FSB

# Financial Stability Board Report

as of 30 June 2010

HSH NORDBANK

# CONTENTS



HSH Nordbank AG

| | |
|---|---|
| Gerhart-Hauptmann-Platz 50 | Martensdamm 6 |
| 20095 Hamburg | 24103 Kiel |
| Telephone: +49 40 3333-0 | Telephone: +49 431 900-01 |
| Fax: +49 40 3333-34001 | Fax: +49 431 900-34002 |
| info@hsh-nordbank.com | www.hsh-nordbank.de |

# FINANCIAL STABILITY BOARD REPORT

**Publication of detailed information on HSH Nordbank's portfolios which are affected by the Financial Markets Crisis (as recommended by the Financial Stability Board)**

In view of the crisis underway on financial markets since 2007 the Financial Stability Board* (FSB) recommends that banks provide greater disclosure on portfolios which are affected by the market turmoil. The aim is to increase transparency on exposure to structured credit products among others and thereby contribute to a lasting stabilisation of the markets.

These disclosures supplement the comments on the Credit Investment Portfolio in the risk report of our Interim Report as of 30 June 2010 and also deal with HSH Nordbank's leverage finance portfolio, the former Financial Institution Group (FIG) portfolio, the exposure to US monolines and the former Credit Trading portfolio, all of which have been transferred into the Bank's Restructuring Unit (RU).

* The FSB is a joint body made up of regulatory authorities from states and international organisations, appointed by the Finance Ministers and central bank Governors of the G7 countries to analyse the causes of the turbulence on financial markets and to develop recommendations for strengthening the financial system.

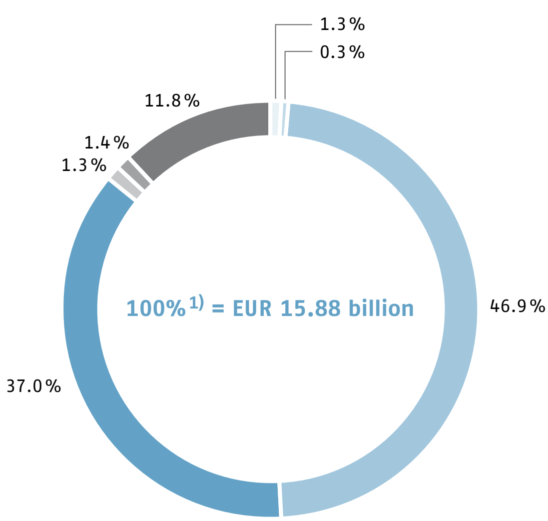
# I. CREDIT INVESTMENT PORTFOLIO

## 1. Portfolio overview

### 1.1 BREAKDOWN OF CREDIT INVESTMENT PORTFOLIO (CIP)

- The CIP is a broadly diversified portfolio.
- 25 % of the whole portfolio is AAA rated and still 80 % is investment grade.
- The Bank continues to actively reduce the Credit Investment Portfolio. Assets with a notional of EUR 1.40 billion were sold since year end 2009. Furthermore, maturities and full or partial redemptions amounted to EUR 1.29 billion since year end 2009. On the other hand, the portfolio increased by EUR 1.48 billion due to FX effects. Taken together, the CIP notional decreased by about EUR 1.21 billion in the first half of 2010. Further portfolio reductions are in progress.

**Breakdown of credit investment portfolio by asset class** (Notional as of 30 June 2010)

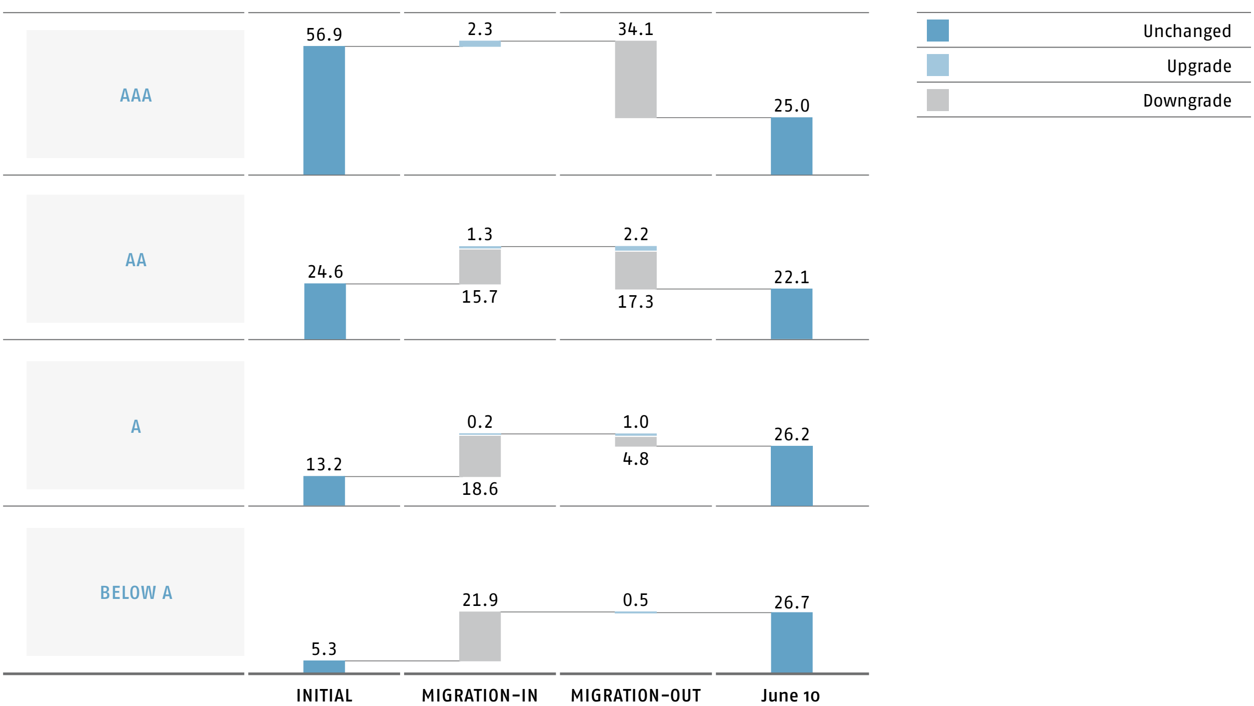



| | | |
|---|---|---|
| | 1.3 % | EUR 0.20 billion Synth. CDO |
| | 0.3 % | EUR 0.05 billion Special Fund |
| | 46.9 % | EUR 7.46 billion Other ABS |
| | 37.0 % | EUR 5.87 billion Single Names |
| | 1.3 % | EUR 0.20 billion Hedge Funds / Other Funds |
| | 1.4 % | EUR 0.22 billion High Yield Loans / Convertibles |
| | 11.8 % | Subprime EUR 1.88 billion<br>thereof RMBS HEL: EUR 1.28 billion<br>thereof COA / COC: EUR 0.60 billion |

[1] Incl. Assets of Carrera and Poseidon

## 1.2 RATING MIGRATION

**Rating distribution** (in %)



## 1.3 ANNUAL RESULT 2009 AND RESULT H1 / 2010

Results include effects from positions that have reached maturity or were liquidated in the meantime.

Please note that – compared to FSB Reports produced until Q3 / 2009 – we have changed the sign convention for this table: Gains are now shown with positive, losses with negative sign.

**Annual result 2009** (€ million)

| | | | | | Annual result 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Asset class** | **IFRS Category** | **Exposure 31 Dec. 2008 (€ billion)** | **Exposure 31 Dec. 2009 (€ billion)** | **M-T-M** | **P & L effect [1]** | **Revaluation Equity Surplus** | **Change in hidden reserve / loss 2009** |
| **2.1** | Synthetic CDO | DFV | 0.69 | 0.20 | +145 | +145 | 0 | 0 |
| | CDS on Indices | HFT | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| | Special Fund | AFS | 0.50 | 0.18 | +4 | +4 | 0 | 0 |
| | SIV Capital Notes | LAR, AFS | 0.07 | 0.07 | 0 | 0 | 0 | 0 |
| **2.2** | Other ABS | Mainly LAR | 8.87 | 7.77 | +486 | -4 | -2 | +493 |
| **2.3** | Single Names | DFV, AFS, LAR, HFT | 8.69 | 6.68 | +510 | +136 | +300 | +73 |
| **2.4** | Hedge Funds / Other Funds | AFS | 0.60 | 0.20 | -18 | -28 | +10 | 0 |
| | Others (Convertibles, NY HY Loan Portfolio) | AFS, LAR | 0.47 | 0.24 | +56 | +1 | 0 | +55 |
| | **SUM** | | **19.89** | **15.33** | **+1,183** | **+255** | **+308** | **+620** |
| **2.5** | RMBS HEL | LAR | 1.26 | 1.13 | -102 | -107 [3] | 0 | +5 |
| | CDO of ABS, CDO of CDO [2] | DFV, LAR | 0.69 | 0.64 | -7 | -7 | 0 | 0 |
| | **Subprime Portfolio** | | **1.95** | **1.77** | **-109** | **-114** | **0** | **+5** |
| | **TOTAL SUM** | | **21.84** | **17.10** | **+1,074** | **+140** | **+308** | **+625** |

1) P & L effects resulting from relevant M-T-M changes, net change in risk provisions and realised losses / gains. Interest results et. al. are unconsidered.
2) Including third-party managed portfolio
3) In 2008, HSH Nordbank has changed its methodology concerning the calculation of intrinsic values and recoverable amounts for impaired RMBS HEL positions. The P / L benefit from this so-called level 3 valuation was EUR 370 million in 2008 and EUR 12 million in 2009.

**Additional result H1/2010** (€ million)

| | | | | | Additional result H1/2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Asset class | IFRS category | Exposure 31 Dec. 2009 (€ billion) | Exposure 30 Jun. 2010 (€ billion) | M-T-M | P&L effect [1] | Revaluation Equity Surplus | Change in hidden reserve/loss 2010 |
| 2.1 | Synthetic CDO | DFV | 0.20 | 0.20 | -15 | -15 | 0 | 0 |
| | CDS on Indices | HFT | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| | Special Fund | AFS | 0.18 | 0.05 | -4 | -4 | 0 | 0 |
| | SIV Capital Notes | LAR, AFS | 0.07 | 0.00 | 0 | 0 | 0 | 0 |
| 2.2 | Other ABS | Mainly LAR | 7.77 | 7.46 | +236 | +44 | 0 | +191 |
| 2.3 | Single Names | DFV, AFS, LAR, HFT | 6.68 | 5.87 | -145 | -98 | -42 | -5 |
| 2.4 | Hedge Funds/ Other Funds | AFS | 0.20 | 0.20 | +2 | +2 | 0 | 0 |
| | Others (Convertibles, NY HY Loan Portfolio) | AFS, LAR | 0.24 | 0.21 | +3 | 0 | 0 | +3 |
| | **SUM** | | **15.33** | **13.99** | **+77** | **-70** | **-42** | **+189** |
| 2.5 | RMBS HEL | LAR | 1.13 | 1.28 | +26 | +28 [3] | 0 | -1 |
| | CDO of ABS, CDO of CDO [2] | DFV, LAR | 0.64 | 0.60 | -48 | -49 | 0 | 0 |
| | **Subprime Portfolio** | | **1.77** | **1.88** | **-22** | **-22** | **0** | **-1** |
| | **TOTAL SUM** | | **17.10** | **15.88** | **+55** | **-92** | **-42** | **+188** |

1) P&L effects resulting from relevant M-T-M changes, net change in risk provisions and realised losses/gains. Interest results et. al. are unconsidered.
2) Including third-party managed portfolio
3) In 2008, HSH Nordbank has changed its methodology concerning the calculation of intrinsic values and recoverable amounts for impaired RMBS HEL positions. The P/L benefit from this so-called level 3 valuation was EUR 370 million in 2008 and EUR 12 million in 2009. In 2010 the spread between market and model valuation tigthened, lowering the stated P&L by about 25 million.

# 2. Portfolio details

## 2.1 SYNTHETIC CDOs

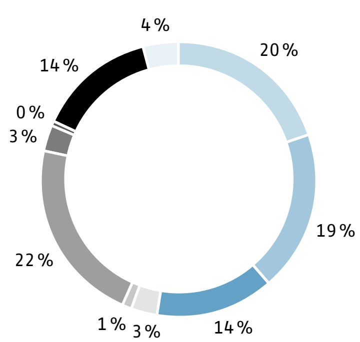
**Synthetic CDOs** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.20 |
| P&L 10 | (€ million) | -15 |
| P&L 09 | (€ million) | +145 |
| IFRS category | | DFV |

- The Synthetic CDO portfolio consists of one remaining position, a so-called Leveraged Super Senior Tranche that matures in September 2012.
- This position has suffered 6 defaults since inception (Fannie Mae, Freddie Mac, Lehman Brothers, Washington Mutual Inc, Thomson and CIT Group Inc).
- 78 % of the underlying reference obligations are investment-grade rated.
- Despite the defaults in the underlying portfolio the tranche benefits of a comfortable subordination of 6.87 %.

## 2.2 OTHER ABS

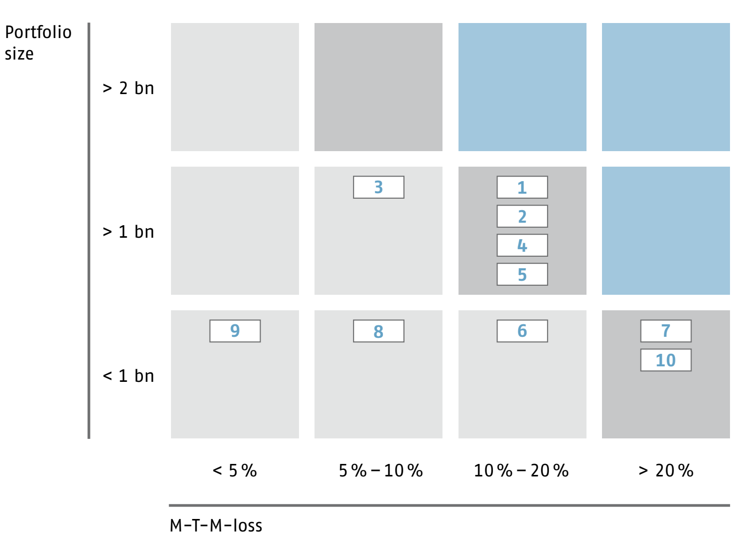
**Distribution by region and asset class** (as of 30 June 2010)




| | |
|---|---|
| 20 % | EUR 1.48 billion Student Loan ABS |
| 19 % | EUR 1.40 billion US CLO / CBO & TruPS |
| 14 % | EUR 1.08 billion CMBS |
| 3 % | EUR 0.20 billion Commercial Real Estate CDO |
| 1 % | EUR 0.11 billion Emerging Markets ABS |
| 22 % | EUR 1.56 billion EU High Yield CLO / CDO |
| 3 % | EUR 0.22 billion EU SME CLO |
| 0 % | EUR 0.03 billion Non-US Consumer ABS |
| 14 % | EUR 1.07 billion Non-US RMBS |
| 4 % | EUR 0.31 billion Others |

| | | |
|---|---|---|
| Total | (€ billion) | 7.46 |
| P & L 10 | (€ million) | +44 |
| P & L 09 | (€ million) | −4 |

as of 30 June 2010 (life-to-date)




| | |
|---|---|
| | Latent critical |
| | Critical |
| 1 | Non-US RMBS |
| 2 | EU High Yield CLO / CDO |
| 3 | Student Loan ABS |
| 4 | CMBS |
| 5 | US CLO, CBO & TruPS CDO |
| 6 | EU SME CLO & Lease ABS |
| 7 | US Commercial Real Estate CDO |
| 8 | Emerging Markets ABS |
| 9 | Non-US Consumer ABS |
| 10 | Others |

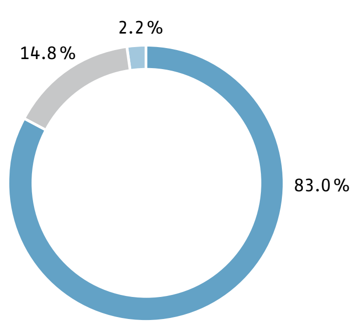
## 2.2a NON-US RMBS 1

**Non-US RMBS** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.07 |
| IFRS category | | LAR |

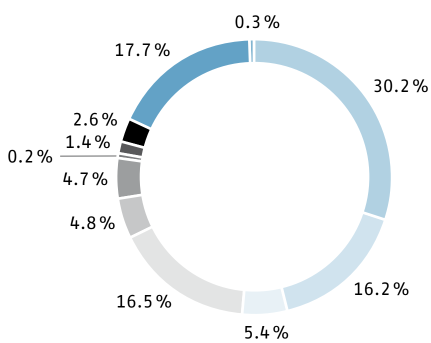
- During the second quarter, the Australian RMBS sub-portfolio was substantially reduced by EUR 505 million, 33 tranches were sold.
- Furthermore the Non-US RMBS portfolio has decreased due to redemptions and selective tranche sales.
- The remaining portfolio is diversified of high quality mostly AAA rated Residential Mortgage Backed Securities (RMBS), concentrated mainly in the UK (51.9 %), Australia (17.8 %) and Spain (16.5 %).
- Most of the current portfolio (78.4 %) is prime with 5.4 % UK buy-to-let (BTL) and 16.2 % UK non-conforming (NC).
- Downgrades to date: 12 out of 84 tranches.
- Extension risk due to lower prepayments and clean up calls not made. Main reasons are limited refinancing opportunities for borrowers, especially in the UK non-conforming sector.
- The m-t-m figure of the portfolio has slightly decreased below 90 % resulting from the a.m. sale of an Australian RMBS sub-portfolio.
- Outlook: The future economic development is still unclear. A potential further rise of unemployment rates and / or higher interest rates would exert pressure on mortgage loan performance and on house prices. This might negatively impact existing RMBS pools.

**Distribution by Rating**




| | | |
|---|---|---|
| | 83.0 % | AAA |
| | 14.8 % | Other Investment Grade (AA+ – BBB+) |
| | 2.2 % | Below Investment Grade (CC – D) |

**Distribution by mortage type & country**




| | |
|---|---|
| 30.2 % | UK Prime |
| 16.2 % | UK NC |
| 5.4 % | UK BTL |
| 16.5 % | Spain Prime |
| 4.8 % | Italy Prime |
| 4.7 % | Netherlands Prime |
| 0.2 % | Germany Prime |
| 1.4 % | Portugal Prime |
| 2.6 % | Ireland Prime |
| 17.7 % | Australia Prime |
| 0.3 % | Argentina Prime |

## 2.2b EU HIGH YIELD CLO / CDO 2

**EU High Yield CLO / CDO** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.56 |
| IFRS category | | LAR, DFV |

- The portfolio consists primarily of managed arbitrage cash flow CLOs, mainly backed by first lien senior secured loans and managed by tier one managers with extensive track records going back to at least 2002.
- Our investment standards included collateral criteria such as ramp-up status, portfolio quality and concentration limitations, structural criteria (diversion tests, haircuts), portfolio manager eligibility (internal scoring) and stress tests based on cash flow analysis (break-even default rates under conservative recovery assumptions).
- Leveraged loan pricing in the second quarter of 2010 proved resilient despite fears around sovereign risk. The technical bid remained strong driven by continued prepayments and low level of primary activity. Secondary market spreads continue to compress towards current new issuance levels.
- The peak of default rates appears to be overcome. Rating agencies and market participants have reduced their default forecasts on the basis of new fundamental information (improving underlying performance, better economic stability and improved access to capital, etc.). The share of distressed companies has fallen as well.
- Where possible and unconstrained, CDO Managers tend to have increased the exposure to senior secured loans, as the limited investable cash could be invested in senior loans at wider spreads, thus benefiting the CDO arbitrage.
- The situation in the different collateral portfolios remains strained, as the number of loans and bonds rated CCC and lower remains high for some transactions.

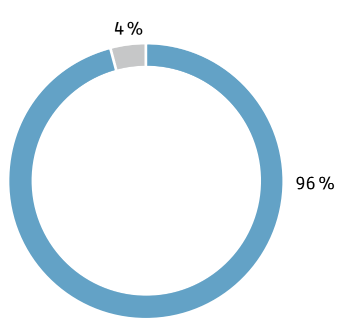
## 2.2c STUDENT LOAN ABS 3

**Student Loan ABS** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.48 |
| IFRS category | | LAR |

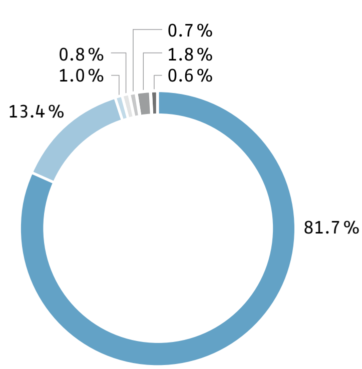
- The US government guaranteed nature of the FFELP Student Loan ABS portfolio represents a joint probability of default consisting of the performance of the underlying portfolio as well as the servicer's ability to maintain the US Government Guaranty of at least 96 % on the student loans.
- The proportion of government guaranteed and private Student Loans has slightly changed because some of the FFLEP Student Loans have been sold.
- Only transactions serviced by exceptional performers as designated by the US Dept. of Education qualify for investment under HSH Nordbank's student loan ABS criteria.
- In total the mark-to-market of Student Loan portfolio has improved compared to the previous quarter, lifting the m-t-m figure just above 90 %.

**Distribution by guarantees (government / private)**




| | |
|---|---|
| 96 % | FFELP Guaranteed |
| 4 % | Private |

**Rating distribution**




| | |
|---|---|
| 81.7 % | AAA |
| 13.4 % | AA+ |
| 1.0 % | AA |
| 0.8 % | AA– |
| 0.7 % | A |
| 1.8 % | A– |
| 0.6 % | BBB |

## 2.2d CMBS 4

**CMBS** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.08 |
| IFRS category | | LAR, AFS, DFV |

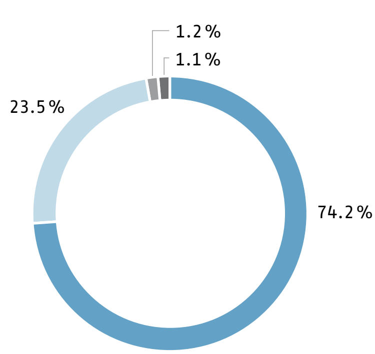
**US CMBS**

- The CMBS portfolio comprises mainly conduit deals backed by a diversified portfolio of different property types throughout the country.
- Fundamentals for US commercial real estate market remain negative. There has been ratings volatility in the junior triple-A and below portion of numerous recent issue CMBS deals. However, property value declines are expected to taper off over the next few quarters and it is likely that losses will be lower than some previous expectations as many maturing loans are extended and non-performing loans are restructured rather than liquidated. Additionally, liquidity is slowly increasing as investors are beginning to return to the market.
- S&P revised its CMBS ratings methodology and assumptions which has resulted in higher credit enhancement requirements to maintain AAA rating. Four bonds in the portfolio have been downgraded from AAA to A or A+ and one bond has been downgraded from AAA to BBB.

**European & Asian CMBS**

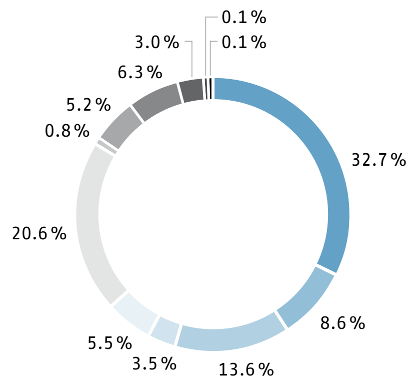
- The EMEA CMBS portfolio consists of 52 mainly senior tranches from 42 Asian and European CMBS transactions. The largest transaction accounts for 7.2 % of total EMEA CMBS portfolio.
- Defensive portfolio, purchases based on a deal-by-deal fundamental analysis (only high quality collateral with stable rental income sustaining predefined stress tests on a loan by loan basis) and structural features.
- Highly diversified tenant base, with the largest tenant contributing for about 4.6 % of the overall CMBS portfolio rental income. Only 3 tenants, all of them investment grade rated, contribute more than 1 % of total portfolio income.
- Beside recent stabilization in economic environment and property values further value declines especially in the UK and for secondary property quality are associated with ICR / DSCR and LTV trigger / covenant breaches on underlying loan level, which increases loan defaults and downgrade potential as well as refinancing risk. The outlook for the Non US CMBS sector remains negative. However, most of the Bank's EMEA CMBS investments are senior in the capital structure and benefit from increased credit enhancement percentages.

**Country distribution**




| | | |
|---|---|---|
| 74.2 % | Europe |
| 23.5 % | North America |
| 1.2 % | Pacific |
| 1.1 % | EM Asia |

**Rating distribution**




| | |
|---|---|
| 32.7 % | AAA |
| 8.6 % | AA+ |
| 13.6 % | AA |
| 3.5 % | AA– |
| 5.5 % | A+ |
| 20.6 % | A |
| 0.8 % | A– |
| 5.2 % | BBB+ |
| 6.3 % | BBB |
| 3.0 % | BBB– |
| 0.1 % | BB |
| 0.1 % | NR |

## 2.2e US CLO, CBO & TRUPS CDO 5

5 **Product: US CLO, CBO & TruPS CDO** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.40 |
| IFRS category | | LAR |

- This portfolio consists primarily of managed arbitrage cash flow CLOs with 88.5 % CLOs backed by predominantly first lien senior secured corporate loans, 2.5 % 1999 – 2001 vintage short maturity CBOs backed by high yield bonds and 9.0 % Trust Preferred CDOs backed by hybrid Trust Preferred Securities issued by small US regional banks and thrifts.
- Defensively selected portfolio with a focus e.g. to avoid large structured finance buckets within CLOs. In terms of ranking 75.2 % are the most senior tranches, 10.0 % are 2nd priority “Junior AAA” tranches, 10.0 % are originally AA tranches and 4.6 % are mezzanine tranches originally rated A / BBB.
- Both Moody’s and S & P finalized their CLO review. Moody’s downgraded most AAA CLO tranches by 2 – 3 notches to Aa2 / Aa3, while S & P downgraded the majority of senior AAA tranches by 1 notch to AA+.
- Annualised US speculative grade corporate defaults declined to 6.3 % by end of June, down from 11 % in the first quarter. Moody’s forecasts the US 12 months HY issuer default rate to decline to 2.7 % by end of 2010 and to 1.9 % in June 2011.

## 2.2f EU SME CLO 6

6 **Product: EU SME CLO** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.22 |
| IFRS category | | LAR, DFV |

– Diversified portfolio of European small- and mid-sized enterprise CLOs, a few other European CDOs and some other Lease ABS.
– Transactions securitising granular portfolios, well diversified over European countries and industries. Several seasoned deals in this portfolio continue to de-lever.
– Data on the different underlying collateral portfolios show some stabilisation and the portfolio benefits from fast repayments. Some positions in this sub-portfolio have been disposed of.

## 2.2g REMAINING ABS 7 8 9

7
**US COMMERCIAL REAL ESTATE CDO**
(as of 30 Jun. 2010)

– About 21 % of the outstanding balance of the CRE CDOs portfolio is backed by riskier collateral originated in weaker vintages (2004 to 2006). The remaining balance of the portfolio is backed by 2001 through 2003 vintage collateral which are performing relatively well.
– Due to recent changes in rating methodology along with continued decline in the commercial real estate market several of the deals have recently been downgraded. The agencies have adjusted their models to assume higher default rates, loss rates, and correlations. Nonetheless, most of the portfolio is backed by less risky collateral and has significant levels of credit support.

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.20 |
| IFRS category | | LAR, DFV |

8
**EMERGING MARKETS ABS**
(as of 30 Jun. 2010)

– Global economic downturn has left marks on the EM ABS portfolio. The weighted average rating of the portfolio is around BBB+ which is primarily due to the severe downgrades within the monoline insurer industry in 2009. This caused most of our EM Diversified Payment Rights ABS to be downgraded to their underlying collateral rating.
– Nevertheless the EM ABS portfolio shows a relatively stable performance. With respect to the DPR ABS all debt service coverage ratios (DSCR) are in compliance as collections prove quite resilient to economic slow down. The RMBS transactions are redeeming fast and exhibit a stable performance and rating (AAA / Aa1 / AAA).
– Even though positions are showing a sufficient performance, event risk e. g. originator default should not be underestimated in DPR transactions. We are therefore closely monitoring credit risk of the respective originators, as this is one fundamental aspect in overall DPR ABS analysis.

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.11 |
| IFRS category | | LAR |

9
**NON-US CONSUMER ABS**
(as of 30 Jun. 2010)

– Small portfolio of European Consumer ABS (including credit card receivables and consumer loans)
– 100 % AAA-rated

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.03 |
| IFRS category | | LAR |

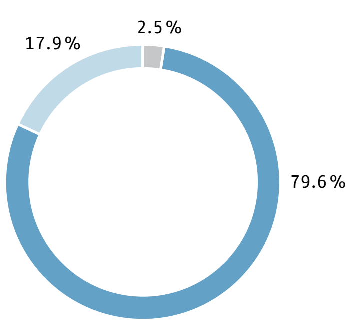
## 2.3 SINGLE NAMES

**Single Names** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 5.87 |
| P&L 10 | (€ million) | –98 |
| P&L 09 | (€ million) | +136 |
| IFRS category | | DFV, AFS, LAR, HFT |

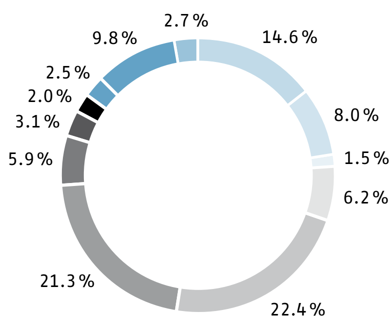
- The Single Names portfolio has been reduced in Q2 2010 through active sales of EUR 0.416 billion and redemptions of about EUR 0.287 billion. The overall credit quality and the sector allocation is almost unchanged. The portfolio reduction will continue via further asset sales and maturities.
- Market development within Q2 and outlook:
  As feared the public debt crisis started in Greece couldn't be stopped completely by rescue packages of emergency loans from the IMF and the EU and bond purchases by the ECB. The volatility of the credit markets is still high as the crisis started to spill over to other countries like Portugal and Spain. Accordingly the spreads of Financials, especially those of southern European banks, increased significantly before recovering in June. The Corporates spreads were very volatile, too, as concerns about the economy strengthened and the actual question is whether the US and Europe as well could avoid a double dip.
  As the debt crisis is not yet solved and the coming Corporate earnings releases will be probably mixed the outlook for credit spreads are more on the negative side and the volatility – as a sign of uncertainty – will remain high as well in Q3.

**Distribution by sector**




| | | |
|---|---|---|
| | 79.6 % | Financials |
| | 17.9 % | Public Finance |
| | 2.5 % | Corporates |

**Rating distribution**




| | |
|---|---|
| 14.6 % | AAA |
| 8.0 % | AA+ |
| 1.5 % | AA |
| 6.2 % | AA– |
| 22.4 % | A+ |
| 21.3 % | A |
| 5.9 % | A– |
| 3.1 % | BBB+ |
| 2.0 % | BBB |
| 2.5 % | BBB– |
| 9.8 % | BB+ and below |
| 2.7 % | NR |

## 2.4 HEDGE FUNDS / OTHER FUNDS

**Hedge Funds / Other Funds** (as of 30 June 2009)

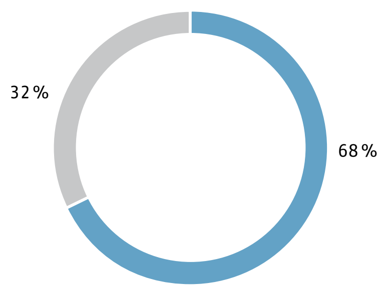
| | | |
|---|---|---|
| Exposure | (€ billion) | 0.20 |
| P&L 10 | (€ million) | +2 |
| P&L 09 | (€ million) | –28 |
| IFRS category | | AFS |

### Hedge Funds

– Only one former CPPI structure still in existence
– De-risking within this structure nearly completed
– Current Underlying Assets: 95 % Cash, 5 % Hedge Funds
– Liquidation of platform in advanced negotiation with parties
– Accounting: Mark-to-Market treatment imposed to AFS position via impairment assumption

## 2.5 SUBPRIME-RELATED EXPOSURE

as of 30 June 2010




| | | |
|---|---|---|
| | 68 % | Home Equity Loans RMBS |
| | 32 % | CDO of ABS, CDO of CDO |

| as of 30 June 2010 | | COA / COC | HEL | Total |
|---|---|---|---|---|
| Total exposure | (€ billion) | 0.60 | 1.28 | 1.88 |
| P&L 10 | (€ million) | −49 | +28 | −22 |
| P&L 09 | (€ million) | −7 | −107 | −114 |
| IFRS category | | LAR, DFV | LAR | LAR, DFV |

## 1 RMBS OF HEL

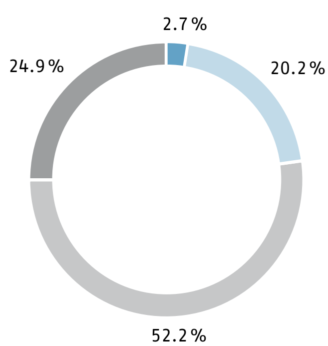
**RMBS of HEL** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.28 |
| P&L 10 | (€ million) | +28 |
| P&L 09 | (€ million) | −107 |
| IFRS category | | LAR |

- The HEL portfolio continues to experience losses on several 2006 mezzanine bonds as expected. While the rate of deterioration has mostly flattened out in the subprime housing market, losses will continue within 2006 mezzanine class bonds and reach some 2007 senior bonds as the securitizations liquidate or modify the pipeline of defaulted loans.
- The US mortgage market has shown some moderate signs of stabilizing after several quarters of decline. While the HSH portfolio delinquency growth rates have been leveling off for most of the portfolio, losses continue to grow, particularly in the 2006 and 2007 transactions due to large pipelines of non-performing loans and declining home values.
- Prepayment rates in the mortgage market remain very low due to the shutdown in the subprime origination channel, tougher lending standards, and limited market liquidity.
- Security prices have rallied slightly in recent months but still remain at relatively low levels.

– Ratings downgrade risk remains. Almost the entire outstanding subprime issuance for 2006 and 2007 as well as a significant portion of 2005 has been and remains under further downgrade pressure as the securitizations liquidate defaulted loans into a weak housing market.

**Distribution of notional by vintage**




| | |
|---|---|
| 2.7 % | 2004 Vintage |
| 20.2 % | 2005 Vintage |
| 52.2 % | 2006 Vintage |
| 24.9 % | 2007 Vintage |

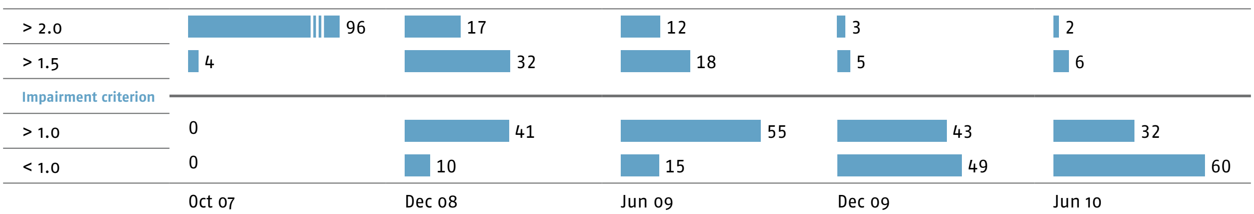
**Rating distribution by vintage** (in %)

| | | |
|---|---|---|
| 2004 | Investment Grade | 100 |
| | Below Investment Grade | 0 |
| 2005 | Investment Grade | 44 |
| | Below Investment Grade | 56 |
| 2006 | Investment Grade | 0 |
| | Below Investment Grade | 100 |
| 2007 | Investment Grade | 16 |
| | Below Investment Grade | 84 |

1 **RMBS HEL rating migration** (in %)

| | Oct 07 | Dec 08 | Jun 09 | Dec 09 | Jun 10 |
|---|---|---|---|---|---|
| AAA | 60 | 29 | 10 | 15 | 4 |
| Impairment criterion | | | | | |
| AA | 35 | 9 | 8 | 7 | 9 |
| A | 4 | 13 | 5 | 4 | 2 |
| Below A | 1 | 49 | 77 | 74 | 85 |

**RMBS HEL loss coverage migration** (in %)




# II. SUMMARY OF MONOLINE EXPOSURE

## 1. CURRENT EXPOSURE TO MONOLINES

| **Indirect monoline exposure** (€ million) | 30 Jun 2010 | 31 Mar 2010 |
|---|---|---|
| CIP* wrapped ABS | 496.0 | 482.5 |
| CIP wrapped Single Names | 78.9 | 71.8 |
| Global Markets London Single Names | 65.3 | 63.8 |
| **Total** | **640.2** | **618.1** |
| Synthetic CDO** | 2.5 | 2.2 |
| **Grand Total** | **642.7** | **620.3** |

* CIP: Credit Investment Portfolio

** Exposure in terms of "Instantaneous Default Loss" (IDL) as of end of June 2010. This is an estimated mark-to-market loss of the synthetic CDO in the event of an immediate default of a relevant reference entity (Monoliner).

- No direct monoline exposure
- Total exposure is to seven different monoline insurances. The total P/L effect of these positions amounts to EUR –55.6 million life-to-date, consisting of impairments of EUR 27.8 million and valuation losses on trading positions of EUR 27.8 million.
- The positions are allocated to the Bank's Restructuring Unit.
- The total of indirect monoline exposure (in EURO) is subject to currency movements. The total amount has increased compared to the previous quarter since most of the portfolio is denominated in foreign currency (mainly US$).

# III. FORMER FINANCIAL INSTITUTIONS GROUP (FIG)

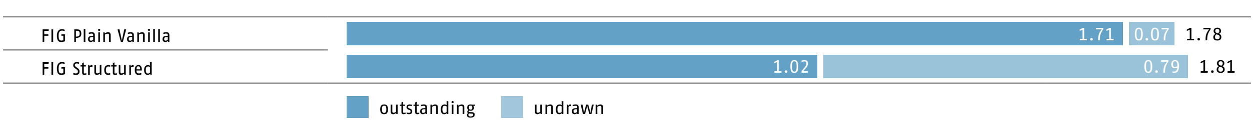
## 1. FORMER FIG

**Former FIG** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 3.59 |
| P&L effect H1/2010 | (€ million) | -4 |
| IFRS category | | mainly LAR |

- This portfolio comprises all Financial Institutions loan assets that have been allocated to the Restructuring Unit.
- The total portfolio consists of a plain vanilla loan book to financial institutions (amounting to EUR 1.71 billion) as well as loans which are structured or have structured elements (amounting to EUR 1.02 billion).
- Undrawn Revolving Credit Facilities in the portfolio amount to EUR 0.86 billion.
- Regarding the rating distribution of the FIG structured portfolio there has been a striking shift from the CCC–C bucket to B– compared to the previous report resulting from a positive rating development in one position.

**Total Exposure** (€ billion)



## 2. FIG PORTFOLIO DETAILS

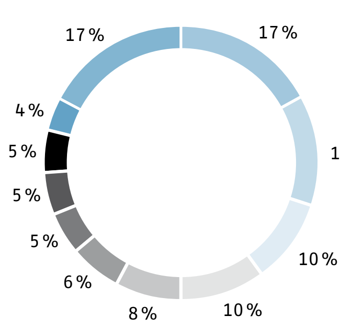
**FIG Plain Vanilla** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.78 |
| P&L effect H1/2010 | (€ million) | -2.5 |
| IFRS category | | LAR |

**Distribution of notional by S&P rating equivalents for FIG Plain Vanilla – Outstandings** (€ million)

| | |
|---|---|
| AAA | 25.1 |
| AA+ | – |
| AA | 40.1 |
| AA– | – |
| A+ | 28.4 |
| A | 208.5 |
| A– | 38.8 |
| BBB+ | 173.0 |
| BBB | 130.2 |
| BBB– | 470.7 |
| BB+ | 30.6 |
| BB | – |
| BB– | 3 |
| B+ | 20.4 |
| B | 3.8 |
| B– | – |
| CCC+ – C | 67.9 |
| Default | 464.5 |

**Regional distribution of FIG Plain Vanilla – Outstandings** (in %)

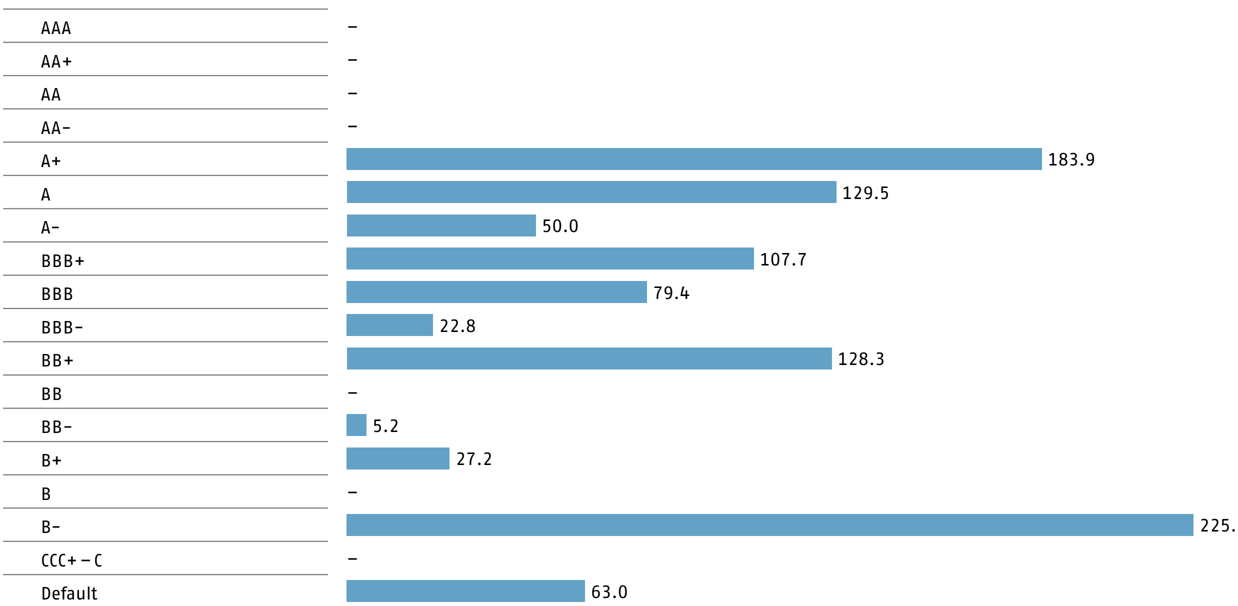



| | |
|---|---|
| 17 % | Denmark |
| 13 % | Iceland |
| 10 % | United Arab Emirates |
| 10 % | Luxembourg |
| 8 % | Switzerland |
| 6 % | France |
| 5 % | Germany |
| 5 % | Italy |
| 5 % | Kuwait |
| 4 % | Bahrain |
| 17 % | Others |

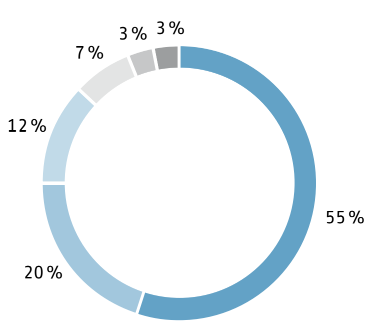
**FIG Structured** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.81 |
| P & L effect H1/2010 | (€ million) | -1.3 |
| IFRS category | | mainly LAR |

**Distribution of notional by S & P rating equivalents for FIG Structured – Outstandings** (€ million)




**Regional distribution of FIG Structured – Outstandings** (in %)




| | |
|---|---|
| 55 % | UK |
| 20 % | Luxembourg |
| 12 % | Cayman Islands |
| 7 % | USA |
| 3 % | Ireland |
| 3 % | Bermuda |

# IV. FORMER CREDIT TRADING

## 1. CREDIT TRADING

**Credit Trading** (as of 30 June 2010)

| | | |
|---|---|---|
| Exposure | | |
| Bonds | (€ billion) | 0.35 |
| CDS net | (€ billion) | −0.18 |
| IFRS category | | LAR / HFT |

The former Credit Trading Portfolio has been made static (no active trading) and consists of

– a 354 EUR million **outright bond portfolio** (98.5 % Financials) and

– a **long / short CDS portfolio** whose short positions (including proxy hedges e.g. by iTraxx) in nominal terms exceed its long positions:

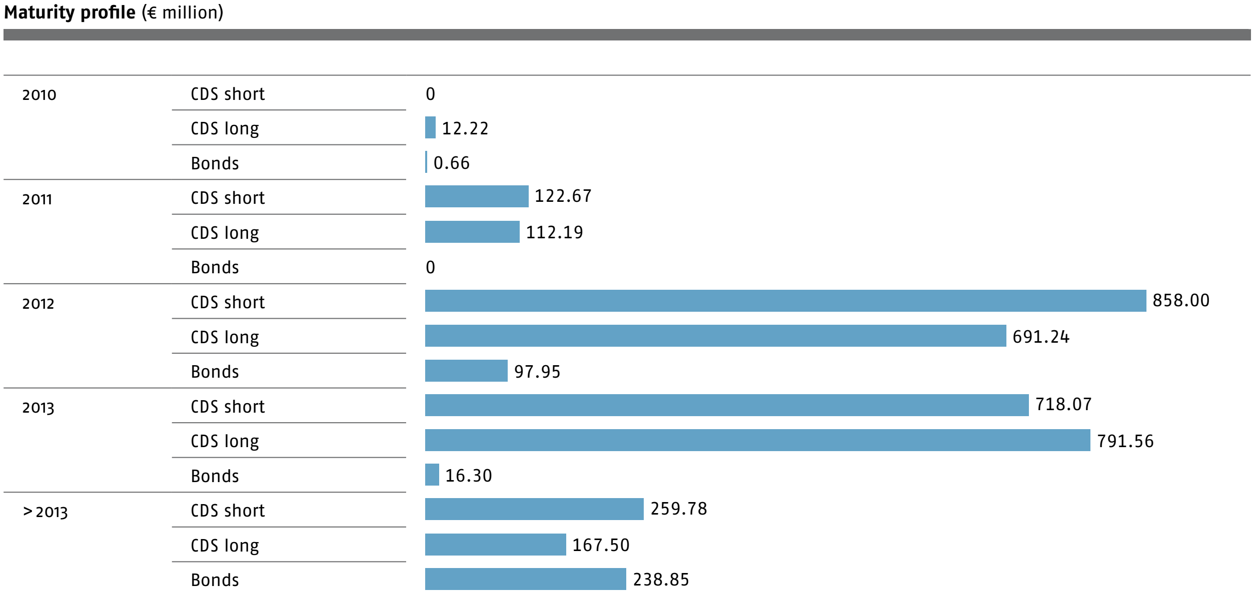
- 1.96 EUR billion CDS short (HSH Nordbank as protection buyer);
- 1.77 EUR billion CDS long (HSH Nordbank as protection seller)

thereof: – iTraxx: 0.73 EUR billion short; 0.66 EUR billion long
– Single Names: 1.22 EUR billion short; 1.11 EUR billion long

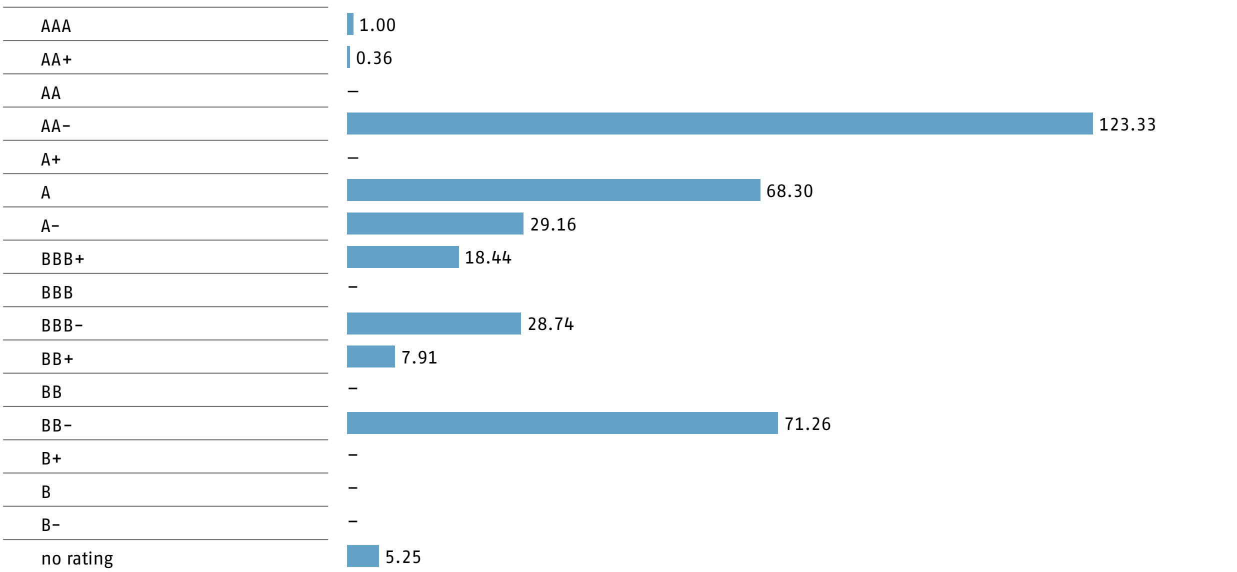
The bank intends to maintain the net short CDS balance due to the current market conditions.

63 % of the bonds are rated A– or better (worst of S & P, Moody's and Fitch).

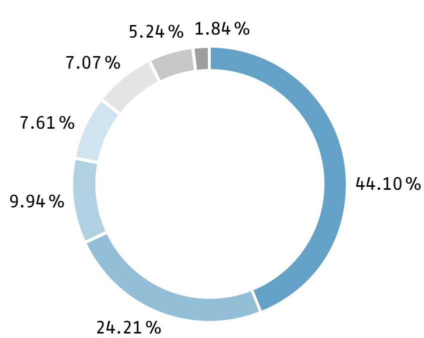
**Maturity profile** (€ million)



**Distribution of notional by financial ratings for bonds** (€ million)




**Regional distribution of bonds** (in %)




| | |
|---|---|
| 44.10 % | UK |
| 24.21 % | Australia |
| 9.94 % | USA |
| 7.61 % | Netherlands |
| 7.07 % | Canada |
| 5.24 % | Ireland |
| 1.84 % | Germany |

# V. LEVERAGED FINANCE (LBO)

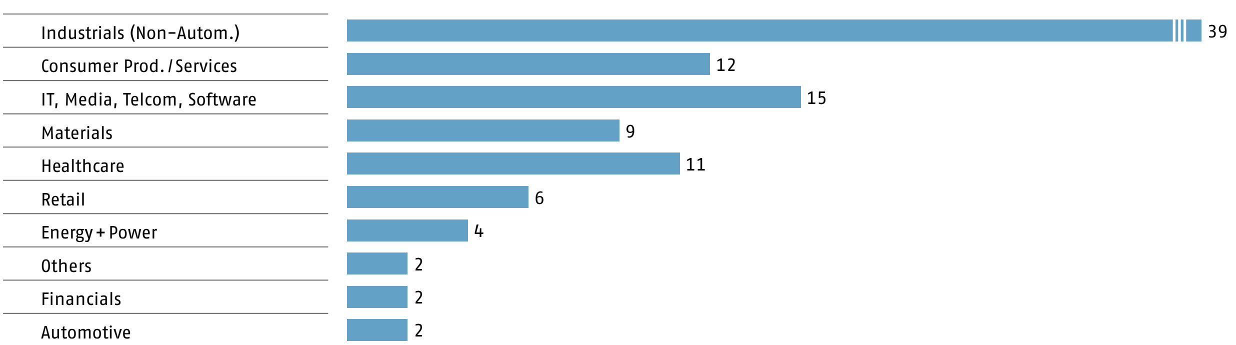
## 1. LEVERAGED FINANCE OF GLOBAL HEAD CORPORATES

– As of 30 June 2010 funded exposure was at EUR 4.5 billion, unfunded exposure at EUR 0.7 billion.

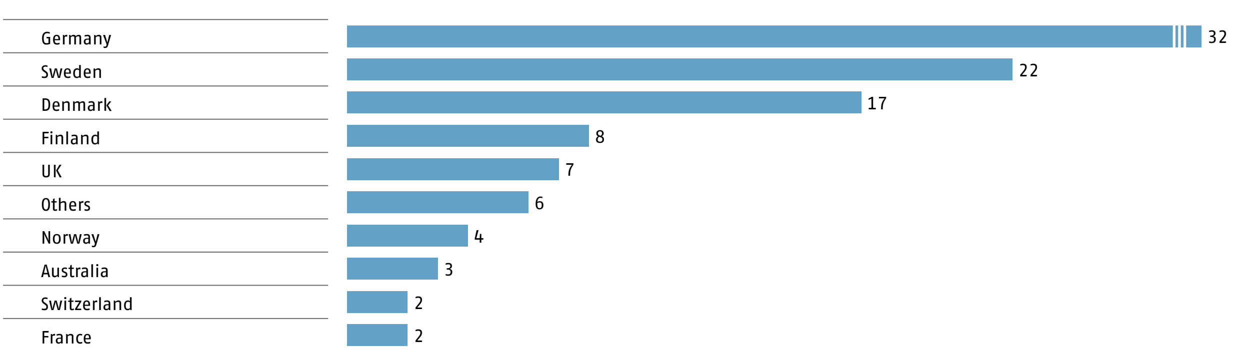
**Change in exposure from 31 Mar 2010** (€ billion)

| | |
|---|---|
| Exposure as of 31 March 2010 | 5.6 |
| Net Change of Outstanding | -0.4 |
| Writedowns | 0 |
| Exposure as of 30 June 2010 | 5.2 |
| Risk provision as of 30 June 2010 | 0.3 |

**Distribution by Industry** (in %)




**Distribution by Regions** (in %)



## 2. LBOs (PART OF CREDIT INVESTMENT PORTFOLIO HIGHLIGHTED BEFORE)

**Change in exposure from 31 Mar 2010** (USD million)

| | |
|---|---|
| Exposure as of 31 March 2010 | 299 |
| Net Change of Outstanding | −21 |
| Writedowns | 0 |
| Exposure as of 30 June 2010 | 278 |
| Risk provision as of 30 June 2010 | 0 |

- Part of Credit Investment Portfolio (contained in NY HY Loan Portfolio)
- As of 30 June 2010 the total exposure included USD 12.5 million Revolving Credit Facilities, thereof USD 10.2 million drawn.

**Distribution by Industry** (term loans in USD million)