In accordance with Section 334 (2) no. 2 SolvV, Table 28 shows those parts of securitized receivables which are non-performing or in-arrears and the actual losses in the period under review. The securitization positions shown are those for which HSH Nordbank acts as originator. To ensure comparability of data, the definitions of receivables and actual losses are based on those for general recognition of non-performing and in-arrears receivables (see chapters 5.4.4, 5.4.5) and actual losses (see chapter 5.9.8).

The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 54).

	Total non-performing or in-arrears[1]		Actual losses	
Securitization portfolio	**2009**	**2008**	**01.01.2009 to 31.12.2009**	**01.01.2008 to 31.12.2008**
Real estate	-	-	-	-
Ships	-	-	-	-
Retail banking	-	-	-	-
ABS	-	-	-	-
Other	5	-	-	-
Sunrise[2]	10.586	-	64	-
Total	10.591	-	64	-

[1] Total non-performing receivables (needing value adjustment) or in-arrears receivables (not needing value adjustment)

[2] The actual losses in the Sunrise Transaction are loss allocations under the guarantee which can be reported to the guarantor for review and approval, have already been reported, or have already been settled.

Table 28: Non-performing and in-arrears securitizations, actual losses on securitized receivables in €

5.7.9 Securitization activities in the reporting year

In the period under review HSH Nordbank executed the Sunrise securitization transaction (see chapter 3.1) and the NorthernBlue 2009 transaction described at the start of this chapter. The Circle 2002 securitization transaction was terminated.

In the course of the strategic realignment, HSH Nordbank has decided that financing special purpose entities and the credit investment portfolio are not part of its core business. HSH Nordbank terminated its investment in the Omega 52 and 55 transactions in January 2010. Through the termination of Omega 52 and 55, HSH Nordbank is utilizing the recent recovery in the credit and capital markets and at the same time continue the announced reduction in the credit investment portfolio.

Plans for 2010 involve only securitization transactions with full first loss piece as a measure to generate liquidity.

5.8 LONG-TERM EQUITY HOLDING PORTFOLIO

The regulatory authorities state that equity holdings must be consolidated, deducted from equity or backed with equity capital in the asset class Equity Holdings. In this context regulatory law considers equity holding risk to be a sub-class of the counterparty default risk. The equity holdings from the banking book are explained below.

5.8.1 Objectives of equity holdings

The equity holding portfolio of the HSH Nordbank Group is divided essentially into five sub-portfolios. Each sub-portfolio has a different objective.

a) Strategic equity holdings

Strategic equity holdings are all those which have a strategic importance for the Group and/or promote the economic interests of the region.

b) Equity holdings to support business segments

Equity holdings to support business segments are oriented towards expanding existing customer relationships or creating new ones.

c) Investment-related equity holdings

Investment-related equity holdings comprise private equity commitments for profit and diversification of risks.

d) Other equity holdings

In contrast to the regulations of the German Commercial Code all items that contain a subordinated residual claim to the assets or income of the issuer are classified as equity holding under supervisory law. Equity holdings which are considered as a equity holding under supervisory aspects (in accordance with SolvV) but mostly are allocated to the item “Shares and other non-fixed-income securities” (in accordance with the German Commercial Code) do not therefore belong to the divisions of strategic, business field-related or investment-oriented equity holdings and instead are treated as other equity holdings.

e) Equity holdings contained in investment funds or certificates

Special funds of domestic or foreign banks and certificates which under HGB must be recognized under the heading “Bonds and other fixed-interest securities” can also include equity holdings within the meaning of SolvV under supervisory law. If these equity holdings have to be allocated to the bank book, they come under the separate sub-portfolio “Equity holdings contained in investment funds or certificates”

5.8.2 Accounting principles for equity holdings

An important instrument for monitoring and managing equity holding risk for strategic, business field-related and investment-oriented equity holdings is regular company assessment. The processes have been designed to ensure that the recoverability of all HSH Nordbank’s direct equity holdings and relevant indirect equity holding are assessed at least once a year. Significant equity holdings are subject to a detailed assessment using the relevant standards of the Institute of Public Auditors in Germany (“Institut der Wirtschaftsprüfer”). The assessment of fund holdings and similar constructs is performed using a net asset value approach which also assesses the current year reports and financial statement of the investment companies. All other equity holdings undergo a risk-oriented assessment.

Equity holdings which are allocated to the sub-portfolios “Other equity holdings” and “Equity holdings contained in investment funds or certificates” also represent a long-term commitment due to their allocation to the Bank’s investment portfolio. Hence these partial portfolios are also assessed on the moderate lower of cost or market principle and the corresponding exposures are reported with their historical costs. This means that reporting of P&L volatilities, which would not be economically justified due to the short-term nature of the underlying fluctuations in value, is avoided. If long-term reductions in value are foreseeable – generally related to creditworthiness – write-downs are made to the lower share price, market price or fair value.

5.8.3 Overview of equity holdings in the banking book

The equity holding portfolio of the banking book of HSH Nordbank Group is shown in Table 29.

	Carrying amount		Fair value		Stock market value	
Equity holding portfolio	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Strategic equity holdings	422	436	422	436	-	-
Items traded on the stock exchange	-	-	-	-	-	-
Not listed on the stock exchange but belonging to a sufficiently diversified equity holding portfolio	422	436	422	436	-	-
Other equity holding exposures	-	-	-	-	-	-
Business field-related equity holdings	380	685	375	625	-	-
Items traded on the stock exchange	17	139	13	80	13	80
Not listed on the stock exchange but belonging to a sufficiently diversified equity holding portfolio	363	545	363	545	-	-
Other equity holding exposures	-	-	-	-	-	-
Investment-related equity holdings	129	119	129	119	-	-
Items traded on the stock exchange	-	-	-	-	-	-
Not listed on the stock exchange but belonging to a sufficiently diversified equity holding portfolio	129	119	129	119	-	-
Other equity holding exposures	-	-	-	-	-	-
Other equity holdings[1]	260	657	108	507	-	-
Items traded on the stock exchange	46	170	30	154	30	154
Not listed on the stock exchange but belonging to a sufficiently diversified equity holding portfolio	213	487	79	352	-	-
Other equity holding exposures	0	0	0	0	-	-
Investment exposures contained in investment funds or listed certificates or exposures treated as equity holdings	81	205	92	190	-	-
Total[1]	1,273	2,102	1,126	1,877	-	-

[1] Differences in amounts are due to rounding

Table 29: Valuation of equity holding instruments in € m

5.8.4 Realized profits and losses and hidden revaluation gains for equity holdings

Table 30 shows in accordance with Section 332 No. 2c SolvV the accumulated gains from divestiture. It also shows in accordance with Section 332 No. 2d SolvV the amount of hidden revaluation gains (or losses); these hidden gains (or losses) are not recognized in the balance sheet or income statement. They are also not included in Tier 1 or Tier 2 capital.

	Realized gains or losses from sales and workout		Hidden revaluation gains/losses			
			overall		of which amounts included in Tier 1 or Tier 2 capital	
	2009	2008	2009	2008	2009	2008
Equity holding items	-1	10	-156	-209	-	-
Equity holding items contained in investment funds or listed certificates or exposures treated as equity holdings	-3	8	11	-15	-	-
Total	-4	18	-145	-224	-	-

Table 30: Realized/hidden gains and losses from equity holding instruments in € m

5.9 RISK MEASUREMENT FOR IRBA PORTFOLIOS

5.9.1 Procedures and transition procedures permitted by the Federal Financial Supervisory Authority as part of IRBA

HSH Nordbank determines all parameters required to establish risk weightings internally, i.e. probability of Default (PD), loss given default (LGD), exposure at default (EaD), credit conversion factor (CCF) and maturity (M), and hence complies with the requirements of the Advanced IRB Approach of the German Solvency Regulation.

Since the first quarter of the year under review, the advanced IRBA has also been used to calculate capital requirements for LBO financing. The aircraft financing rating module was also in the regulatory approval process in the year under review, and approval for single airline financing was given in January 2010.

There is a detailed description of the approved rating module used by HSH Nordbank in chapter 5.9.2.

The regulatory benchmark of 50% (entry threshold), i.e. the minimum degree of coverage required for approval of the advanced IRBA was clearly exceeded on 1 January 2008. At that time, the degree of coverage at the Group level under Section 67 SolvV was over 70% for the total value of risk-weighted positions and over 80% of the value of the positions. The goal is to achieve the regulatory benchmark and supervisory reference point, i.e. degrees of coverage of at least 80% and 92% respectively in the IRBA by at the latest mid-2010 and end-2012 respectively.

The current realignment of HSH Nordbank also influences the type of receivables and portfolio segments which are retained permanently or temporarily in partial use or are omitted from the calculation of the degree of coverage as a business area is in the process of termination. HSH Nordbank will publish detailed information on this after the completion of the realignment.

HSH Nordbank Group applies the following transitional rules in accordance with Sections 338 and 339 SolvV::

- The Bank excludes equity holdings held before 1 January 2008 from application of the Advanced IRBA, using CRSA instead to determine the capital requirement (grandfathering).
- For investment certificates in accordance with Section 294 (6) sentences 1-8 SolvV, HSH Nordbank Group is waiving prorated treatment in line with the actual foreign currency composition until 31 December 2011, provided that the share of the special fund denominated in foreign currency or gold does not exceed 10% of the total value of the special fund.

5.9.2 Structure of internal rating systems and internal allocation of exposures or obligors to rating classes or risk pools and external credit ratings

In cooperation with nine Landesbanks in a joint project, rating procedures based on scorecards and simulations were developed at an early stage for the individual portfolio segments. This cooperation between the Landesbanks led in 2003 to the founding of RSU Rating Service Unit GmbH & Co. KG (RSU). Since 2004 this company has assumed responsibility for the methodical maintenance and development of the rating systems. The individual Landesbanks provide their expertise in the form of competence or support centres. Currently 13 of the rating modules developed by the participating banks are provided by RSU. In addition, RSU has integrated two rating modules from S Rating und Risikosysteme GmbH (S Rating), a subsidiary of Deutscher Sparkassen- und Giroverband (DSGV), into the central LB-Rating application. With a single exception (rating of funds), these rating modules are all rating procedures recognized at HSH Nordbank for the purposes of reporting under SolvV.

In addition, during the year the LGD and CCF methodology developed by HSH Nordbank and approved by the supervisory authorities was transferred to RSU. HSH Nordbank now plays the role of centre of competence.

Rating methods

The rating procedures distinguish between scorecard and cash flow approaches. The scorecard approach identifies characteristics and factors that are able to differentiate between good and bad borrowers. Their validity is first verified with a single factor model. Subsequently several characteristics, which each have high significance in a single factor model, are combined to create a multi-factor model. The scores determined using the multi-factor model are translated to default probabilities. A precondition for the application of a scorecard approach is that a sufficient number of relatively homogeneous borrowers is available.

The cashflow approach simulates cashflows of the asset in various scenarios. These vary depending on macro-economic and sector-based conditions. A simulation engine (SimEngine) is used to create numerous scenarios which differ according to macro-economic conditions before the data enter the corresponding rating modules. A sector-based model uses these scenarios to calculate scenarios for future changes in sector-related factors such as rents, vacancies or charter rates. The values are then fed into the calculation of scenarios for the cashflow of the corresponding asset. Subsequently scenarios are selected where the borrower must be considered to be defaulting. The default probability is calculated as a ratio from the number of scenarios where a default was recorded to the total number of scenarios.

Both the scorecard and the cashflow approaches include quantitative as well as qualitative factors. Once these factors have been taken into consideration, warning signals and the company background are examined. There are also regular override opportunities, allowing ratings to be moved up to a limited extent and down to an unlimited extent. The result of the rating process, the local currency rating or LCR, is only finalized once all these aspects have been taken into consideration. As a result, an individual default probability is obtained for each borrower, enabling assignment to a specific credit rating class. When measuring borrower risk, the risk of foreign currency transfer restrictions has to be considered, as well as default risk.

The rating result is calibrated on a standard rating master scale. This master scale is the DSGV master scale which contains 22 live and 3 default categories. Each rating class on the rating master scale is assigned a one-year default probability. This standard rating scale allows for immediate comparison of exiting ratings separately from the portfolio segment. The scale also includes mapping of external ratings to the internal categories.

The rating modules and methods used at HSH Nordbank Group at the reporting date for the purposes of reporting under SolvV are shown in Table 31. Capital backing is calculated using the advanced IRB approach. We also show the aircraft financing rating module, which was recognized in January 2010 for rating single airline financings. Consequently, from the first quarter of 2010 capital backing for single airline financings is shown using the advanced IRB approach.

Borrower, economic risk bearer, asset or project	Rating module	Rating methods
Companies	Corporates Sparkassen-StandardRating	Scorecard
Real estate	Sparkassen-ImmobiliengeschäftsRating Internationale Immobilienfinanzierungen	Cashflow
Ships	Ship financing	Cashflow
Banks	Banks	Scorecard
Insurance companies	Insurance companies	Scorecard
International regional authorities	International regional authorities	Scorecard
Leasing companies SPC real estate leasing	Leasing	Scorecard with cash flow component
Projects	Project financing	Cashflow
Single-airline financing	Aircraft financing[1]	Cashflow
LBO financing	Leveraged finance	Scorecard
Individuals, self-employed, craftsmen, corporate clients	Sparkassen-StandardRating or Sparkassen-ImmobiliengeschäftsRating (depending on the primary origin of capital)	Scorecard or cashflow
States	Country and transfer risk	Scorecard
DSGV guarantee system	DSGV guarantee system	Scorecard with simulation part

[1] The aircraft finance rating module was approved in January 2010 for rating single airline financing

Table 31: Rating modules of HSH Nordbank Group approved by the supervisory authorities

The Landesbanks participating in the development of rating procedures are divided into competence and support centres and participants. The competence centre bank assumes the lead for the development and maintenance of modules where it can offer special expertise. It is supported by experts from the support banks while the remaining banks act as participants (collaborating indirectly). HSH Nordbank has the main responsibility for the rating modules ships, leasing and leveraged finance and is also co-responsible for the modules international real estate financing and country and transfer risk. HSH Nordbank collaborated in the development of a rating module for loan financing for funds in 2008 within the RSU group. The module was implemented at HSH Nordbank at the beginning of the reporting year for internal management purposes.

Rating classification per the masterscale rating	Moody's	S & P	Fitch
1(AAAA)	-	-	-
1(AAA)	Aaa, Aa1	AAA, AA+	AAA
1(AA+)	Aa2, Aa3	AA, AA-	AA+, AA
1(AA)	A1	A+	AA-
1(AA-)	-	-	-
1(A+)	A2	A	A+
1(A)	A3	A-	A
1(A-)	-	-	-
2	Baa1	BBB+	A-
3	Baa2	BBB	BBB+
4	Baa3	-	BBB
5	-	BBB-	-
6	Ba1	BB+	BBB-
7	Ba2	BB	BB+
8	-	-	BB
9	Ba3	BB-	BB-
10	B1	B+	-
11	-	-	B+
12	B2	B	B
13	-	-	-
14	B3	B-	B-
15	Caa1 – Caa3	CCC+ - C	CCC+ - C
16 – 18	Default rating	Default rating	Default rating

Table 32: Internal allocation of exposures and obligors to rating classifications and external ratings

LGD method

The LGD calculation method was developed successively by HSH Nordbank for each rating segments, and is continuously reviewed and refined in the course of the annual validation process. On transition to the RSU Association in 2009, validation was done jointly with other Landesbanks for the first time in the year under review. The results were estimation methods for recovery rates regarding specific collateral and specific borrowers (proceeds of the assets in bankruptcy). LGD calculation takes into account the current data in the legacy systems

When determining LGD (overall LGD) three possible default scenarios are considered. In addition to processing, restructuring of the defaulted commitment is possible. In the best case scenario recovery is possible. LGD estimation is based on observation of the workout. In order to draw up a forecast for the loss ratio, the proceeds of the sale of collateral (the product of the market value of the collateral asset and a recovery rate specific to that asset) and proceeds from the bankruptcy estate (the product of non-collateralized exposure and a borrower-specific recovery rate) are used.

Modelling is based on historical losses, which are collected together with other Landesbanks and analyzed using statistical and econometric techniques. For data capture, HSH Nordbank uses the Credit Loss Database (CLD). Historical loss data is used to identify macroeconomic and microeconomic factors influencing LGDs, which in turn are used to create models for predicting LGDs in future loss events. In accordance with Section 132 (3) sentence 1 SolvV, the effects of an economic downturn were taken into account, and “downturn LGDs” calculated. Information from external studies was also used as a benchmark.

CCF methods

In contrast to assets on the balance sheet, where future exposure can be calculated from the loan agreements, receivables from the classic off-balance-sheet business must have the exposure at default (EaD) calculated using a credit conversion factor (CCF). Up to and including 2008, this was estimated and annually validated by HSH Nordbank. On switching to the CCF method in the RSU Association in 2009, validation was done jointly with other Landesbanks for the first time in the year under review. Analogously with the LGD method, a downturn CCF is calculated here as well.

For transactions with unlimited future absorption different product categories and hence varying estimation procedures for the CCF are used.

5.9.3 Internal process for allocation of exposures or obligors to rating classes or risk pools divided according to receivables categories

The rating process is divided into creation and determination processes. Ratings are always created by the market BU responsible. The BUs Credit Risk Management or Group Risk Management are responsible for approval of the rating.

The rating guidelines in the Credit Manual specify for all classes (except the retail portfolio and risks with total lending of EUR 750,000 per borrower unit or EUR 75,000 at business partner level) that internal rating methods recognized under supervisory law must be used. An individual rating must be prepared:

- for borrowers, bearers of economic risk (TWR), rating issuers (for special financing projects: for the item or the project). This applies also to the purchase of receivables without recourse;
- for persons who act exclusively as support in the rating modules;
- as a precondition in order to include specific collateral (e.g. personal collateral) provided as a risk reduction to the benefit of HSH Nordbank.

Each borrower subject to rating is given only one rating for local currency rating (LCR) and, if need be, foreign currency rating (FCR). The LCR determines the counterparty default risk without considering a foreign currency transfer risk. The foreign currency transfer risk is incorporated when the FCR is determined.

The exact triggers for the rating are also specified in the Credit Manual. Each rating must be updated by the originating BU according to risk aspects – but at the latest within twelve months – and verified and confirmed by the back office unit. Special risk aspects which require updating before the end of the 12 month period are specifically:

- significant expansion of the counterparty default risk,
- knowledge of significant new risk-related information,
- commitments where a currency transfer risk exists if the risk country migrates to rating class 9 or worse,
- defaults and recoveries.

The Working Instruction in the Credit Manual explains the requirements for creating a rating unit. It sets out when the rating of the legal borrower is waived as part of the rating and the loan decision process and the rating of the TWR and/or the rating donor is to be applied instead.

Positions which have not been rated using a recognized IRBA rating method but have an internal expert rating are treated as CRSA (chapter 5.5.1).

To ensure comprehensive rating for the exposure for which risk classification is required by SolvV, the Bank has process quality controlling (PQC) and data quality management (DQM).

Assignment of borrowers requiring a rating to the rating methods is done on the basis of the module-specific rating process instructions in the Credit Manual, taking into account the module-specific applications manuals and expert rating manuals.

IRBA exposures and obligors are allocated to IRBA receivables categories or IRBA exceptions based on a customer systematic key in accordance with Section 70 (1) SolvV. The customer system classifies business partners according to various characteristics. The most important are: entity groups (banks/public authorities/companies and organisations), location of the entity (domestic or foreign according to the country list of the Deutsche Bundesbank, industry and legal form and differentiation between economically independent and economically dependent entities.

Specific models are developed for the various rating segments in order to determine the collateral-specific recovery rate for the non-collateralized part of the EaD. Therefore the allocation of an obligor to the various partial LGD models is based on the allocation performed as part of a rating procedure. The CCF is selected according to the product so that an allocation to rating systems is not required

Retail banking

HSH Nordbank Group leaves receivables from retail banking in the permanent CRSA.

Equity holding exposures

For equity holdings covered by the grandfathering provisions of Section 338 (4) SolvV, which are given a risk weighting of 100% in CRSAS, no rating is required under supervisory law before 31 December 2017. However, ratings are required for positions entered into since 1 January 2008. The rating methods are used for these default risks. If none of the rating modules recognized under supervisory law can be used for an equity holding, the simple risk weighting method is used, i.e. the risk weighting specified in supervisory law is assigned.

For investments in funds and the underlying risk of near-fund listed certificates in the banking book the risk weighting and expected loss is determined using the ”look-through treatment” as described in Section 83 SolvV. If this is not possible, an assessment of the underlying assets, does HSH Nordbank use a risk weighting of 370%.

5.9.4 Control mechanisms for reviewing the rating system

A validation of all rating modules and of the LGD and CCF models of HSH Nordbank is performed annually in the sense of Section 106 No. 5 and Section 147 SolvV. Validation of a rating module means a verification of the accuracy of forecasts and the selectivity of the rating module. This includes the following steps:

- analysis of portfolio and market performance (e.g. description of the portfolio according to region and relevant customer types)
- analysis of rating distributions
- backtesting (comparison with actual default rates) and/or benchmarking (comparison with external ratings)
- calibration (verification of the extent of allocated default probabilities)
- examination of selectivity (ability of the rating module to differentiate between good and bad borrowers)
- review of the model structure and design (e.g. significance and weighting of individual factors and partial models, inclusion of supporters, analysis of the frequency with which data were overwritten and the reasons for this, inclusion of the transfer risk)
- examination of the application of ratings (e.g. analysis of data quality, verification of standard application by carrying out duplicate analyzes)

The process of validation involves three steps:

- The first step involves validation based on the pooled data of all Landesbanks and/or Landesbanks and savings banks under the lead management of RSU and S Rating. Data are pooled specifically to create the largest possible and hence statistically most significant database. In cooperation with the relevant competence centre and support centre, RSU performs the validation and, if necessary, the recalibration and further development of the modules on the basis of the pooled data. For the modules of S Rating, pooling is carried out on the basis of data from participating savings banks and participating Landesbanks. Updating is performed by S Rating.
- As the validation is done on the basis of the pooled data, it is necessary to demonstrate that the results can also be applied to HSH Nordbank Group. This is done in a second step in cooperation with RSU and/or S Rating.
- In a last step further internal analyzes to complete the validation and proof that the rating modules are suitable for use at HSH Nordbank are performed.

The role of HSH Nordbank during the updating phase on the basis of the pooled data depends on whether it has assumed one of the functions of competence and/or support centre in respect of the module in question.

The LGD and CCF methods are also validated annually in accordance with the provisions of the German Solvency Regulation, similar to validation of the rating modules. Until 2008 the validation procedures were carried out internally. On transition of the methods to the RSU Association, validation was done jointly with other Landesbanks for the first time in the year under review.

A similar procedure exists for S Rating modules in collaboration with S Rating.

5.9.5 Utilization of internal estimates for purposes other than determination of risk weighted exposure in accordance with IRBA

HSH Nordbank Group uses parameters determined internally in many areas of the Group. For example, all risk parameters EaD, PD, LGD and CCF are used actively for the overall management of the Bank. The risk parameters in particular are embedded into risk-adjusted pricing of loan applications, the procedure to create loan loss provisions and determination of expected risk costs and limitation. With their inception the rating systems and the corresponding risk parameters are used in the following steering systems of the Bank:

- loan approval procedures/determination of competences
- A priori and ex-post calculation of individual transactions
- limit setting
- reporting
- commitment monitoring
- intensified loan management/restructuring

In addition the parameters are used for ongoing scenario calculations and in the planning and strategy process.

5.9.6 Exposure values according to rating ranges (excluding retails banking) under IRBA

The rating results determined using the rating modules described above are calibrated to a standard rating scale, whereby rating classes 16 to 18 represent default classes. The individual rating classes are summarized in seven Rating ranges for greater clarity. To improve consolidation of rating grades with similar risk profiles within a rating range, the boundaries between the ranges were modified from those in the Disclosure Report as at 31 December 2008. In this report, the figures as at 31 December 2008 are retroactively assigned to the new rating ranges. As most of the receivables have a good rating and there are relatively few receivables in the poorer rating ranges, the assignment of rating ranges for better grades has been refined.

Table 33 shows the breakdown as at the reporting date in accordance with Section 335 (2) nos 1 and 2 SolvV. Tables 33-35 do not include securitizations, which are shown separately (see section 5.7). In the case of equity holdings, only equity holdings under the PD-LGD approach are shown. The overall long-term equity holding portfolio is described in more detail in section 5.8.

The following table shows the figures in accordance with Section 99 SolvV allowing for credit risk reduction techniques. It also shows the average probability of default (average PD), average LGD and average risk weighting within a rating range for the individual receivables classes. All presentations in accordance with Section 335 (2) SolvV are based on the figures in the reports in accordance with Bundesbank Circular B 40-5 / B 410-1 65.2.229.13.

The figures in the following table take into account the Sunrise securitization transaction, which took regulatory effect on 30 June 2009. In the course of credit risk minimization, the secondary loss tranche as a financial guarantee is substituted in the IRBA central government class. As a result, the figures as at 31 December 2009 include the secondary loss tranche totalling EUR 9.5 billion of the sunrise transaction, but exclude the first loss piece and senior tranche. The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 55).

IRBA receivable class	Average PD in % 2009	Average PD in % 2008	Average LGD in % 2009	Average LGD in % 2008	Average RW in % 2009	Average RW in % 2008	Exposure value 2009	Exposure value 2008
Rating range 1: 1(AAAA) – 1(AA+)								
Central governments	0.0	0.0	24.9	21.8	0.2	0.2	16,213	17,990
Institutions	-	-	-	-	-	-	-	-
Companies	-	-	-	-	-	-	-	-
Equity holding exposures[1]	-	-	-	-	-	-	-	-
Subtotal	0.0	0.0	24.9	21.8	0.2	0.2	16,213	17,990
Rating range 2: 1(AA) – 1(A-)								
Central governments	0.0	0.1	44.9	20.5	27.9	14.5	37	1,410
Institutions	0.0	0.0	32.9	22.4	14.6	10.4	9,155	24,925
Companies	0.0	0.1	36.7	31.8	20.0	18.7	4,808	26,959
Equity holding exposures[1]	-	0.1	-	69.9	-	74.9	-	56
Subtotal	0.0	0.0	34.2	27.2	16.5	14.9	14,000	53,349
Rating range 3: 2 – 5								
Central governments	0.1	0.3	32.0	22.5	46.0	32.3	61	288
Institutions	0.2	0.2	30.6	18.6	24.1	17.5	1,580	3,898
Companies	0.2	0.2	44.7	35.6	53.5	43.3	4,864	40,771
Equity holding exposures[1]	0.4	0.2	90.0	80.7	176.1	114.1	5	36
Subtotal	0.2	0.2	41.2	34.1	46.4	41.0	6,509	44,992
Rating range 4: 6 - 9								
Central governments	2.0	0.7	50.0	31.4	100.0	78.6	0	95
Institutions	1.7	1.0	44.2	31.0	136.1	73.0	89	631
Companies	1.2	1.1	39.8	31.9	91.0	72.3	5,012	27,138
Equity holding exposures[1]	1.5	1.3	79.1	70.3	230.5	207.9	47	129
Subtotal	1.2	1.1	40.2	32.0	93.1	73.0	5,148	27,994
Rating range 5: 10 - 12								
Central governments	3.0	3.2	20.0	44.2	74.9	130.7	71	57
Institutions	3.2	5.1	32.7	21.6	86.9	72.9	15	284
Companies	4.7	3.9	51.0	38.9	179.0	126.5	2,300	7,408
Equity holding exposures[1]	4.2	-	81.9	-	324.7	-	41	-
Subtotal	4.6	3.9	50.5	38.3	177.9	124.5	2,426	7,749
Rating range 6: 13 - 15								
Central governments	20.0	11.8	27.7	37.7	162.5	209.0	12	42
Institutions	20.0	15.0	34.8	22.9	200.1	114.6	228	451
Companies	15.7	15.1	52.4	39.2	273.3	202.5	2,509	3,734
Equity holding exposures[1]	15.0	20	90.0	68.8	527.8	427.0	7	27
Subtotal	16.1	15.1	50.9	37.7	267.4	194.7	2,755	4,254
Rating range 7 (Default): 16 - 18								
Central governments	100.0	100.0	23.0	23.0	37.5	37.5	28	13
Institutions	100.0	100.0	58.3	17.1	95.1	28.0	351	1,133
Companies	100.0	100.0	53.6	42.5	87.5	69.4	3,236	3,607
Equity holding exposures[1]	100.0	100.0	65.0	65.0	106.0	106.0	29	0
Subtotal	100.0	100.0	54.0	36.4	88.0	59.4	3,644	4,753
Total (without default)[2]								
Central governments	0.0	0.0	24.9	21.9	0.9	2.9	16,393	19,881
Institutions	0.5	0.3	32.7	22.1	20.9	14.9	11,066	30,189
Companies	3.0	1.2	43.2	34.0	98.0	55.9	19,492	106,010
Equity holding exposures[1]	3.4	2.3	81.5	69.1	286.0	193.5	100	249
Total	1.4	0.9	34.4	30.2	46.4	41.4	47,052	156,328

[1] Only equity holdings under the PD-LGD approach; with regulatory LGD of 65% or 90%; CCF = 100%

[2] Differences in amounts are due to rounding

Table 33: Average PD, average LGD, average RW and exposure values in € m by rating ranges

5.9.7 Undrawn loan commitments and average exposure values under IRBA

Based on the rating ranges described above the assessment basis for undrawn loan commitments and the average exposure values weighted by commitment for each portfolio are given in Table 34.

The figures in the following table take into account the Sunrise securitization transaction, which took regulatory effect on 30 June 2009.The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 56).

IRBA receivable class	Central governments 2009	Central governments 2008	Institutions 2009	Institutions 2008	Companies 2009	Companies 2008	Equity holding exposures[1] 2009	Equity holding exposures[1] 2008	Total[2] 2009	Total[2] 2008
Rating range 1: 1(AAAA) – 1(AA+)										
Basis for evaluation of loan commitments	665	867	-	-	-	-	-	-	665	867
Basis for evaluation of non-derivative assets not reported	6	41	-	-	-	-	-	-	6	41
Avg. exposure value of loan commitments	33	27	-	-	-	-	-	-	33	27
Avg. exposure value of non-derivative assets not reported	6	6	-	-	-	-	-	-	6	6
Rating range 2: 1(AA) – 1(A-)										
Basis for evaluation of loan commitments	-	-	519	746	817	4,214	-	-	1,335	4,961
Basis for evaluation of non-derivative assets not reported	16	45	648	508	205	1,308	-	-	868	1,862
Avg. exposure value of loan commitments	-	-	2	8	4	10	-	-	3	9
Avg. exposure value of non-derivative assets not reported	14	25	59	14	10	46	-	-	47	37
Rating range 3: 2 - 5										
Basis for evaluation of loan commitments	-	0	56	78	2,724	11,752	-	-	2,780	11,830
Basis for evaluation of non-derivative assets not reported	0	36	143	123	632	2,737	-	-	776	2,896
Avg. exposure value of loan commitments	-	0	9	52	7	16	-	-	7	16
Avg. exposure value of non-derivative assets not reported	0	13	37	41	13	13	-	-	17	14
Rating range 4: 6 - 9										
Basis for evaluation of loan commitments	-	-	0	137	1,639	7,209	-	-	1,639	7,347
Basis for evaluation of non-derivative assets not reported	-	4	2	29	830	3,139	-	-	832	3,172
Avg. exposure value of loan commitments	-	-	0	60	15	16	-	-	15	17
Avg. exposure value of non-derivative assets not reported	-	1	1	7	12	83	-	-	12	82
Rating range 5: 10 – 12										
Basis for evaluation of loan commitments	-	36	0	0	432	1,584	-	-	432	1,620
Basis for evaluation of non-derivative assets not reported	-	-	2	1	165	491	-	-	167	492
Avg. exposure value of loan commitments	-	26	0	0	5	10	-	-	5	10
Avg. exposure value of non-derivative assets not reported	-	-	0	0	6	12	-	-	5	12
Rating range 6: 13 – 15										
Basis for evaluation of loan commitments	-	-	0	-	420	738	-	-	420	738
Basis for evaluation of non-derivative assets not reported	-	30	3	-	254	334	-	-	257	364
Avg. exposure value of loan commitments	-	-	0	-	9	44	-	-	9	44
Avg. exposure value of non-derivative assets not reported	-	6	0	-	4	82	-	-	4	75
Rating range 7 (Default): 16 - 18										
Basis for evaluation of loan commitments	-	18	0	51	484	693	-	-	484	762
Basis for evaluation of non-derivative assets not reported	-	-	0	-	231	129	-	-	231	129
Avg. exposure value of loan commitments	-	13	0	16	10	19	-	-	10	19
Avg. exposure value of non-derivative assets not reported	-	-	0	-	13	4	-	-	13	4
Total[2]										
Basis for evaluation of loan commitments	665	921	575	1,013	6,516	26,190	-	-	7,755	28,124
Basis for evaluation of non-derivative assets not reported	22	155	798	662	2,316	8,139	-	-	3,136	8,956
Avg. exposure value of loan commitments	33	27	3	19	9	15	-	-	11	16
Avg. exposure value of non-derivative assets not reported	12	13	54	19	11	48	-	-	22	45

[1] Only equity holdings under the PD-LGD approach; with regulatory LGD of 65% or 90%; CCF = 100%

[2] Differences in amounts are due to rounding

Table 34: Assessment basis in € m and average exposure value of loan commitments and of non-derivative off-balance sheet assets

In the case of investment funds and certificates purchased by HSH Nordbank Group and included under the advanced IRB approach using the look-through approach (Section 83 (4) SolvV), an average risk weighting is determined mostly based on information provided on a regular basis by the fund management companies. It is not possible to include this in the rating ranges, therefore disclosure of equity holding exposures contained in investment funds or certificates is made by means of Table 35.

	Exposure value		Regulatory capital requirements under IRBA	
Risk weight range in %	**2009**	**2008**	**2009**	**2008**
0 ≤ 10	-	-	-	-
>10 ≤ 20	-	-	-	-
>20 ≤ 50	-	-	-	-
>50 ≤ 100	-	-	-	-
>100 ≤ 350	27	35	6	8
>350 ≤ 650	55	170	16	50
>650 > 1,250	-	-	-	-
1,250	-	-	-	-
Capital deduction	-	-	-	-
Total [1]	81	205	22	59

[1] Differences in amounts are due to rounding

Table 35: Exposure values and capital requirements for investment funds in € m

5.9.8 Loss estimates and actual losses in the lending business (IRBA)

Table 36 shows a comparison of loss estimates with actual losses in the lending business in accordance with Section 335 (2) No. 6 SolvV. Loss estimates correspond to the expected loss (EL) after minimization of the credit risk. The EL for non-defaulting risk assets in the traditional lending business is shown (e.g. excluding securities in the banking book and derivatives). Actual loss is defined as follows:

Utilization of SSLP (for balance-sheet transactions)

\+ Utilization of allowances (for loan commitments and off-balance sheet assets)

\+ direct write-offs

\- recoveries on receivables written off

= actual loss in the lending business

The figures in the following table take into account the Sunrise securitization transaction, which took regulatory effect on 30 June 2009. For this reason EL from this transaction and actual losses which can be reported to the guarantor for review and approval or already have been reported and settled are not included in the figures as at 31 December 2009. The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 57).

	2009		2008	
Receivables class	**Estimated loss (EL) as at 31.12.2009**	**Actual loss 01.01.2009 to 31.12.2009**	**Estimated loss (EL) as at 31.12.2008**	**Actual loss 01.01.2008 to 31.12.2008**
Central governments	0	-	1	-
Institutions	2	-	17	0
Companies	215	250	395	67
Equity holding exposures[1]	2	4	1	-
Total[2]	219	255	414	68

[1] Only equity holdings under the PD-LGD approach; with regulatory LGD of 65% or 90%; CCF = 100%

[2] Differences in amounts are due to rounding

Table 36: Expected losses and actual losses in the lending business in € m

The losses in the year under review were marked particularly by the ongoing deterioration in the general economic situation over the course of the year. While the economy has recovered from its lowest point, there were still further losses in 2009 as a result of revaluations reducing profit or equity, due specifically to downgrades in the relevant portfolios. The deterioration in the risk parameters is also reflected in the estimated losses.

5.10 CREDIT RISK MITIGATION TECHNIQUES

5.10.1 Strategy, procedures and scope of balance sheet and off-balance sheet netting agreements

Banks are able to utilize netting agreements when determining their required equity capital which lead to a reduction in the evaluation basis and hence the equity capital required.

In contrast to balance sheet netting which is not used by HSH Nordbank, off-balance sheet netting within the framework of netting agreements for derivatives is applied (see chapter 5.6.7). The market assessment method is used to determine the required net assessment basis. As at the reporting date HSH Nordbank Group recorded a counterparty default risk exposure to the amount of EUR 8.800 million (see Table 19, page 35).

5.10.2 Processes for management and approval of credit risk mitigation techniques

The Collateral and LGD Guideline issued by the Management Board defines the collateral approved by HSH Nordbank as recoverable and hence minimizing default risk as well as the qualitative requirements for such collateral. Hence it also defines the benchmarks for collateral management within HSH Nordbank Group and is supplemented by detailed instructions in the process regulations for the lending business in order to ensure comprehensive collateral management. The provisions of SolvV are an integral part of the Collateral Guideline.

Qualitative requirements for collateral are in particular legal enforceability (especially for foreign collateral), the absence of a correlation between the creditworthiness of the obligor and the value of the collateral, maturity identity between loan and collateral agreement and the existence of an objective market value.

For this collateral the Bank has identified collateral-specific recovery values based on historical recovery cases, which are used with recognized collateral in calculating the LGD. In 2009 the LGD method was transferred to the RSU Association, and since then recovery rates have been validated there together with other Landesbanks (see chapter 5.9.2). The collateral guidelines establish what assets (e.g. real estate, moveable assets, receivables) and – particularly for foreign jurisdictions – which collateral instruments (e.g. mortgage, land charge, assignment) are recognized. In addition, the responsible front office division must ensure on a case by case basis that the individual collateral and associated collateral agreement meet requirements in terms of enforceability and recoverability. In the risk-relevant lending business, the recoverability of the individual collateral is reviewed for plausibility in the course of assessment.

The decision whether an asset or collateral instrument can be recognized as minimizing risk is taken by a team of specialists from the BUs Credit Risk Management, Group Risk Management, Legal and Group Compliance.

5.10.3 Strategy and procedures for assessing and managing collateral

Valuation and administration of collateral is integrated into the process of managing and recognizing credit risk reduction techniques. As SolvV is the basis for the collateral guidelines, collateral is only treated as reducing risk for the purpose of calculating capital requirements if all SolvV requirements are satisfied.

For each item of collateral to be offset against risk, an objective market value is determined. This is done on the basis of HSH Nordbank Group's valuation guidelines through a process of review and determination by market-independent appraisers or a market-independent entity. The recoverability of an item of collateral is ensured by recognizing it only up to the specific recovery rate for that collateral as reducing risk. The legal validity and enforceability of the collateral is ensured in the loan and collateral agreements. There is a standard instruction on regular monitoring and revaluation of collateral. Besides the annual review of collateral, there is a review and revaluation of the market value of the individual items of collateral every three years. For certain types of collateral, there is an annual review and revaluation of the value (e.g. ships). Recognized collateral is documented and maintained in a central collateral system. This makes possible regular reporting to monitor and evaluate collateral. The recoverability of and options for realizing an item of collateral are regularly reviewed as part of the regular credit monitoring process, and more frequently in the event of wide fluctuations in market value.

In the event of permanent impairment of collateral rights, e.g. impairment in value or a change in the legal position, additional collateral is sought and/or a monitoring file may be opened in accordance with the guidelines for exposure monitoring. In the event of a borrower's default, all collateral and possibly further collateral of a borrower unit involved are revalued. All relevant information on an item of collateral is documented and updated in the IT system. Only collateral which is recognized as compliant with the guidelines and accordingly maintained is retained in the HSH Nordbank management system.

Back office specialists are available for prompt and competent realization of security in the event of a borrower's default. Experience with realizing security is incorporated into optimising collateral management.

5.10.4 Material collateral

HSH Nordbank takes into account all the forms of collateral listed in SolvV (financial collateral, guarantees, physical collateral, other IRBA collateral) and netting agreements. Based on the portfolio and customer structure, essentially the following types of collateral are held by HSH Nordbank.

- Real estate and movable assets, e.g. ships, aircraft, railway wagons
- Receivables and rights
- Guarantees

In addition, securities, shareholder rights, gold and some credit derivatives serve as collateral. Collateral can only be taken into account in calculating LGD if its risk-reducing effect has not been taken into account in establishing a rating (PD). This means, for example, that a guarantee or assigned receivable which has already been taken into account in a rating tool or through the rating of the guarantor as the bearer of economic risk cannot in addition be netted against risk as collateral.

5.10.5 Guarantors and counterparties for credit derivatives and their rating

For a guarantee (or credit derivative) to be recognized as reducing risk there must be a current internal rating for the guarantor comparable with at least a Fitch or S&P BB- or Moody's Ba3.

Within HSH Nordbank Group, the main types of guarantors under these internal rules are guarantees by central governments, German local and regional administrative authorities, banks and parent companies with first class ratings. The main counterparties for credit derivatives are internationally active (investment) banks or German Landesbanks.

5.10.6 Market or credit cluster risk within collateral instruments

Management of potential cluster risks from eligible collaterals is done for portfolios at the level of the Bank as a whole, e.g. by reporting and monitoring these risks in the risk report. In addition, it is integrated into strategic planning and limiting by adding to the planning and limiting for typical business area related collateral (specifically tangible assets e.g. ships) a further limit on the collateral typically associated with the business areas involved.

5.10.7 Total amount of secured CRSA and IRBA positions

The two following tables in accordance with Section 336 (1) no. 2 SolvV show the credit risk reduction techniques for CRSA and advanced IRBA, broken down by class of receivables. Securitizations are omitted, as they are shown separately (see chapter 5.7). In the case of CRSA, both financial and tangible security and guarantees are taken into account. Under advanced IRBA financial, tangible and other collateral is included in LGD calculation. Guarantees and credit derivatives can be taken into account either in LGD calculation or through PD substitution. Here, the secured part of the receivables is given the guarantor's PD. However, collateral taken into account in calculating the PD is not shown here.

The figures in the following table take into account the Sunrise securitization transaction, which took regulatory effect on 30 June 2009. The figures excluding the effect of the guarantee are shown for information purposes in the Notes (Table 58 and Table 59).

Receivables class CRSA	Financial collateral 2009	Financial collateral 2008	Other and physical collateral 2009	Other and physical collateral 2008	Guarantees/derivatives 2009	Guarantees/derivatives 2008
Central governments	-	-	-	-	-	-
Regional governments	-	-	-	-	-	-
Other public sector entities	0	-	-	-	0	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Banks	-	0		-	0	-
Collateralized notes issued by banks	-	-	-	-		-
Companies	8	786	-	-	216	50
Retail banking	3	27	-	-	0	10
Items collateralized by real estate	-	-	70	1,558	-	-
Investment certificates	-	-	-	-	-	450
Equity holdings	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Overdue items	4	36	9	130	-	1
Total[1]	15	848	78	1,688	216	511

[1] Differences in amounts are due to rounding

Table 37: Total amount of collateralized CRSA exposure values in € m

Receivables class IRBA	Financial collateral 2009	Financial collateral 2008	Other and physical collateral 2009	Other and physical collateral 2008	Guarantees / derivatives 2009	Guarantees / derivatives 2008
Central governments	-	42	-	1	-	-
Banks	35	530	87	311	98	-
Retail banking	-	-	-	-	-	-
Equity holdings	-	-	-	-	-	-
IRBA equity holding portfolio, based on default probability	-	-	-	-	-	-
IRBA equity holding portfolio, model based	-	-	-	-	-	-
IRBA equity holding portfolio, evaluated with single risk weighting	-	-	-	-	-	-
Companies	425	5,773	3,833	39,530	326	1,629
Other assets not related to loans	-	-	-	-	-	-
Total[1]	460	6,345	3,920	39,841	423	1,629

[1] Differences in amounts are due to rounding

Table 38: Total amount of collateralized IRBA exposure values (without securitizations) in € m

6 MARKET RISK INCLUDING INTEREST RATE RISK

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

6.1 ORGANIZATION OF MARKET RISK MANAGEMENT

The Management Board determines the methods and processes for measuring, limiting and managing market risk, and budgets an overall share of the global limit for market risks. As part of this loss ceiling, the risk arising from all transactions exposed to market risk is restricted by means of a system of loss and risk limits.

Market risk is managed directly in the Bank's Financial Markets Division. Selected strategic positions exposed to market risks were managed by the Asset Liability Committee until 8 December 2009. To reflect the Bank's realignment and the changes in the Management Board, responsibility was transferred to the entire Management Board at the end of the year under review.

In accordance with MaRisk requirements, the organizational separation of market risk controlling, settlement and control, on the one hand, and the trading units responsible for the positions, on the other, is ensured at all levels. All key methodological and operational tasks relating to risk measurement and monitoring are grouped together in the Group Risk Management division.

The Restructuring Unit manages the positions assigned to it from the capital market and credit investment businesses. Settlement and control, financial and risk controlling are handled by Core Bank divisions independent of the Restructuring Unit.

HSH Nordbank Securities S. A. has been identified as a subsidiary that must be included in the Group-wide market risk controlling process. Risk limits and monitoring are done centrally by HSH Nordbank AG.

6.2 MARKET RISK MANAGEMENT

Market risk measurement and limitation

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

Within the Bank, value at risk (VaR) is calculated using historical simulation methods. Calculations are based Group-wide on a confidence level of 99.0 % and a holding period of one day over an observation history of 250 equally weighted trading days.

The material market risks at HSH Nordbank are interest rate risk (including credit spread risk) and exchange rate risk. The VaR of HSH Nordbank covers these risk categories and also equity and commodities risk for both the trading and investment portfolios. No separate limit is applied to the different types of risk. A limit is set for the total market risk for the bank. To manage market risks, the VaR is limited for the various reporting units. There are clearly defined processes for limit adjustment and overshoot.

Market risks from the lending business and the Bank's liabilities are transferred to the trading units and taken into account in the corresponding risk positions. There, they are managed as part of active portfolio management and hedged through external transactions.

Further development of market risk measurement

The Bank developed measurement of credit spread risks further in 2009, supplementing the existing VaR method. A bond's credit spread is a premium for the issuer's default risk. Credit spread risk refers to the danger that the value of a position may rise or fall as a result of a change in the spread. In July 2009, measurement of credit spread risks from CDS, single name bonds and loan notes were integrated into daily VaR measurement for the Group. In addition, measurement of credit spread risks was methodologically further developed, particularly for securitized positions. Full integration of credit spread risks into daily VaR measurement – for which a monthly approximation was already introduced in the year under review – is planned in 2010.

The Bank analyzed all basis risks in the entire portfolio in the year under review. The swap positions in particular include basis spread risks. Basis spread risk refers to the potential loss of value from differing payment frequencies and reference interest rates on the variable side of swaps. In the course of integrating basis spread risks into daily market risk measurement, the necessary modifications for the main HSH Nordbank currencies (USD, GBP, CHF, JPY) were made in the year under review. The remaining work on integrating secondary currencies (DKK, SEK) will be completed in the first half of 2010.

Backtesting

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

Stress tests

In addition to limit-based management of the daily VaR, at least two weekly stress tests are carried out to investigate the effects of unusual market fluctuations on the value of positions. To this end, the Bank varies its modelling against the calculation of risk under normal circumstances.

For example, in the course of interest rate risk stress tests, a change in risk factors under extraordinary market conditions is simulated, e.g. by shifting or rotating the interest rate curve. At end-2009 the scenario for positive interest rate movements showed a potential loss of EUR 43 million. The scenario for rising exchange rates showed a potential loss of EUR 8 million. The Bank also carries out separate stress tests for currencies, equities, commodities and volatilities, where uniform shifts are assumed for the individual positions. The Bank supplements these stress tests by other parametric scenarios and historic scenarios (e.g. 11 September 2001).

The Bank regularly calculates the change in the present value of banking book positions, assuming interest rate shocks of +130 and − 190 basis points to analyze interest rate risks. This satisfies on a timely basis the new regulatory requirements for calculating the effects of a sudden and unexpected change in interest rates on positions in the trading book (see chapter 6.5).

6.3 REPORTS ON MARKET RISK

Reporting on market risk of HSH Nordbank is integrated in the reports on overall risk (see chapter 4.4). These are supplemented by special market risk reports (see Table 39).

Report	Recipient	Interval	Content	Objective
Monthly market risk report	CRO	Monthly	Market risk changes, analysis of market risks acc. to banking book/trading book, stress tests, back-testing, limit monitoring	Market risk reporting to the Management Board (where required with recommendations for action)
Report to the Management Board market risk	Management board and Financial Market divisions	Daily	Market risk changes, analysis of market risks acc. to banking book/trading book, stress tests, back-testing, limit monitoring	Information of Management Board and trade, overview of risk and profit/loss, limit utilization

Table 39: Reports on market risk

6.4 REGULATORY CAPITAL REQUIREMENTS FOR MARKET RISK

HSH Nordbank uses the prescribed Standard Approach for determining the required regulatory capital for market risks. The regulatory capital required as a result of transactions in the trading book on the reporting date is listed in Table 40.

The decrease in the capital requirement for market risk is mainly due to optimisation of the option to net within CDSs, which reduces the interest rate risk and the reduction in the trading book portfolio.

	Regulatory capital required	
Market risk	2009	2008
Interest rate risk	348	725
Equity price risk	4	6
Currency risk	54	107
Commodity price risk	5	19
Other risk	-	-
Total	**411**	**857**

Table 40: Regulatory capital requirements for market risks in € m

6.5 INTEREST RATE RISK IN THE BANKING BOOK

Management of the interest rate risk in the bank book is part of market risk management. Interest rate risk is the potential loss of an open interest rate position as a result of a possible change in market or net present value of a stream of payments due to a potential change in yields or discount factors. Discount factors are taken from the corresponding interest rate curve. For single name bonds and CDS, credit spreads are also taken into account.

The interest rate risk in the bank book is modelled from the strategic holdings in the HSH Nordbank bank book without using model assumptions. There is no modelling of early loan repayments due to special repayment or termination rights or investor behaviour with deposits from customers. Where loans are agreed with optional components, existing termination rights are reported by the front office to Group Treasury for entry in the trading system. Risk measurement and stress testing are done by Group Risk Management based on the transactions entered in the trading and inventory systems.

In addition there is the special feature for interest rate risk in the bank book that management is handled by two units. Until the start of December 2009, ALCO set the strategic amount of interest rate risk at regular intervals. To reflect the Bank’s realignment and the changes in the Managing Board, responsibility was transferred to the overall Managing Board at the end of the year under review. The interest rate risk for the bank book arising out of the Bank’s client business (excluding Capital Markets Structuring & Trading clients) is managed by Group Treasury. Among other tasks it is responsible bundling interest rate risks and possibly transferring them for strategic reasons to Capital Markets Structuring & Trading to close the corresponding position.

The interest rate risks on the bank book are measured daily. Risk controlling has shown the interest rate risks in the bank book in the VaR histories since the start of 2007 separately. To calculate the VaR, a confidence level of 99%, a holding period of one day and a data history of 250 trading days are used.

Besides daily calculation of the interest rate risk in the course of the VaR calculation, HSH Nordbank also measures the interest rate risk for the group as a whole in the event of an interest rate shock. For the specific analysis of interest rate risks on bank book positions, the Bank uses net present value analysis, i.e. the net present value change due to defined changes in interest rates. HSH Nordbank does a substantial share of its transactions in foreign currencies, so that a breakdown by currency is relevant. The interest rate shocks for the major currencies are carried out and presented separately. Other currencies are immaterial for both the statement of financial position and the present value analysis, so they are not shown individually. The figures for the year under review have shown that HSH Nordbank Group would always lose significantly less than 20% of liable capital in the event of an interest rate shock of +130 and -190 basis points.

The effects of an interest rate shock of +130 and -190 basis points as at 31 December 2009 in accordance with Section 333 (2) SolvV are shown in Table 41. The totals of minus EUR 74 million and EUR 166 million respectively show the changes in present value resulting from the interest rate shock for the individual currencies. Assuming a parallel shift of all interest rate curves by +130 and -190 basis points, the result is a net present value change of minus EUR 88 million and EUR 135 million respectively. The difference between the interest rate shocks for the individual currencies and the parallel shift in all interest rate curves is due to nonlinearities in valuing currency derivatives.

Among other factors, changes in results compared to the previous year are due to a significant reduction of holdings denominated in DKK. Corrections in modelling a series of JPY loans also led to changes in results.

	Change in net present value			
	Interest rate shock +130 base points		Interest rate shock -190 base points	
Currency	2009	2008	2009	2008
EUR	-61	-107	99	194
USD	-14	36	57	-59
CHF	7	0	5	6
JPY	1	-67	-1	108
GBP	-2	0	0	0
DKK	-4	-28	5	41
Other	-1	3	1	-5
Total	**-74**	**-163**	**166**	**285**

Table 41: Interest rate risks in the banking book in € m

7 OPERATIONAL RISK

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

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

The internal division of the Bank into Core Bank and Restructuring Unit had no effect on management of operational risks. The individual divisions within the Restructuring Unit are integrated into the processes and methods for managing operational risks, like all relevant business areas of the Bank.

7.1 ORGANIZATION OF OPERATIONAL RISK MANAGEMENT

HSH Nordbank has an independent central controlling unit for identifying, analyzing, evaluating and monitoring operational risks. This unit is responsible for developing and supporting the relevant controlling instruments and providing expertise and advice on operational risks, as well as encouraging risk awareness within the Group. The central risk controlling unit also reports independently to the units of the Bank that are responsible for managing these risks.

The central controlling unit for operational risks is backed up by a local network of experts. All business units have OpRisk officers and OpRisk assistants who are responsible for applying the controlling instruments and who act as the link between central risk controlling and the relevant divisions. The OpRisk officers and OpRisk assistants receive training for their duties from the Risk Controlling department.

All methods and procedures within the context of controlling operational risks are also employed at the Bank's locations abroad. The subsidiaries designated as relevant – HSH Nordbank Securities S. A., HSH Real Estate AG, HSH Nordbank Private Banking S. A. and HSH Facility Management Holding AG – are integrated into operational risk from the Group-wide perspective.

7.2 OPERATIONAL RISK MANAGEMENT

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

In the course of realignment of the Bank, a significant reduction in headcount is planned. The reduction in headcount planned for 2009 and 2010 was almost achieved in the year under review. This leads to a risk in some divisions that performance of the impending tasks with the necessary care will be possible to only a limited extent. To counter the resulting operational risks, the Bank has taken measures to curb high staff fluctuation, to manage the internal job market, and to intensify external recruiting. This enabled the Bank to fill key vacancies in the Credit Risk Management, Group Rick Management and Internal Audit units. In addition, specific measures were initiated to improve the staffing situation in management of intensive management and work-out cases.

Measures were also taken in 2009 to improve the qualitative and quantitative resources for decentralized operational risk management in the divisions. Training throughout the bank takes place in 2010 to further increase risk awareness for operational risks.

Risk event database

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

The central risk event database takes into account all risk events with a gross loss of at least EUR 2,500. A gross loss is the sum of the cash outflow, income foregone and internal resources consumed. In addition, unexpected revenue from operational risks is also logged in the risk event database for amounts in excess of EUR 2,500, as risk events with net income for the Bank can indicate e.g. procedural weaknesses. The categorization of risk events makes it possible to systematically analyze the causes of losses and thereby contributes indirectly to the identification of operational risk events.

Since 2006, HSH Nordbank has been participating in the exchange of information on operational risk events 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.

Risk inventory

Since 2005, HSH Nordbank has carried out a Group-wide risk inventory annually. Based on the information about the risk situation of organizational entities gained from this inventory, operational risk reporting to the management units is supplemented by the addition of forwardlooking risk estimates to encourage the proactive management and monitoring of operational risks. In cooperation with the other Operational Risk Data Pool (DakOR) member banks, a standard scenario catalogue for risk inventory was developed in the year under review. This was supplemented by HSH Nordbank with internal scenario, and used for the first time in 2009 for the bottom-up logging of loss potential. The individual scenarios were consolidated in core topics, e.g. reorganization and outsourcing, and supplemented by a cross-divisional top-down analysis. The results of the risk inventory will be used as the basis for scenario analyzes in individual cases to estimate the danger of particularly serious operational risk events; this will be important in particular for the derivation of suitable measures.

Legal risks

Under SolvV, legal risks also fall under operational risks. The Legal and Group Compliance unit is responsible for overseeing such risks. All organizational entities are given comprehensive advice on legal matters by regularly trained employees to ensure that risks are minimized, contained or prevented. A structured process with clear requirements and responsibilities serves to ensure that the Bank’s contracts and agreements are kept up-to-date.

7.3 REPORTS ON OPERATIONAL RISK

Reporting on operational risk of HSH Nordbank is integrated in the reports on overall risk (see chapter 4.4). Furthermore the management level is provided with special reports on operational risk and loss events on a regular basis. These are listed in Table 42.

Report	Recipient	Interval	Contents	Objective
Report on risk inventory	Overall Management Board as as well as BU heads, heads of foreign branches and subsidiaries	Annually	Information on identified potential loss incl. the management steps decided on	Identification of operational potential loss and information on management steps decided on
Report to persons responsible for interdepartmental issues	BU HR, IT/Org, Legal and Group Compliance as well as HSH Facility Management Holding AG	Quarterly	Description of all loss events and management measures decided for the pertinent interdepartmental issues: e.g. BU HR will receive all information on losses incurred in relation to employees	Creation of transparency, raised risk awareness and information to implement measures to reduce and avoid risk
Report on operational risks	BU heads, heads of foreign branches and subsidiaries	Quarterly	Description of all loss events reported by the field of responsibility incl. the management measures decided on	Creation of transparency, explicit confirmation of adressees regarding the comprehensiveness of all recorded loss events, raised risk awareness and information to implement measures to reduce and avoid risk
Report of operational loss events to the members of the Management Board	Board members	Monthly	Description of all loss events reported in the relevant field of responsibility incl. the management measures decided on	Creation of transparency, raised risk awareness and information to implement measures to reduce and avoid risk

Table 42: Reports on operational risk

7.4 REGULATORY CAPITAL REQUIRED FOR OPERATIONAL RISKS

In order to determine the regulatory capital required for operational risks HSH Nordbank applies the Standardized Approach. On the date of reporting the Group had a regulatory capital requirement to the amount of EUR 261 million.

Operational risk	Regulatory capital required 2009	Regulatory capital required 2008
According to Standardized Approach	261	291
Total	261	291

Table 43: Regulatory capital requirements for operational risk in € m

8 LIQUIDITY RISK

HSH Nordbank divides its liquidity risk into insolvency risk and liquidity maturity transformation risk. Insolvency risk refers to the danger of the Bank not being able to meet its own payment obligations or refinancing requirements as they fall due, or not to the desired extent. Liquidity maturity transformation risk refers to the risk that a loss may occur as a result of the differing fixed conditions periods for assets and liabilities, known as liquidity maturity transformation positions, and the fluctuations in the Bank's own refinancing premium. Liquidity maturity transformation risk is also an integral part of the risk-bearing capacity concept. The Bank deploys a variety of instruments to measure, manage and limit its liquidity risks.

Based on the information on the current financial and economic crisis and the results of backtesting activities, the Bank further developed the structure and parameters for measuring and limiting insolvency risk in December 2009. This also took into account the lowered rating of HSH Nordbank was by a rating agency, which also affected the modelling for the stress scenarios. Overall, the adjustments led to a more conservative presentation of the Bank's liquidity situation.

The split into Core Bank and Restructuring Unit had no effect on management of liquidity risks. The individual divisions within the Restructuring Unit are integrated into the processes and methods for managing liquidity risks, like all relevant business areas of the Bank.

8.1 ORGANIZATION OF LIQUIDITY RISK MANAGEMENT

Liquidity management is done by the Group Treasury unit as a cross-divisional banking function for the Core Bank and Restructuring unit. The goal is to ensure the Bank's solvency at all times, in all locations and currencies. The Group Treasury unit is also responsible for the implementation of funding operations, as well as market-smoothing activities.

The liquidity buffer from securities and receivables from lending (collateral pool) was again supported and further developed by Group Treasury, to make optimal use of the potential for secured refinancing.

The Bank draws up liquidity planning for strategic multiyear management of liquidity as a resource. For short-term liquidity management, comparisons of plan and actual figures are carried out, based on a monthly analysis of changes relevant to liquidity, so that deviations from the plan can be countered.

The Group Risk Management unit is responsible for defining the methods used for measuring and limiting the Group's liquidity risks. It also measures risks and monitors limits as part of the daily reporting of liquidity risks. This supports Group Treasury in managing the liquidity of all maturity bands and enables it to counter potential risks at an early stage.

As part of Group-wide controlling of liquidity risks, HSH Nordbank Securities S. A. was identified as the only relevant subsidiary and incorporated into the Group-wide examination of liquidity risk. Management also includes the special purpose entities Carrera and Poseidon.

The Bank has a contingency plan comprising a catalogue of measures as well as documented processes and clearly assigned responsibilities for the event of a liquidity crisis.

The Bank's liquidity policy defines the Group's framework for dealing with liquidity and the associated risks.

8.2 LIQUIDITY RISK MANAGEMENT

Liquidity risk measurement

To measure the Bank's insolvency risk and funding requirements, transactions impacting its liquidity are converted into cashflow figures, and incoming and outgoing payments are assigned to maturity bands to produce a liquidity maturity statement. The difference between incoming and outgoing payments is the liquidity excess or shortfall (gap) in the individual maturity bands. Measures of insolvency are individual gaps for the first to the fourteenth day to show concentrations of outgoing payments, and cumulative gaps from one day to 12 months to show future liquidity requirements.

In the year under review the Bank further developed the methodology for modelling payment flows, e.g. for loan commitments. In addition, further products and their cashflows were included in the liquidity maturity statements, e.g. the planned new lending business including roll-overs. Liquidity maturity statements are compiled daily at Group level, for the Bank as a whole, for foreign branch offices and for HSH Nordbank Securities S. A. In addition to all business shown in the statement of financial position, these statements include loan commitments granted, guarantees, transactions with forward value dates and other business not shown in the statement of financial position. Maturity scenarios are used for a number of positions to map economic maturities more effectively. Factors such as possible minimum levels of deposits and current accounts as well as the realization periods and amounts of assets are always modelled conservatively. The liquidity maturity statements take the current market situation into account as a basic scenario (normal case view). In addition to calculating the liquidity maturity statement in euro equivalent values, the Bank calculates a separate liquidity maturity statement for all USD transactions daily. This ensures adequate management of the Bank's USD position.

Besides the normal case liquidity maturity statement, the Bank takes into account a deterioration in the market situation through a daily calculation of the results of a market liquidity stress test in the form of a stressed liquidity maturity statement. This, for example, takes into account more difficult refinancing conditions and looks at other cashflows under stress assumptions.

HSH Nordbank has been using a VaR approach to quantify its liquidity maturity transformation risk since the start of 2008. Liquidity VaR is calculated using a historic simulation (99.9% confidence level) of liquidity spreads and their present effect on transactions which would be theoretically necessary to be able to close out the current maturity transformation position immediately. The assumption here is that these hypothetical closing out transactions can actually be entered into the market, so that full refinancing is possible. As planned, the liquidity VaR calculation was refined at the start of 2009 on the basis of the data acquired in the course of 2008. The Bank's analyzes have shown that the liquidity maturity transformation risk in the previous year was overestimated as a result of the conservative liquidity-at-risk approach used. The adjustments result in a more accurate presentation of the Bank's actual risk situation. For example, the gaps are closed even using the covered funding potential, and minimum levels of customer deposits are taken into account.

Limiting and monitoring liquidity risk

Both the individual gaps and the cumulative gaps for the first 14 days have limits set in the context of insolvency risks. Furthermore, limits are applied to the cumulative gaps for five additional maturity bands up to 12 months.

The insolvency risk is limited in principle by the ability of HSH Nordbank to utilize its entire liquidity cover potential. This liquidity cover potential consists of various components, expressed in the total overall limit.

The liquidity potential (limit) is the respective ceiling for the cumulative gaps of the individual maturities and consists of a securities portfolio which is maintained as a precaution in the event of a crisis (crisis liquidity), additional liquid securities and loan notes on the basis of their convertibility into cash, unsecured funding options and secured potential funding from the issue of Pfandbriefs and commercial loans eligible for rediscount at central banks. In the year under review the limit was supplemented by further components, e. g. the funding potential from usable new lending. As an adjustment to the market situation, since 2009 unsecured funding potential has also been included in a significantly more restrictive way in the liquidity cover potential, which has been significantly reduced as a result, other things being equal. The liquidity cover potential components are examined and validated on an ongoing basis in accordance with internal minimum requirements. To minimize the likelihood of full utilization or breaching the ceilings, security buffers and risk premiums were taken into account in the limits. These individual premiums involve e.g. haircuts or other security premiums which reflect uncertainty over future changes in the relevant limit components.

Group Risk Management calculates and monitors utilization of the limits every day and reports its findings to the Management Board and Group Treasury. If limits are exceeded, Group Treasury determines and implements appropriate measures and Group Risk Management monitors their implementation.

The Management Board and responsible management units are also notified monthly in aggregated form of limit utilization in the normal and stress case, in the stress scenarios and the overall estimate of the Group's liquidity situation.

The liquidity VaR for liquidity maturity transformation risks is determined monthly by Group Risk Management and reported to the Management Board and responsible management. The limits are at Group level, and are an integral part of the risk-bearing capacity concept.

An overview of the reports on liquidity risks is shown in chapter 8.3 in Table 44.

Decreasing limit utilization over the course of the year

The state of the financial markets was still difficult at the start of 2009, but has normalized significantly over the course of the year. Secured funding, e.g. through repo transactions, is now possible again without restrictions, and even unsecured funding has become increasingly possible since the middle of the year. Overall, the refinancing situation of the banks has eased substantially over the course of the year under review.

This difficult market trend at the start of 2009 in combination with the downgrading of the long and short term ratings by a rating agency initially had a negative impact on the liquidity position of HSH Nordbank, leading to higher utilization of the liquidity cover potential. The Bank accordingly made greater use of the liquidity supplied by the central banks by borrowing from the central banks against its collateral pool, and placed a number of benchmark bonds guaranteed by the Special Fund for Financial Market Stabilization (SoFFin). In January, April and July 2009, HSH Nordbank successfully placed benchmark bonds guaranteed by SoFFin with maturities of two and three years and a total volume of EUR 9.0 billion. The Bank also received EUR 5.3 billion in June 2009 and EUR 2.4 billion in September 2009 under one-year tenders. This significantly benefited the liquidity situation in these maturities.

In addition, the following measures were taken in the year under review to improve the Group liquidity situation:

- Increase the collateral pool by identifying further assets eligible for discount at central banks (e.g. commercial loans) and depositing these with the relevant central banks,
- increase the cover pool for covered issues,
- risk-adequate pricing and a restrictive approach to lending and irrevocable loan commitments,
- measures to strengthen customer deposits to offset the decrease in deposits by banks and nonbanks after the rating downgrades,
- selling assets, e.g. from the credit investment portfolio, and restructuring portfolios.

Overall, the Bank's liquidity situation has stabilized compared with end-2008, so that e.g. more funding has been attracted than planned. For 2010 and 2011, refinancing will take further increased efforts, and will be secured by implementing concrete measures.

Backtesting

In the course of backtesting, we review the modelling of products with stochastic payments streams in the liquidity maturity statement on the basis of statistical analysis of historical payment streams. Choice of the relevant products is based on the volume and risk content of the product in terms of the uncertainty in previous modelling. In the year under review we carried out backtesting for numerous products, e.g. current account loans, sight deposits, savings deposits, cash collateral for OTC derivatives, early redemption of own issues and loan notes, determinist and stochastic credit commitments, roll-over credits.

Stress tests

The regular stress tests for insolvency risk involve unusual scenarios and their effects on the Group's liquidity situation. In determining the stress tests, the risk (and hence key parameters) was identified for all transaction types in the liquidity maturity statement which change the cashflow profile in the relevant stress situation. For example, inflows could be lower or later and outflows higher or earlier than expected.

Stress tests were chosen on the basis of an analysis of historical events and hypothetical models. The rating downgrade of HSH Nordbank accordingly required redefinition and restructuring of the stress scenarios. In addition, experience from the downgrade was incorporated in new modelling and parameter configuration. Based on an assumed deterioration in the market liquidity crisis, market-specific scenarios (e.g. global recession) and scenarios specific to the Bank (e.g. a downgrade of HSH Nordbank AG) are examined in the various stress scenarios. In each of these scenarios, it is assumed that some new lending will have to be continued and maturing loans to customers will have to be extended and refinanced, while the options for extending repayment terms for deposits are partly restricted or totally impossible, resulting in a financing gap. In addition, the model assumes that large numbers of credit facilities that the Bank has granted are drawn down and that the Bank's own issues and securitized liabilities are redeemed early. Stress test results are reported to the Management Board and Group Treasury at least once a month.

Both the market-specific and bank-related stress scenarios from December 2009 show that the liquidity requirement is covered by liquidity cover potential for several weeks, even in updated and strict worst case assumptions. These results demonstrate that the Bank is sufficiently prepared for possible crises.

Liquidity ratio of HSH Nordbank AG

The regulatory ratio for liquidity risks is the liquidity ratio in the German Solvency Ordinance. The Bank manages its liquidity ratio actively through specific market transactions. For internal management, it uses a lower limit above the regulatory minimum of 1.0. During the year under review, the Bank's liquidity ratio was above the regulatory minimum at all times, with a value between 1.17 and 2.17. The average value for 2009 was 1.66 (previous year: 1.25).

8.3 REPORTS ON LIQUIDITY RISK

Reporting on liquidity risks of HSH Nordbank is integrated in the reports on overall risk on principle (see chapter 4.4). Furthermore regular special reports on liquidity risks are compiled; these have been summarized in Table 44.

Report	Recipient	Interval	Contents	Objective
Monthly group liquidity risk report	Management Board BUs Group Treasury, Group Risk Management, Auditing and Corporate Customers	Monthly	Management summary incl. riskevaluation, insolvency risk normal- and stress case, stresstesting insolvency risk, structural liquidity situation, liquidity maturity transformation risk	Constant information to the management board, risk calculation (e.g. limit utilization) and management information
Daily normal case group-report on liquidity risk	Management Board BUs Group Treasury, Group Risk Management and Auditing	Daily	Illiquidity risk normal case, liquidity forecast, limitcalculations, analysis	Ongoing information to the management board, risk calculation/limit utilization and management information
Daily group report on liquidity risk in USD	Management Board BUs Group Treasury and Group Risk Management	Daily	Insolvency risk stress case, liquidity forecast, limitcalculations, analysis	Risk calculation and management information
Daily stress case group report on liquidity risk	Management Board BUs Group Treasury and Group Risk Management	Daily	Insolvency risk stress case, liquidity forecast, limitcalculations, analysis	Ongoing information tor the management board, risk calculation / limit utilization and management information

Table 44: Reports on liquidity risk

9 OTHER RISKS

9.1 COMPLIANCE RISK

Compliance risk encompasses legal and regulatory sanctions or financial losses due to failure to comply with laws, regulations and guidelines and organizational standards and codes of conduct. The Compliance unit at HSH Nordbank is responsible for managing risks with regard to the German Securities Trading Act and related standards, prevention of fraud and money laundering and international financial sanctions.

There has been a considerable further increase in the compliance requirements on financial institutions. This can be attributed to new legal and regulatory requirements on the one hand (also as a result of the financial market crisis), and to significant compliance risk events in the international financial services sector on the other. HSH Nordbank has responded by continuously developing its compliance system and taking market standards into account.

A key milestone in expanding compliance in 2009 was the introduction of a Code of Conduct. The Code of Conduct is based on systems and processes introduced or expanded in recent years. It covers all behavioural requirements for compliance, which are explained in detail in internal instructions. The Code of Conduct applies to all employees, managers and the Management Board of HSH Nordbank AG, and is a binding part of personal goal agreements. The contents were communicated in a bankwide training programme.

The Code of Conduct introduced an international whistleblower office where employees and managers can report indications of possible violations of compliance regulations, possibly even anonymously. The whistleblower office was staffed with independent ombudsmen from BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft.

In the year under review, further development of instruments in the individual compliance areas included instruments for monitoring employee securities transactions, customer acceptance in terms of money laundering risks, and identification of fraud risks.

9.2 STRATEGIC RISK

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

The strategic realignment of HSH Nordbank initiated at end-2008, the successful capital increase and risk shield by the states of Hamburg and Schleswig-Holstein, and the SoFFin guarantees all reduced the strategic risk. Particular contributions were the concentration on core business areas, transfer of nonstrategic and high risk business to the Restructuring Unit and the significant reduction in the international network as part of alignment. To strengthen the Bank’s risk culture, the risk functions and back office function competences were significantly enhanced, including reorganization of the lending decision process.

10 NOTES

10.1CONSOLIDATION MATRIX

Type of company / company		Treatment under supervisory law: Consolidation – Full	Treatment under supervisory law: Consolidation – Proportional	Treatment under supervisory law: Deduction method	Treatment under supervisory law: Riskweighted (equity holding/SPV)	Consolidation under IFRS: Full
CI	Bürgschaftsbank Schleswig-Holstein GmbH			X		
CI	HSH N Finance (Guernsey) Ltd.	X				X
CI	HSH Nordbank Private Banking S. A.	X				X
CI	HSH Nordbank Securities S.A.	X				X
FSI	CPM Luxemburg S.A. *)				X	X
FSI	CPM Securitization S.A. *)				X	X
FE	AGV Irish Equipment Leasing No. 1 unlimited	X				
FE	AGV Irish Equipment Leasing No. 7 Ltd.		X			
FE	Alchemy Investment Plan (HLB) LP	X				
FE	Alchemy Plan (HSH) LP	X				
FE	Alida Grundstückverwaltungs- GmbH		X			
FE	Alliance HC I Limited Partnership	X				
FE	Alliance HC I Mezz Limited Partnership	X				
FE	Alliance HC III GP, L.L.C	X				
FE	Alliance HC III Saybrooke GP, L.L.C.	X				
FE	Alliance HC III Verandahs GP, L.L.C.	X				
FE	Amentum Capital Ltd.	X				
FE	AMVW Gesellschaft für Mobilienverwertung GmbH & Co. KG		X			
FE	Arbutus GmbH	X				
FE	Asian Capital Investment Opportunity Ltd.	X				
FE	AUGUR Financial Oppotunity SICAV		X			
FE	AVUS Grundstücksverwaltungs- GmbH	X				
FE	AVUS Fondsbesitz und Management GmbH	X				
FE	Azur Grundstücksverwaltungsgesellschaft mbH & Co LBSH KG			X		
FE	BIG Anteilsverwaltungs- GmbH		X			
FE	BIG BAU Investitionsgesellschaft mbH			X		
FE	BIKO Grundstücks - Verwaltungs- GmbH & Co. KG		X			
FE	BTA HSH Beteiligungsgesellschaft Alstercampus mbH		X			
FE	BTG Beteiligungsgesellschaft Hamburg GmbH			X		
FE	BTO Grundstücksvermietungs- GmbH & Co. Verwaltungs- KG	X				
FE	Burgville Investments Ltd.	X				
FE	BuWi Beteiligungsholding GmbH	X				
FE	Capcellence Private Equity Beteiligungen GmbH & Co. KG	X				
FE	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG	X				
FE	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG	X				
FE	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG	X				

Type of company / company		Treatment under supervisory law: Consolidation: Full	Proportional	Deduction method	Riskweighted (equity holding/SPV)	Consolidation under IFRS: Full
FE	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG	X				
FE	CHIOS GmbH	X				
FE	Credaris Portfolio Management GmbH	X				
FE	DAL Geschäftsführung GmbH		X			
FE	DAL GmbH & Co. KG		X			
FE	DMS Beteiligungs GmbH	X				
FE	Dolana Grundstücksverwaltungsges. mbH & Co			X		
FE	Dol-Zircon Grundstücks Verwaltungs- GmbH & Co. Obj. Hamburg KG		X			
FE	DSK Beteiligungs- GmbH	X				
FE	Dynamene GmbH	X				
FE	Ealing Investments Ltd.	X				X
FE	Einkaufs-Center Plovdiv GmbH & Co. KG	X				
FE	Embley Investments Funds		X			
FE	Endor 2 Beteiligungs- GmbH & Co. KG	X				
FE	Endor 6 Beteiligungs- GmbH & Co. KG	X				
FE	Endor 7 Beteiligungs- GmbH & Co. KG	X				
FE	Endor 8. Beteiligungs- GmbH & Co. KG	X				X
FE	Equilon GmbH	X				X
FE	European Capital Investment Opportunity Fund Ltd.	X				
FE	Fastlane 1. Real Estate GmbH	X				
FE	Fastlane 2. Real Estate GmbH	X				
FE	Feronia GmbH	X				
FE	gardeur Beteiligungs- GmbH	X				
FE	GBVI Gesellschaft zur Beteiligungs-Verwaltung von Immobilien mbH & Co. KG	X				
FE	GLB GmbH & Co. OHG		X			
FE	Godan GmbH	X				
FE	Gropius-Haus GmbH	X				
FE	Hamburgische Seefahrtsbeteiligung "Albert Ballin" GmbH & Co. KG		X			
FE	H/H Capital Management GmbH		X			
FE	H/H Consulting GmbH		X			
FE	H/H STADTWERKEFONDS KGAA, SICAR		X			
FE	HGA Aviation Co-Invest I GmbH & Co. KG		X			
FE	HGA Bavaria Office GmbH	X				
FE	HGA/Colonia CareConcept 1 Fondsgesellschaft mbH & Co. KG	X				
FE	HGA Fondsbeteiligungs- GmbH	X				
FE	HGA/Hamburg Bavaria Office GmbH & Co. KG	X				
FE	HGA Mikado I AG & Co. KG	X				
FE	HGA Mitteleuropa III GmbH & Co. KG	X				
FE	HGA Mitteleuropa IV GmbH & Co. KG	X				
FE	HGA Mitteleuropa V GmbH & Co. KG	X				
FE	HGA NEW Office CAMPUS-KRONB. GMBH & CO.KG, Hamburg		X			

Type of company / company	Treatment under supervisory law: Consolidation: Full	Consolidation: Proportional	Deduction method	Riskweighted (equity holding/SPV)	Consolidation under IFRS: Full
FE HGA USA V GmbH & Co. KG	X				
FE HGA USA VI GmbH & Co. KG	X				
FE HSH Asset Management S.A.	X				X
FE HSH Capitalpartners GmbH	X				
FE HSH Corporate Finance A/S	X				
FE HSH Corporate Finance GmbH	X				X
FE HSH Facility Management Holding AG	X				
FE HSH Invest GmbH	X				
FE HSH Investment Management LLC	X				
FE HSH Investment Management S.A.	X				X
FE HSH N Auffang- und Holding GmbH & Co. KG	X				
FE HSH N Composits GmbH	X				X
FE HSH N Financial Securities LLC	X				
FE HSH N Funding I Ltd.	X				X
FE HSH N Funding II Ltd.	X				X
FE HSH N Quartett I GmbH & Co. KG	X				
FE HSH N Quartett II GmbH & Co. KG	X				
FE HSH N Residual Value Ltd.			X		
FE HSH Private Equity GmbH	X				X
FE HSH Quartett III GmbH & Co. KG	X				
FE HSH Real Estate AG	X				X
FE HSH Real Estate Asia Pacific Pte. Ltd.	X				
FE HSH Real Estate Care Invest GmbH	X				
FE HSH Real Estate Lux S.à.r.l.	X				
FE HSH Real Estate Treuhand GmbH	X				
FE HSH Real Estate US Invest LLC.	X				
FE HSH RE Beteiligungs- GmbH	X				X
FE HSH Swift Capital Partners Institutional 2007 S.A.	X				
FE IHG Inamori Beteiligungs GmbH & Co. KG	X				
FE Indian Infrastructure Development Seed Asset Limited	X				
FE Int. Fund Service and Asset Management S.A.	X				X
FE Jantar GmbH	X				X
FE Kaplon GmbH & Co. KG	X				
FE Kipper Corporation	X				
FE Kontora GmbH	X				
FE Lamatos GmbH	X				
FE LB Invest GmbH	X				
FE Leashold Verwaltungs- GmbH & Co. KG	X				X
FE Marc Marco Polo Ventures GmbH & Co. KG	X				
FE Mesitis GmbH	X				X
FE Milestone Apartments HC GP Inc.	X				
FE Minerva GmbH	X				
FE Minimoa GmbH	X				X

Type of company / company		Treatment under supervisory law: Consolidation: Full	Treatment under supervisory law: Consolidation: Proportional	Treatment under supervisory law: Deduction method	Treatment under supervisory law: Riskweighted (equity holding/SPV)	Consolidation under IFRS: Full
FE	Must 4 GmbH & Co. KG	X				
FE	NBV Beteiligungs GmbH, Hamburg			X		
FE	Neptune Finance Partner S.à.r.l.	X				X
FE	Neptune Finance Partner II S.à.r.l.	X				X
FE	Neptune Ship Finance (Lux.) S.à.r.l.	X				
FE	Neptune Ship Finance (Lux.) S.à.r.l. & Cie, SECS	X				X
FE	Niederelbe Beteiligungs GmbH	X				
FE	Nobis Asset Management		X			
FE	Northern Diabolo (Holdings) S.à.r.l.		X			
FE	NSH Finance (Luxembourg) S.A.			X		
FE	Nubes GmbH	X				X
FE	Pellecea GmbH	X				
FE	PL Projekt Anlagen Leasing Beteiligungsgesell-schaft- GmbH & Co.		X			
FE	PL Projekt - Anlagen Leasing Beteiligungsge-sellschaft- GmbH		X			
FE	Pluton Grundstücksverwaltungs- GmbH & Co. KG		X			
FE	Pregu GmbH	X				X
FE	Prime 2006-1 Funding LP			X		
FE	PRIME 2 LP			X		
FE	Quartett II Blocker GmbH	X				
FE	Qundis Management GmbH	X				
FE	Railpool Holding GmbH & Co. KG		X			
FE	Real Estate Venture Capital Fonds 1 GmbH	X				
FE	RELAT Beteiligungs GmbH & Co Vermiertungs-KG	X				
FE	Resparc Funding Limited Partnership I *)	X				X
FE	Resparc Funding Limited Partnership II *)	X				X
FE	SB-HSH Seed Holding Limited	X				
FE	Semos Verwaltungs GmbH IV	X				
FE	SLK GmbH für Immobilien Leasing & Co. KG Obj. Berlin-Pohlst.		X			
FE	Sotis S.à.r.l. , Luxemburg	X				X
FE	Spheros Management Holding GmbH		X			
FE	Swift Capital 1 Europäische Fondsbeteiligungs-GmbH & Co. KG	X				X
FE	Tapes GmbH & Co. KG			X		
FE	Terranum "die Zweite" AG & Co. KG	X				
FE	Terranum Gewerbebau Verwaltungs- GmbH	X				
FE	Teukros Canada Inc. Halifax	X				
FE	Teukros GmbH	X				
FE	Thestor GmbH	X				X
FE	Turis 1. Beteiligungs GmbH & Co. KG	X				
FE	Turis 2. Beteiligungs GmbH & Co. KG	X				
FE	Turis 3. Beteiligungs GmbH & Co. KG		X			
FE	UST XXI New Jersey GmbH & Co. KG	X				
FE	Verwaltungsgesellschaft Gartenstadt Wismar	X				

Type of company / company	Treatment under supervisory law: Consolidation: Full	Treatment under supervisory law: Consolidation: Proportional	Treatment under supervisory law: Deduction method	Treatment under supervisory law: Riskweighted (equity holding/SPV)	Consolidation under IFRS: Full
ABSE Unterstützungs- Ges. d. Hamburgischen Landesbank GmbH	X				
Oth Adessa Grundstücksverwaltungsgesellschaft mbH & Co. Vermietungs- KG*)				X	X
Oth Carrera Capital Finance Ireland Ltd.*)				X	X
Oth Carrera Capital Finance Ltd.*)				X	X
Oth Hamborner AG				X	X
Oth HGA Capital Grundbesitz und Anlage GmbH				X	X
Oth HSH RE 2. Beteiligungs GmbH				X	X
Oth HSH RE 3. Beteiligungs GmbH				X	X
Oth HSH RE 4. Beteiligungs GmbH				X	X
Oth HSH RE 5. Beteiligungs GmbH				X	X
Oth HSH RE 6. Beteiligungs GmbH				X	X
Oth HSH RE 7. Beteiligungs GmbH				X	X
Oth LB Immo Invest GmbH	X				X
Oth Northern Blue 2009 S.A. *)				X	X
Oth Resparc Funding Limited Partnership III *)				X	X

Table 45: Consolidation matrix

*) Special Purpose Vehicle

CI: Credit institution (Section 1(1) German Banking Act)

FSI: Financial services institution (Section 1(1a) German Banking Act)

FE: Financial enterprise (Section 1(3) German Banking Act)

ABSE: Ancillary banking services enterprises (Section 1(3c) German Banking Act)

Oth: Other

10.2 ALTERNATIVE CALCULATIONS WITHOUT TAKING THE GUARANTEE FRAMEWORK INTO ACCOUNT

	Loans		Loan commitments		Other non-derivative off-balance sheet assets		Securities		Derivative instruments	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Exposure value (total)	121,463	133,782	6,236	11,029	4,181	8,565	20,959	25,719	8,796	10,815

Table 46: Exposure values by risk-bearing instrument in € m (alternative calculation without taking the guarantee framework into account)

	Loans		Loan commitments		Other non-derivative off-balance sheet assets		Securities		Derivative instruments	
Main region	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Western Europe	97,722	107,981	5,205	8,708	3,049	6,681	18,455	22,273	6,933	8,197
North America	12,488	13,004	686	1,046	547	1,030	1,625	2,371	1,522	2,081
Asia Pacific Region	4,861	5,461	187	738	456	675	394	565	91	174
Latin America	927	1,425	66	125	16	29	179	187	7	59
Central and Eastern Europe	3,777	3,852	66	224	49	83	228	242	151	187
Middle East	1,157	1,699	20	142	60	54	0	0	93	117
African countries	221	346	2	42	4	13	0	0	0	0
Int. Organisations	0	0	0	0	0	0	73	75	0	0
Other	310	12	3	5	0	0	4	4	0	0
Total[1]	121,463	133,782	6,236	11,029	4,181	8,565	20,959	25,719	8,796	10,815

[1] Differences in amounts are due to rounding

Table 47: Exposure values by main region in € m (alternative calculation without taking the guarantee framework into account)

	Loans		Loan commitments		Other non-derivative off-balance sheet assets		Securities		Derivative instruments	
Main sector	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Credit institutions	10,696		167		752		10,669		3,296	
Other financial institutions	6,687		480		760		1,742		373	
Public sector	14,908		281		165		5,800		343	
Private households	3,182		67		23		0		52	
Properties and flats	22,842		485		253		50		918	
Shipping	27,439		1,177		409		568		1,407	
Industry	14,926		2,102		1,190		131		539	
Trade and transport	9,914		703		514		134		577	
Other service activities	10,666		774		115		1,864		1,274	
Other	203		0		0		0		18	
Total[1]	121,463	133,782	6,236	11,029	4,181	8,565	20,959	25,719	8,796	10,815

[1] Differences in amounts are due to rounding

Table 48: Exposure values by main sector in € m (alternative calculation without taking the guarantee framework into account)

Contractual residual term	Loans		Loan commitments		Other non-derivative off-balance sheet assets		Securities		Derivative instruments	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
≤ 1day	5,482	5,086	208	432	36	93	112	369	0	11
> 1 day ≤ 3 months	7,835	10,580	384	890	341	662	1,513	2,184	100	214
> 3 months ≤ 6 months	2,732	3,152	202	196	119	196	761	419	52	49
> 6 months ≤ 1 year	6,325	6,677	758	975	422	390	823	650	215	148
> 1 year ≤ 5 years	38,317	41,025	3,149	4,685	1,423	2,593	10,185	11,316	1,902	2,161
> 5 years	60,772	67,261	1,534	3,851	1,840	4,631	7,564	10,779	6,527	8,231
Total[1]	121,463	133,782	6,236	11,029	4,181	8,565	20,959	25,719	8,796	10,815

[1] Differences in amounts are due to rounding

Table 49: Exposure values by contractual residual term in € m (alternative calculation without taking the guarantee framework into account)

Risk weighting in %	CRSA before credit risk reduction		CRSA after credit risk reduction		Advanced IRBA approach	
	2009	2008	2009	2008	2009	2008
0	198	1,514	269	1,516	-	-
10	-	607	-	607	-	-
20	292	3,273	461	3,017	-	-
35	-	-	1,025	971	-	-
50	17	184	209	792	-	-
70	-	-	-	-	-	-
75	1,468	1,686	638	728	-	-
90	-	-	-	-	-	-
100	11,214	22,411	9,759	21,045	-	-
115	-	-	-	-	-	-
150	1,577	630	1,487	482	-	-
190	-	-	-	-	112	165
200	-	-	-	-	-	-
250	-	-	-	-	-	-
290	-	-	-	-	30	98
350	-	-	-	-	-	-
370	-	-	-	-	61	170
1,250	-	-	-	-	-	-
Capital deduction	-	-	-	-	-	-
Other risk weights	580	1,803	580	1,803	-	-
Total[1]	15,346	32,108	14,428	30,960	203	433

[1] Differences in amounts are due to rounding

Table 50: CRSA/IRBA exposure values by regulatory risk weighting in € m (alternative calculation without taking the guarantee framework into account)

Securitization portfolio	Exposure value 2009	Exposure value 2008
Traditional securitizations		
Real estate	94	-
Ships	-	-
Retail banking	324	-
ABS	1,221	1,064
Other	2,459	1,251
Sub-total	4,098	2,315
Synthetic securitizations		
Real estate	-	-
Ships	-	-
Retail banking	-	-
ABS	-	140
Other	-	-
Sub-total	-	140
Total	4,098	2,455

Table 51: Exposure values of securitized receivables in € m (alternative calculation without taking the guarantee framework into account)

Securitization items	CRSA exposure value 2009	CRSA exposure value 2008	IRBA exposure value 2009	IRBA exposure value 2008
Balance-sheet items				
Credit enhancements[1]	164	5	117	158
Equity holdings in ABS transactions	3,415	6,670	6,520	5,503
Other balance-sheet items	3	3	2,307	8
Sub-total	3,582	6,678	8,944	5,669
Off-balance sheet items				
Liquidity facilities	9	132	63	193
Derivates	-	-	-	-
Other off-balance sheet items	-	-	-	15
Sub-total	9	132	63	208
Total[2]	3,591	6,811	9,007	5,877

[1] Measures to improve credit quality

[2] Differences in amounts are due to rounding

Table 52: Exposure values of retained or purchased securitization exposures in € m (alternative calculation without taking the guarantee framework into account)

	Securitized items retained/purchased							
	CRSA exposure value		IRBA exposure value		CRSA capital requirement		IRBA capital requirement	
Risk weight range in %	2009	2008	2009	2008	2009	2008	2009	2008
0 ≤ 10	-	-	5,202	4,223	-	-	22	26
> 10 ≤ 20	2,860	5,899	2,023	669	43	94	30	5
> 20 ≤ 50	249	230	241	431	10	9	6	9
> 50 ≤ 100	132	283	124	82	10	23	9	6
> 100 ≤ 350	61	223	970	243	17	25	121	51
> 350 ≤ 650	-	-	75	5	-	-	28	2
> 650 to 1,250 excluded	-	-	-	-	-	-	-	-
1,250 or capital deduction	289	176	372	224	12	5	87	11
Total[1]	3,591	6,811	9,007	5,877	92	156	303	110

Table 53: Exposure values and capital requirements for retained or purchased securitization items by risk weight ranges in € m (alternative calculation without taking the guarantee framework into account)

	Total non-performing or in-arrears[1]		Actual losses	
Securitization portfolio	2009	2008	01.01.2009 to 31.12.2009	01.01.2008 to 31.12.2008
Real estate		-	-	-
Ships		-	-	-
Retail banking		-	-	-
ABS		-	-	-
Other	5	-	-	-
Total	5	-	-	-

[1] Total non-performing receivables (needing value adjustment) or in-arrears receivables (not needing value adjustment)

Table 54: Non-performing and in-arrears securitizations, actual losses on securitized receivables in (alternative calculation without taking the guarantee framework into account)

IRBA receivable class	Average PD in % 2009	Average PD in % 2008	Average LGD in % 2009	Average LGD in % 2008	Average RW in % 2009	Average RW in % 2008	Exposure value 2009	Exposure value 2008
Rating range 1: 1(AAAA) – 1(AA+)								
Central governments	0.0	0.0	24.4	21.8	0.3	0.2	26,870	17,990
Institutions	-	-	-	-	-	-	-	-
Companies	-	-	-	-	-	-		-
Equity holding exposures[1]	-	-	-	-	-	-		-
Subtotal	0.0	0.0	24.4	21.8	0.3	0.2	26,870	17,990
Rating range 2: 1(AA) – 1(A-)								
Central governments	0.0	0.1	24.2	20.5	17.1	14.5	1,633	1,410
Institutions	0.0	0.0	24.0	22.4	11.1	10.4	20,656	24,925
Companies	0.1	0.1	28.3	31.8	15.8	18.7	19,803	26,959
Equity holding exposures[1]	-	0.1	-	69.9	-	74.9	-	56
Subtotal	0.0	0.0	26.0	27.2	13.6	14.9	42,093	53,349
Rating range 3: 2 – 5								
Central governments	0.2	0.3	24.3	22.5	25.1	32.3	267	288
Institutions	0.2	0.2	30.4	18.6	32.6	17.5	3,657	3,898
Companies	0.2	0.2	30.9	35.6	36.2	43.3	26,593	40,771
Equity holding exposures[1]	0.4	0.2	90.0	80.7	176.1	114.1	5	36
Subtotal	0.2	0.2	30.8	34.1	35.7	41.0	30,521	44,992
Rating range 4: 6 - 9								
Central governments	0.7	0.7	22.6	31.4	47.4	78.6	29	95
Institutions	1.3	1.0	34.3	31.0	87.9	73.0	329	631
Companies	1.2	1.1	33.8	31.9	74.9	72.3	21,086	27,138
Equity holding exposures[1]	1.5	1.3	79.7	70.3	233.4	207.9	50	129
Subtotal	1.2	1.1	33.9	32.0	75.4	73.0	21,495	27,994
Rating range 5: 10 - 12								
Central governments	3.3	3.2	22.7	44.2	87.3	130.7	79	57
Institutions	4.3	5.1	25.5	21.6	77.7	72.9	184	284
Companies	4.7	3.9	40.2	38.9	139.1	126.5	11,484	7,408
Equity holding exposures[1]	4.2	-	81.9	-	324.7	-	41	-
Subtotal	4.7	3.9	40.0	38.3	138.5	124.5	11,788	7,749
Rating range 6: 13 - 15								
Central governments	17.9	11.8	45.8	37.7	268.3	209.0	27	42
Institutions	20.0	15.0	37.1	22.9	211.6	114.6	280	451
Companies	15.1	15.1	41.6	39.2	215.1	202.5	12,397	3,734
Equity holding exposures[1]	15.0	20	90.0	68.8	527.8	427.0	7	27
Subtotal	15.2	15.1	41.5	37.7	215.3	194.7	12,711	4,254
Rating range 7 (Default): 16 - 18								
Central governments	100.0	100.0	23.0	23.0	37.5	37.5	39	13
Institutions	100.0	100.0	49.3	17.1	80.5	28.0	556	1,133
Companies	100.0	100.0	51.2	42.5	83.4	69.4	10,425	3,607
Equity holding exposures[1]	100.0	100.0	65.0	65.0	106.0	106.0	40	0
Subtotal	100.0	100.0	51.0	36.4	83.2	59.4	11,060	4,753
Total (without default)[2]								
Central governments	0.0	0.0	24.4	21.9	2.0	2.9	28,905	19,881
Institutions	0.3	0.3	25.2	22.1	18.0	14.9	25,107	30,189
Companies	3.0	1.2	33.6	34.0	77.9	55.9	91,363	106,010
Equity holding exposures[1]	3.4	2.3	81.7	69.1	285.8	193.5	103	249
Total	1.9	0.9	30.4	30.2	52.6	41.4	145,477	156,328

[1] Only equity holdings under the PD-LGD approach; with regulatory LGD of 65% or 90%; CCF = 100% [2] Differences in amounts are due to rounding

Table 55: Average PD, average LGD, average RW and exposure values in € m according to rating ranges (alternative calculation without taking the guarantee framework into account)

IRBA receivable class	Central governments 2009	Central governments 2008	Institutions 2009	Institutions 2008	Companies 2009	Companies 2008	Equity holding exposures[1] 2009	Equity holding exposures[1] 2008	Total[2] 2009	Total[2] 2008
Rating range 1: 1(AAAA) – 1(AA+)										
Basis for evaluation of loan commitments	666	867	-	-	-	-	-	-	666	867
Basis for evaluation of non-derivative assets not reported	47	41	-	-	-	-	-	-	47	41
Avg. exposure value of loan commitments	33	27	-	-	-	-	-	-	33	27
Avg. exposure value of non-derivative assets not reported	22	6	-	-	-	-	-	-	22	6
Rating range 2: 1(AA) – 1(A-)										
Basis for evaluation of loan commitments	-	-	534	746	1,956	4,214	-	-	2,490	4,961
Basis for evaluation of non-derivative assets not reported	46	45	721	508	652	1,308	-	-	1,418	1,862
Avg. exposure value of loan commitments	-	-	2	8	10	10	-	-	8	9
Avg. exposure value of non-derivative assets not reported	8	25	56	14	55	46	-	-	54	37
Rating range 3: 2 - 5										
Basis for evaluation of loan commitments	0	0	80	78	5,814	11,752	-	-	5,894	11,830
Basis for evaluation of non-derivative assets not reported	0	36	154	123	1,331	2,737	-	-	1,486	2,896
Avg. exposure value of loan commitments	0	0	9	52	12	16	-	-	12	16
Avg. exposure value of non-derivative assets not reported	0	13	34	41	11	13	-	-	14	14
Rating range 4: 6 - 9										
Basis for evaluation of loan commitments	-	-	17	137	4,081	7,209	-	-	4,097	7,347
Basis for evaluation of non-derivative assets not reported	0	4	4	29	1,357	3,139	-	-	1,361	3,172
Avg. exposure value of loan commitments	-	-	5	60	11	16	-	-	11	17
Avg. exposure value of non-derivative assets not reported	0	1	1	7	9	83	-	-	9	82
Rating range 5: 10 – 12										
Basis for evaluation of loan commitments	-	36	75	0	1,370	1,584	-	-	1,445	1,620
Basis for evaluation of non-derivative assets not reported	-	-	3	1	503	491	-	-	506	492
Avg. exposure value of loan commitments	-	26	50	0	4	10	-	-	6	10
Avg. exposure value of non-derivative assets not reported	-	-	0	0	5	12	-	-	5	12
Rating range 6: 13 – 15										
Basis for evaluation of loan commitments	-	-	0	-	1,552	738	-	-	1,552	738
Basis for evaluation of non-derivative assets not reported	9	30	3	-	468	334	-	-	480	364
Avg. exposure value of loan commitments	-	-	0	-	5	44	-	-	5	44
Avg. exposure value of non-derivative assets not reported	6	6	0	-	4	82	-	-	4	75
Rating range 7 (Default): 16 - 18										
Basis for evaluation of loan commitments	17	18	0	51	1,477	693	-	-	1,495	762
Basis for evaluation of non-derivative assets not reported	-	-	-	-	484	129	-	-	484	129
Avg. exposure value of loan commitments	12	13	0	16	17	19	-	-	17	19
Avg. exposure value of non-derivative assets not reported	-	-	-	-	11	4	-	-	11	4
Total[2]										
Basis for evaluation of loan commitments	684	921	705	1,013	16,249	26,190	-	-	17,639	28,124
Basis for evaluation of non-derivative assets not reported	102	155	885	662	4,794	8,139	-	-	5,781	8,956
Avg. exposure value of loan commitments	32	27	8	19	11	15	-	-	11	16
Avg. exposure value of non-derivative assets not reported	14	13	51	19	15	48	-	-	21	45

[1] Only equity holdings under the PD-LGD approach; with regulatory LGD of 65% or 90%; CCF = 100%

[2] Differences in amounts are due to rounding

Table 56: Assessment basis in € m and average exposure value of loan commitments and of non-derivative off-balance sheet assets (alternative calculation without taking the guarantee framework into account)

Receivables class	Estimated loss (EL) as at 31.12.2009	2009 Actual loss 01.01.2009 to 31.12.2009	Estimated loss (EL) as at 31.12.2008	2008 Actual loss 01.01.2008 to 31.12.2008
Central governments	1	-	1	-
Institutions	6	-	17	0
Companies	986	281	395	67
Equity holding exposures[1]	2	4	1	-
Total[2]	995	285	414	68

[1] Only equity holdings under the PD-LGD approach; with regulatory LGD of 65% or 90%; CCF = 100% [2] Differences in amounts are due to rounding

Table 57: Expected losses and actual losses in the lending business in € m (alternative calculation without taking the guarantee framework into account)

Receivables class CRSA	Financial collateral 2009	Financial collateral 2008	Other and physical collateral 2009	Other and physical collateral 2008	Guarantees / derivatives 2009	Guarantees / derivatives 2008
Central governments	-	-	-	-	-	-
Regional governments	-	-	-	-	-	-
Other public sector entities	0	-	-	-	4	-
Multilateral development banks	-	-	-	-	-	-
International organisations	-	-	-	-	-	-
Banks	-	0	-	-	-	-
Collateralized notes issued by banks	-	-	-	-	-	-
Companies	835	786	-	-	361	50
Retail banking	56	27	-	-	7	10
Items collateralized by real estate	-	-	1,079	1,558	-	-
Investment certificates	-	-	-	-	-	450
Equity holdings	-	-	-	-	-	-
Other items	-	-	-	-	-	-
Overdue items	28	36	65	130	5	1
Total[1]	918	848	1,144	1,688	377	511

[1] Differences in amounts are due to rounding

Table 58: Total amount of collateralized CRSA exposure values in € m (alternative calculation without taking the guarantee framework into account)

Receivables class IRBA	Financial collateral 2009	Financial collateral 2008	Other and physical collateral 2009	Other and physical collateral 2008	Guarantees / derivatives 2009	Guarantees / derivatives 2008
Central governments	-	42	-	1	99	-
Banks	118	530	279	311	2,418	-
Retail banking	-	-	-	-	-	-
Equity holdings	-	-	-	-	-	-
IRBA equity holding portfolio, based on default probability	-	-	-	-	-	-
IRBA equity holding portfolio, model based	-	-	-	-	-	-
IRBA equity holding portfolio, evaluated with single risk weighting	-	-	-	-	-	-
Companies	4,721	5,773	33,434	39,530	1,642	1,629
Other assets not related to loans	-	-	-	-	-	-
Total[1]	4,839	6,345	33,712	39,841	4,159	1,629

[1] Differences in amounts are due to rounding

Table 59: Total amount of collateralized IRBA exposure values (without securitizations) in € m (alternative calculation without taking the guarantee framework into account)

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