Interim Report as of 31 March 2011

HSH NORDBANK

HSH NORDBANK GROUP AT A GLANCE

Income statement (€ m)	1.1.–31.3.2011	1.1.–31.3.2010
Net income before restructuring	243	–170
Group net income / net loss	126	–276

Balance sheet (€ bn)	31.3.2011	31.12.2010
Equity	5.2	5.1
Total assets	139.0	150.9
Business volume	150.8	163.7

Capital ratios[1] (%)	31.3.2011	31.12.2010
Tier 1 capital ratio	17.2	15.4
Regulatory capital ratio	25.7	22.4

Employees	31.3.2011	31.12.2010
Total	3,788	3,852
–Germany	3,212	3,251
–Abroad	576	601
Full-time positions	3,345	3,388
–Germany	2,804	2,824
–Abroad	541	564

Long-term ratings	Unguaranteed liabilities	Guaranteed liabilities[2]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	A3	Aa1	Aaa	Aaa	A2
Fitch	A–	AAA	–	–	–

[1] including market risk positions
[2] Obligations covered by "Gewährträgerhaftung" (guarantee obligation)

HSH NORDBANK AG – INTERIM REPORT

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LADIES AND GENTLEMEN,

HSH Nordbank has had a successful start to 2011 and, for the opening quarter, has generated net income before restructuring of € 243 million. After deduction of expenses for government guarantees in the amount of € – 112 million, the Bank was able to report Group net income of € 126 million. This means that, for the forth quarter in a row, HSH Nordbank earned positive net income before restructuring and generated Group net income for the third quarter in a row.

Furthermore, the Bank was able to reduce the volume of its risk positions significantly during the past months. As at 31 March 2011, total assets declined to € 139 billion boosted by the depreciation of the US dollar. A year ago total assets were still € 34 billion higher. As a result of efforts to reduce risk, the Bank's Tier 1 capital ratio rose further to 17.2 %.

These results prove the success of our strategic realignment which we will continue to pursue consistently during the coming months. These efforts principally include further work on the part of the Restructuring Unit to wind down portfolios, the disposal of equity interests as well as the reduction of government guarantees which were provided to the Bank in the course of the financial crisis.

In mid-May, the Bank repaid a bond from the Financial Market Stabilisation Fund (SoFFin) in the amount of € 3 billion, thereby reducing further the volume of state-guaranteed issues from € 9 billion to € 6 billion. The remaining two bonds mature in January and July 2012 respectively. In addition, during the first quarter HSH Nordbank was able to reduce the second loss guarantee provided by the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg by € 1 billion to € 9 billion and it is our plan to gradually reduce this guarantee even further. A second partial reduction by € 1 billion was initiated by the Bank in May. Thanks to these reductions, the Bank's expenses for fees related to the guarantees will decrease significantly.

At the same time, after having implemented extensive restructuring measures and portfolio adjustments during the past several years, for 2011 our focus will be on an expansion of business in the realigned core business areas. We will concentrate on selected new lending business with reasonable income and risk profiles. In addition, we will focus on sales across the entire range of services in order to provide the best customer support and take advantage of all opportunities.

Ladies and gentlemen, HSH Nordbank is well on its way to positioning itself for sustainable stability and profitability. We will drive the consistent implementation of our realignment programme further. We continue to remain confident that we will be able to generate Group net income for 2011 above that of 2010.

Dr. Paul Friedrich Lerbinger
Chairman of the Management Board, HSH Nordbank AG

QUARTERLY FINANCIAL REPORT

INTERIM MANAGEMENT REPORT FOR THE HSH NORDBANK GROUP

UNDERLYING CONDITIONS AND BUSINESS OVERVIEW

Underlying conditions

Recovery of the global economy despite crises

Although several crises caused uncertainty in the first few months, particularly the natural and nuclear catastrophe in Japan, political unrest in North Africa and the Middle East and the continuing public debt crises, the global economy continued its significant expansion. Developments have been particularly dynamic in the emerging economies, especially in Asia. In Japan, however, the economy suffered a serious setback due to the catastrophe.

After the US economy was still growing rather strongly at the end of 2010, it slowed at the beginning of the year in line with a lower increase in consumer spending. It may be assumed that the eurozone continued its moderate growth path. However, while the economy in some peripheral countries continued to suffer from both state and private debt reduction measures, the very positive mood in Germany among companies and consumers is an indicator for a continued positive economic environment. In view of better sales forecasts and continued extremely low interest rates, it is likely that companies increased their levels of investment. It may be assumed that consumption in private households was supported by the continued improvement in the labour market; the continued significant upward trend in the global economy gave additional impetus to foreign trade.

Financial markets increasingly influenced by interest rate policy

The first few months saw renewed turbulence on the financial markets. The continuing crisis regarding public finances in the eurozone worried investors at the beginning of the year, leading to significantly widened spreads between government bonds of peripheral countries and German government bonds (Bunds). The financial markets calmed slightly as European heads of state and government agreed in March, among other things, to reinforce the existing European Financial Stability Facility EFSF and agreed on the form of the future European Financial Stabilisation Mechanism EFSM for highly indebted nations in the eurozone.

In addition to worries about the eurozone, investors were also concerned about the strong rise in the price of oil. This price increase accelerated starting in mid-February due to unrest in North Africa and the Middle East. In mid-March, the natural and nuclear catastrophe in Japan led to temporary declines on the stock exchanges as well as currency turbulence. The coordinated currency market intervention of the large central banks made it possible to put a stop to the appreciative trend of the Japanese yen.

Yields on 10-year Bunds have experienced moderate growth since the start of the year, supported by the economic recovery but also by increasing inflation concerns. Yields on US government bonds of corresponding terms were largely flat, since demand was still backed by the securities purchase programme of the US Federal Reserve, scheduled to last until June. In the short-term range, yields on both sides of the Atlantic clearly decoupled due to changed base rate expectations. The European Central Bank already signalled initial tightening of fiscal policy at the start of March. In April, it undertook an initial interest rate increase by 25 basis points, after keeping rates at a constant level for almost two years. The yields of short-term investments in the eurozone correspondingly rose sharply even prior to the interest rate decision. On the other hand, the US Federal Reserve still gave no signal of turning away from its extremely low base rate level.

On the currency markets, interest rate trends played an increasingly important role. Due to expectations of an increasing base rate gap between the eurozone and the USA, the euro has appreciated significantly against the US dollar since the start of the year.

The stock markets presented themselves as bullish for the most part. In view of the tragic events in Japan, the Nikkei 225 fell 5% against this trend in the first quarter; this drop was even sharper at times. Despite the lagging economy in the USA, the Dow Jones Industrials still managed to rise again (+6%). In Europe, the EURO STOXX 50, which was still trending downwards during 2010 against the backdrop of the debt crisis, rose by 4%. In view of the solid business results in German companies in the first quarter, the DAX showed a further slight rise (+2%). Major energy companies suffered from the nuclear power debate and the prices for shares in these companies dropped in contrast to the market trend.

Changed underlying conditions in the banking sector

The economic recovery in the eurozone was also reflected in the banking sector. Lending to companies and private households at the start of the year was slightly above the level of the previous year. In its Financial Stability Review published in November 2010 the German Bundesbank stated that the German banking system was in an overall better state despite the continued existence of vulnerability. For example, the risk situation had eased and risk-bearing capacity increased as a result of the reduction in debt ratios and the strengthening of Tier 1 capital.

It is intended to enhance the stability of the banking system further by the regulatory changes initiated in 2010. The 'Basel III' framework to be introduced in 2013 and gradually strengthened in subsequent years should ensure that the capital adequacy and liquidity in the banking sector is increased. In Germany, the Restructuring Fund Act (Restrukturierungsfondsgesetz) entered into force at the end of 2010. It provides for the establishment of a restructuring fund for the purposes of financing measures required in the event of crises at banks, among other things. The assets for the funds will be contributed by the banks themselves starting in 2011. Details about the charge of yearly contributions and possible special contributions are regulated in an ordinance passed by the German Parliament (Bundestag) in March 2011 that must still be ratified on 27 May 2011 by the German Bundesrat.

Due to annual losses under German Commercial Code accounting (HGB) over the past three fiscal years, it is anticipated that HSH Nordbank will only be liable to pay this so-called bank levy (Bankenabgabe) in 2012 for the first time, most likely a seven-figure sum. In subsequent years, we anticipate amounts in the eight-figure range taking into account subsequent charges.

Business overview

HSH Nordbank has continued successfully its strategic realignment in the first few months of 2011.

Reduction in the second loss guarantee

Thanks to the stabilisation of the Bank and the advanced stage of winding down risk assets, in March 2011, HSH Nordbank was able to reduce the second loss guarantee granted by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein via HSH Finanzfonds AöR by € 1 billion to 9 € billion. It is planned to continue to reduce the second loss guarantee progressively. A second partial reduction by € 1 billion was initiated by the Bank in May 2011. The Bank expects approval to be granted by the guarantor in the near future.

The second loss guarantee was made available at the start of the strategic realignment of the Bank. HSH Nordbank pays a premium of four percent p. a. of the guarantee amount outstanding to HSH Finanzfonds AöR. The expenses of the Bank for the guarantee decrease in line with the reduction of the guarantee.

Number of locations and equity holding portfolio further decreased

The network of locations as well as the equity holding portfolio of the Bank will continue to be reduced in the course of the realignment process. During the first quarter of 2011, the Bank closed its office in Mumbai. The Supervisory Board also approved closure of the branches in London (by the end of 2012) and Lübeck (by the end of 2011). Concrete implementation of both closures has already been launched. The Bank has also made significant progress in winding down non-strategic equity holdings. In February 2011, the Group managed to sell its shares in Hamborner REIT (Duisburg). The completion of a number of sales processes currently underway is also expected over the course of the year.

At the start of May, an agreement was concluded pertaining to the sale of the private client business of HSH Nordbank Private Banking S.A. (Luxembourg). The sale is expected to be completed in the second half of 2011.

In the context of a coordinated procedure in the German Savings Banks Finance Group, an agreement pertaining the sale of an indirect equity holding in DekaBank Deutsche Girozentrale (Frankfurt / Main) was signed in April. Completion of the sale is anticipated in the second quarter.

Dr. Lerbinger assumes position of Chairman of the Management Board

Effective 1 April 2011, Dr. Paul Friedrich Lerbinger has assumed the position of Chairman of the Management Board of HSH Nordbank. Dr. Lerbinger joined the Bank as member of the Management Board on 1 March 2011. In its meeting on 15 December 2010, the Supervisory Board had appointed Dr. Lerbinger as the new Chairman of the Management Board and at the same time approved the mutually agreed termination of the appointment of Prof. Dr. Dirk Jens Nonnenmacher as Member and Chairman of the Management Board effective as of 31 March 2011.

During his long career in the banking sector, Dr. Lerbinger has been Managing Director and Head of the Investment Banking Division Germany at Deutsche Bank, as well as Deputy Chairman of the Management Board of Citigroup Germany.

BUSINESS DEVELOPMENTS

Overview of business performance

HSH Nordbank on course with quarterly profit

HSH Nordbank had a good start to fiscal year 2011 and confirmed the continued significant progress in its strategic realignment with positive quarterly results. During the first quarter the Bank generated net income before restructuring of € 243 million (previous year: € –170 million). Furthermore the Bank was in the position — despite the expense for state guarantees in the amount of € –112 million — to report Group net income of € 126 million (previous year: € –276 million).

This is the fourth quarter in a row that the Bank is in the position to report a positive net income before restructuring and the third quarter in a row to report a Group net income. As in the previous quarters, reduced need for loan loss provisions contributed to the positive return situation.

At the same time, in the past few months, the Bank made significant progress in the reduction of risk positions. Driven by the fall in the US dollar, total assets had dropped to € 139 billion, as at 31 March 2011 (31 December 2010: € 151 billion). In particular due to the reduction in risk assets, the Tier 1 capital ratio of the Bank improved further to a comfortable level of 17.2 % (31 December 2010: 15.4 %).

Earnings situation

Income statement (€ m)	1.1. – 31.3.2011	Following adjustments 1.1. – 31.3.2010	Change in %
Interest income	2,976	3,972	-25
Interest expenses	-2,612	-3,528	-26
Net income from hybrid financial instruments	-39	-37	-5
Net interest income	**325**	**407**	**-20**
Net commission income	32	42	-24
Result from hedging	-14	4	> -100
Net trading income	-34	-6	> -100
Net income from financial investments	65	27	>100
Financial investments accounted for under the equity method	-4	–	–
Total income	**370**	**474**	**-22**
Loan loss provisions	76	-455	> 100
Administrative expenses	-207	-197	5
Other operating income	4	8	-50
Net income before restructuring	**243**	**-170**	**> 100**
Result from restructuring	–	1	-100
Expenses for government guarantees	-112	-151	-26
Net income before taxes	**131**	**-320**	**> 100**
Income tax expenses(–) / income (+)	-5	44	> -100
Group net income/loss	**126**	**-276**	**> 100**
Group net income attributable to non-controlling interests	1	3	-67
Group net income attributable to HSH Nordbank shareholders	125	-279	> 100

Balance sheet downsizing noticeable

The significant reduction in total assets as part of the realignment was also reflected in the Bank's earnings in the first quarter of 2011. In addition, valuation effects continued to cause negative net trading income. Thus, total income, at € 370 million, was lower than in the previous year (€ 474 million). It was possible to improve the result from loan loss provisions even further in the first quarter. As at 31 March 2011, income from loan loss provisions of € 76 million was reported — compared to expenses of € –455 million in the first quarter of the previous year. This improvement in income is due in part to a change in disclosure (see 'Income from loan loss provisions' below); but even adjusted for this effect, there was a substantial reduction in loan loss provision expenses. Administrative expenses of € –207 million were slightly above the previous year's level (€ –197 million). The detailed changes in income and expenses are as follows:

Net interest income amounted to € 325 million compared to € 407 million in the previous year. This reduction reflects the significant decrease in total assets of € 34 billion (–20%) compared to 31 March 2010. The valuation of hybrid financial instruments in accordance with IAS 39.A8 resulted in an effect of € –39 million (previous year: € –37 million) in net interest income, which resulted primarily from net present value effects due to the reduced residual maturities of hybrid financial instruments in comparison with the previous quarter.

Net commission income reached € 32 million compared to € 42 million in the corresponding period of the previous year. This reduction was evident from muted volumes of new business for the past few months.

Net trading income amounted to € –34 million (previous year: € –6 million). In comparison with the previous year, income was primarily burdened by changes in value of interest rate derivatives (particularly from EUR/USD basis swaps). There was a significant positive effect on net trading income from value adjustments for counterparty risks in the derivative sector compared to the previous year. While the previous year's income was positively influenced by the fair value measurement of own liabilities, this had a negligible effect in the quarter under review.

Net income from financial investments, which as of 31 March 2011 amounted to € 65 million (31 March 2010: € 27 million), benefited primarily from income from the continued winding down of risk positions in the financial investments portfolio, including the sale of equity holdings and shares. The investments held in the credit investment portfolio made a significant contribution to positive income, due to both additional reversals of impairments losses and the sale of securities. Net income from financial investments was burdened by additions to portfolio valuation allowances.

Cross-selling business with corporate and private as well as institutional clients resulted in higher income than in the previous year, at a total of € 34 million (previous year: € 31 million). In the first quarter of 2011, this was particularly due to the sale of interest rate hedging and investment products. Cross-selling income is recorded under different positions in the income statement.

Income from loan loss provisions

Income from loan loss provisions as at 31 March 2011 amounted to € 76 million, while in the previous year expenses of € –455 million were recorded. The foreign currency translation of loan loss provisions had a € 77 million effect (previous year € –126 million). But even adjusted for this effect, there was a significant reduction in loan loss provision expenses by € 328 million, resulting from the positive development of the economic environment as well as comprehensive portfolio adjustments. The net income from reversals and additions for individual commitments in the quarter under review amounted to € –8 million (previous year: € –197 million). Changes to portfolio valuation allowances resulted in a net positive income contribution of € 7 million (previous year: € –132 million). Reversals of portfolio valuation allowances undertaken at the end of the previous year, in connection with the hedging effect of the second loss guarantee in the financial statements, had to be reduced in the amount of € 151 million; this had a negative impact on income (details regarding the second loss guarantee can be found in the notes 3 and 12).

Costs slightly above the previous year's level

Administrative expenses amounted to € – 207 million compared to € – 197 million for the same period in the previous year. While personnel expenses, at € – 93 million, remained at the same level as in the previous year, operating expenses showed an increase by € 11 million to € 105 million. This is particularly due to consulting costs for various projects as well as the costs of legal advice.

Expenses for government guarantees reduced to € – 112 million

The reduction of guarantees led to lower expenses for government guarantees in the first quarter. Total expenses for the provision of government guarantees fell in the first quarter of 2011 by € 39 million to € – 112 million (previous year: € – 151 million), of which € – 90 million (previous year: € – 120 million) is attributable to the second loss piece guarantee issued by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein. HSH Nordbank recorded an expense of € – 22 million for the guarantees issued by the Financial Market Stabilisation Fund (SoFFin) (previous year: € – 31 million).

Group net income of € 126 million

Despite guarantee expenses, the Bank recorded net income before taxes for the first quarter of 2011 in the amount of € 131 million compared to € – 320 million in the first quarter of the previous year. After income tax effects, Group net income of € 126 million remains, after a negative quarterly result was reported for the previous year in the amount of € – 276 million.

Net assets and financial position

Statement of financial position (€ m)	31.3.2011	31.12.2010	Change in %
Assets			
Cash reserve	1,397	1,410	–1
Loans and advances to banks	7,034	10,438	–33
Loans and advances to customers	96,194	102,858	–6
Loan loss provisions	–4,329	–4,623	–6
Positive fair values of hedging derivatives	1,094	1,838	–40
Positive adjustment item from portfolio fair value hedges	156	232	–33
Trading assets	10,355	11,282	–8
Financial investments	23,670	25,001	–5
Financial investments accounted for under the equity method	13	102	–87
Intangible assets	106	108	–2
Property, plant and equipment	136	140	–3
Investment properties	14	14	0
Non-current assets held for sale and disposal groups	1,434	404	>100
Current tax assets	273	272	0
Deferred tax assets	1,305	1,269	3
Other assets	184	185	–1
Total assets	**139,036**	**150,930**	**–8**

Liabilities			
Liabilities to banks	24,105	26,200	–8
Liabilities to customers	45,092	50,446	–11
Securitised liabilities	43,696	44,726	–2
Negative fair values of hedging derivatives	282	362	–22
Negative adjustment item from portfolio fair value hedge	543	981	–45
Trading liabilities	8,629	11,412	–24
Provisions	1,283	1,332	–4
Liabilities relating to disposal groups	94	6	>100
Current tax liabilities	14	15	–7
Deferred tax liabilities	110	81	36
Other liabilities	1,370	1,556	–12
Subordinated capital	8,617	8,719	–1
Equity	5,201	5,094	2
Share capital	2,635	2,635	0
Capital reserve	1,028	1,028	0
Retained earnings	1,729	1,724	0
Revaluation reserve	–236	–227	4
Currency conversion reserve	–78	–60	30
Group net income / loss	125	–3	>–100
Total before non-controlling interests	5,203	5,097	2
Non-controlling interests	–2	–3	–33
Total equity and liabilities	**139,036**	**150,930**	**–8**

Further significant reduction in total assets

The total assets of the HSH Nordbank Group were reduced in the first quarter of 2011, particularly due to continued reduction in risk positions, by –8% to € 139,036 million, compared to 31 December 2010 (€ 150,930 million). The depreciation of the US dollar since the end of 2010 also contributed to the disclosure of smaller balance sheet items.

Loans and advances to banks decreased from € 10,438 million at year-end 2010, by about a third to € 7,034 million. Loans and advances to customers declined to € 96,194 million (31 December 2010: € 102,858 million). Loan loss provisions also reduced, falling to € –4,329 million (31 December 2010: € –4,623 million). Trading assets declined significantly from € 11,282 million to € 10,355 million. This decrease is attributable both to fixed-interest securities and derivatives of trading assets held. Financial investments fell to € 23,670 million (31 December 2010: € 25,001 million). This was particularly due to the continued winding down of the credit investment portfolio, which could be reduced by another € 1,085 million.

On the liability side of the balance sheet, due to the further decrease in funding requirements, liabilities to banks fell from € 26,200 million at the end of 2010 to € 24,105 million. Liabilities to customers declined significantly as at 31 March 2011 in comparison with year-end 2010 from € 50,446 million to € 45,092 million, which is mainly attributable to the significant decrease in repurchase agreements due to lower funding requirements during the first quarter of 2011. However, deposits by corporate customers rose in the first months of the year. Securitised liabilities totalled € 43,696 million at the end of the quarter (31 December 2010: € 44,726 million). Trading liabilities, comprising mainly negative fair values of derivatives, decreased in line with the movement in derivatives disclosed as assets. At the end of the first quarter of 2011, they amounted to € 8,629 million (31 December 2010: € 11,412 million). Subordinated capital amounted to € 8,617 million (31 December 2010: € 8,719 million).

Equity capital disclosed on the balance sheet increased slightly in comparison with year-end 2010, to € 5,201 million (31 December 2010: € 5,094 million), due to the positive result in the first quarter.

Decline in business volume

Business volume declined in comparison with year-end figures of the previous year by € –12,954 million to € 150,772 million (31 December 2010: € 163,726 million). The reasons for this — in addition to the reduction in total assets — were the decline in guarantees and warrantee agreements to € 3,102 million (31 December 2010: € 3,270 million) and the reduction in irrevocable loan commitments to € 8,634 million (31 December 2010: € 9,526 million).

Continued increase in Tier 1 capital ratio incl. market risk position to 17.2 %

Regulatory figures (%)	31.3.2011	31.12.2010
Equity ratio (solvency coefficient)	28.1	24.4
Total ratio / Regulatory capital ratio	25.7	22.4
Tier 1 capital ratio	19.2	17.3
Tier 1 capital ratio (including market risk items)	17.2	15.4

Regulatory capital in accordance with KWG (German Banking Act) for solvency purposes and regulatory capital requirements pursuant to the German Solvency Regulation (SolvV) (€ bn)	31.3.2011	31.12.2010
Eligible regulatory capital pursuant to Section 3 (1) Sentence 1 in conjunction with Section 2 (6) Sentence 1 SolvV	9.5	9.3
Of which: core capital for solvency purposes	6.4	6.4
Total risk assets (including market risks and operational risk)	37.1	41.4
Of which: Risk assets counterparty default risk	29.3	33.1

The Tier 1 capital ratio of HSH Nordbank continued to rise in the first quarter of 2011 and reflects a solid capital adequacy as at 31 March 2011. The Tier 1 capital ratio (including market risk positions) increased to 17.2 % (31 December 2010: 15.4%) and the regulatory capital ratio rose to 25.7% (31 December 2010: 22.4%). The reason behind these increases was in particular the continued reduction in total assets — reinforced by the depreciation of the US dollar. These effects caused risk assets to decline further. On the other hand, regulatory capital remained nearly unchanged at the level of 31 December 2010. The explanatory notes take into consideration the relieving effect of the second loss guarantee on risk assets.

Refinancing activities expanded

HSH Nordbank was able to expand its refinancing basis in the first quarter of 2011 using the different funding instruments of the Bank. Accompanied by numerous sales initiatives, one focus was on issues within the Sparkassenverbund (Association of Savings Banks). The Bank succeeded in increasing sales in the field of bonds, particularly for customers of the savings banks, again significantly in comparison with the corresponding period of the previous year.

Funding in the capital markets continues to be difficult. However, HSH Nordbank was still active in the capital markets in an environment characterised by general investor reticence. At the beginning of the year, the Bank was able to place two Pfandbriefs on the market. The Bank had previously received from the rating agency Moody's the best possible rating of Aaa for its mortgage cover pool. Other significant activities by the Bank were private placements of unsecured issues as well as Pfandbriefs with institutional investor groups in Germany.

In addition to the issuing activities, a continuously stable and broadly diversified volume of fixed-term and demand deposits continued to contribute to the refinancing of business in the first quarter of 2011. Thanks to its excellent customer relationships and intensified approach, the Bank was able to increase the share of corporate customers in overall deposits and to achieve a longer average term of deposits.

Detailed information on the liquidity and risk situation is set out in the Risk Report section of this Management Report.

SEGMENT REPORTING

Core Bank and Restructuring Unit show profit

HSH Nordbank's Core Bank consists of the Sector Specialist Bank, Regional Bank and Other segments. Results of the Shipping, Aviation and Energy & Infrastructure divisions are reported under the Sector Specialist Bank segment. The Regional Bank segment reports the results of the areas Corporate Clients, Real Estate Clients, Savings Banks and Private Banking. The segment Other includes the financial market business, with the central refinancing function for the Group, cross selling activities with the customer segments as well as the Bank's overall position including strategic participations and central portfolios. During the first quarter 2011 the Bank was able to generate net income before restructuring of € 64 million (previous year: € 23 million).

The Restructuring Unit of HSH Nordbank is responsible for the winding down of credit and capital market transactions that are not continued in the Core Bank. Net income before restructuring of the Restructuring Unit in the first quarter of 2011 including consolidation effects amounted to € 179 million (previous year: € – 193 million).

Net income elements not allocated to divisions are reported in the consolidation columns of the Core Bank and the Restructuring Unit. The balance sheet effects of the second loss guarantee are also contained in the consolidation columns and not allocated to the segments.

Details of developments within the individual segments are provided below.

SEGMENT OVERVIEW

Segment overview as at 31 March 2011 (€ m)		Sector Specialist Bank	Regional Bank	Other	Consolidation Core Bank	**Total Core Bank**	Restructuring Unit	Consolidation Restructuring Unit	**Total Restructuring Unit**
Total income	**Q1-2011**	**161**	**139**	**17**	**–136**	**181**	**193**	**–4**	**189**
	Q1-2010	119	112	96	–29	298	184	–8	176
Loan loss provisions	**Q1-2011**	**177**	**–29**	**–14**	**–105**	**29**	**83**	**–36**	**47**
	Q1-2010	–119	–105	47	18	–159	–296	0	–296
Net income before restructuring	**Q1-2011**	**275**	**51**	**–8**	**–254**	**64**	**219**	**–40**	**179**
	Q1-2010	–40	–50	97	16	23	–185	–8	–193

SECTOR SPECIALIST BANK SEGMENT

In the Sector Specialist Bank segment, after strong recovery during 2010 the relevant markets generally continued to profit from the growing global economy at the start of 2011. The income and risk situation in this segment continued to improve. Net income before restructuring for the segment clearly increased to € 275 million (previous year: € – 40 million).

Sector Specialist Bank segment (€ m)	Q1–2011	Q1–2010	Change in %
Net interest income	134	113	+19
Net commission income	6	7	–14
Net trading income	21	–5	> +100
Net income from financial investments	–	4	–100
Total income	**161**	**119**	**+35**
Loan loss provisions	177	–119	> –100
Administrative expenses	–65	–40	+63
Other operating income	2	–	–
Net income before restructuring	**275**	**–40**	**> +100**
Average equity	1,147	1,176	–2
(€ bn)	31.3.2011	31.12.2010	
Segment assets	29	31	–7

Markets benefiting from the economic upturn

The dynamics on the shipping markets weakened in the first quarter of 2011. Demand had already reached its pre-crisis levels in many markets at the end of 2010. This was particularly noticeable in container shipping. Handling of bulk goods was affected by the weather phenomena in Australia, which caused loss of lading that had a significantly larger impact than initially assumed. Growth also weakened in the shipment of oil, not least due to the political unrest in the Arab world.

The supply side, however, continued to be characterised by high or growing delivery volumes, which were not compensated accordingly by scrap disposal. As a result, transport capacity in the three main markets grew significantly. Bulk carriers and oil tankers thus suffered from an increasing oversupply, which put freight rates under further pressure. In contrast, the charter market for container ships was able to avoid negative tendencies, since primarily large container vessels were delivered, that are not directly relevant to the charter market.

After a strong recovery in 2010, the international air traffic markets started the new year well. The global economic upturn ensured a stable demand for traffic. However, certain events such as unrest in some countries in North Africa and the Middle East, along with the natural and nuclear catastrophe in Japan, had a negative influence on regional air traffic trends. Industry-wide, capacities grew somewhat more quickly than demand, so utilisation ratios declined. This applies both to passenger as well as freight traffic. The airlines were also burdened by higher oil and kerosene prices.

European airports were also able to continue their growth trend at the start of the year. Cargo traffic grew even more strongly than passenger traffic.

The market for renewable energy was characterised by extremely varied tendencies in the first quarter. In particular in the solar power segment, there were some drastic subsidy cuts in some countries, due to massive capacity increases in previous years. Events in Japan provided a change in mood. The attitudes towards nuclear energy in other European nations may have moved towards the negative to a lesser extent than in Germany, but in general the existing evaluation of the risks and costs of safety requirements for nuclear power were questioned. The prospects for political support for alternative energy sources thus clearly improved. Prices for solar modules continued to decline in view of greatly expanded capacity. Also in decline were the prices for wind energy installations, which are tending to improve the profitability of new wind energy projects.

New business expanded

In the context of the stabilised markets and extensive portfolio adjustments in the previous year, the divisions in the Sector Specialist Bank segment at the start of 2011 specifically expanded their activities to win new commitments and have already entered into their first transactions. At the same time, due to the consequences of the crisis, prolongations and restructuring remain necessary.

Risk-adjusted margins and new business gaining momentum had a positive effect on income in the segment. Currency effects also increased income. Cross-selling income from capital market products also made a stable contribution, particularly interest rate hedges. Overall, the Sector Specialist Bank segment generated net income of € 161 million (previous year: € 119 million). Due to improved market conditions and successful portfolio management, the need for loan loss provisions was low in the first quarter of 2011. Overall loan loss provisions in the amount of € 177 million (previous year: € – 119 million) were reversed net in this segment. Foreign currency translation also had a positive effect on total loan loss provisions. Due to positive business developments, the result before restructuring in the Sector Specialist Bank segment in the first quarter of 2011 was € 275 million (previous year: € – 40 million).

SECTOR SPECIALIST BANK SEGMENT OUTLOOK

Market recovery with new factors of uncertainty

Despite numerous uncertainties, we assume continued recovery for the global economy, which will also have positive effects for maritime transport. However, the order book for container ships, bulk carriers and oil tankers remains full. At least until the end of 2012, the resulting high delivery figures from shipyards will maintain the currently apparent oversupply of ships. A continued pressure on charter rates can accordingly be expected. One exception to this rule could be the charter market for container ships, which is supported due to a relatively small number of ships smaller than 4,500 TEU that are currently ordered. In contrast to that, high delivery figures for larger ships should suppress the market on the side of the line shipping companies; a sustainable recovery in freight rates cannot be expected.

The consequences of the natural and nuclear catastrophe in Japan on shipping can currently not yet be quantified. However, we assume that the resulting production problems will tend to have a short-term negative effect on all markets. In the medium term, bulk carriers could experience a positive effect, since it is likely that an increasing part of energy production will be covered by coal; liquid gas tankers could also benefit. In oil tankers, there could be a temporary shift from crude oil to product tankers, since about 30 % of refinery capacity in Japan has been damaged. In container ships and automobile transports, it will probably not be possible to make up the missing demand.

Air traffic markets, for which growth on a long-term trend level has been expected so far, will also be affected by the events in North Africa, the Middle East and particularly in Japan. In all, the countries currently affected account for about 7 – 8 % of global transport demand. However, we are currently assuming that for the overall year only a small total effect can be expected, since the negative influences should have only a temporary effect. The profit expectations of the airlines will thus be burdened rather by the high price of oil.

At airports and sea ports as well as in rail transport, pre-crisis transport volumes have partly not yet been achieved, so there is still potential for further recovery. Uncertainty due to air traffic fees, the public debt crisis, saving packages and geopolitical risks, however, continues to exist. Various expansion projects at airports and ports and regarding rail lines will ensure a continuing high level of investment.

The market for renewable energy is likely to gain additional momentum over the course of 2011. The expansion of sustainable sources of energy is being intensively pushed forward in many countries. Not least due to the more critical evaluation of nuclear energy, environmental and energy subjects are increasingly getting on the political agenda in the individual countries in Europe. In particular in the solar segment, which is still characterised by higher dependence on subsidies, the partly significant reduction in feed-in tariffs should largely mirror the decline in price due to technical progress. Overall, we anticipate further growth in the solar industry, although significant shifts are possible in different regions. The growth in the market for wind energy should increase in 2011 and again approximate the longer-term growth trend.

Risk-conscious expansion of business

After the extensive restructuring measures and portfolio adjustments, new business is back in the focus in 2011. We are concentrating on selected counterparties and reasonable yield/risk ratios in order to maintain a balanced portfolio structure in all three business units. The goal is to offer customers tailor-made financing solutions and to supply them optimally with the Bank's entire range of products.

Both in new and existing business, attention is paid to a reasonable return on risk. We also want to increase sales of risk management products, for example in the field of interest products. Overall, we therefore expect increasing yields. We want to use the growth in customer deposits to support the refinancing of our business — particularly in the US dollar sphere. With stabilised overall underlying economic conditions, we expect no further significant increase in risk provisions.

REGIONAL BANK SEGMENT

Continued robust economic trends in Germany had a positive effect in the first quarter of 2011 on the industries and markets relevant to the Regional Bank segment. The trend provided impetus for business in the divisions of the segment. Net income before restructuring of the segment in the first quarter of 2011 amounted to € 51 million (previous year: € –50 million).

Regional Bank segment (€ m)	Q1–2011	Q1–2010	Change in %
Net interest income	90	89	+1
Net commission income	15	16	–6
Net trading income	14	7	+100
Net income from financial investments	20	–	–
Total income	**139**	**112**	**+24**
Loan loss provisions	–29	–105	–72
Administrative expenses	–59	–54	+9
Other operating income	–	–3	+100
Net income before restructuring	**51**	**–50**	**> +100**
Average equity	731	586	+25
(€ bn)	31.3.2011	31.12.2010	
Segment assets	21	23	–6

Corporates benefiting from the economy

The business of our corporate customers at the start of the year experienced mostly positive trends over all industries. As a result — partly also due to significantly higher commodities prices — the working capital requirements of companies increased, which was reflected among customers in higher use and expansion of credit lines. In particular for trade companies, we saw an increasing demand for short-term loans. In individual industries such as mechanical engineering and automotive manufacturing, the increased demand in the past quarter led to capacity bottlenecks for some manufacturers. The resulting need for investment is partly financed by customers' increased income, but also led to increased requests for funding from banks. The expanded export activity of our customers reinforced the demand for export and trade finance.

Irrespective of the good situation for many companies, the competition for customers with a high credit rating in corporate business continues to be intensive. At the same time, thanks to stable customer relationships, we were still able to maintain our market position and even win new customers. However, credit margins are under pressure due to the competitive situation. The deposit volume of our customers grew to a new all-time high.

The German real estate markets also benefited from the economic trends. In the first three months of 2011, the demand for office space stabilised after the optimistic sentiment in the service sector led to extensive new lease contracts in 2010. At the same time, consolidations of facilities and relocations were still in focus at the start of the year, so in the end the net demand slowed slightly again. The demand for retail space, in view of increased consumer confidence in Germany, was high, and was particularly driven by international retailers. The top locations of the major cities as well as professionally managed shopping centres were in greater demand. This improved trends in prime rents. On the residential market, particularly the supply in the areas of West German large cities in high demand remained short. The dynamics of the general rise in rent thus gained speed again.

In the division Real Estate Clients, market trends were reflected in increased financing requests, which over the course of the year should lead to an expansion in new business with both existing and new customers. At the same time, real estate financing also saw competitive pressure due to the concentration of many competitors on the German market.

In Private Banking business, in the context of intermittently high uncertainty on the financial markets, demand was oriented towards short- and medium-term forms of investment. In view of increased expectations of inflation, customers are paying more attention to return on investment. The division successfully adapted its product range to the demand. The Bank managed to increase the number of new clients in asset management, which is due to good performance, reflected again in good placements of our asset management in the Germany-wide Firstfive Portfolio ranking. Private Banking business was supported by continued growth in customer confidence in the Bank.

In the Savings Bank division, the calming of the markets made business in the first quarter of 2011 somewhat livelier. In addition to the stable sales of interest rate hedging instruments in the corporate customers business of savings banks, the sale of bond products and expansion of funding in the Sparkassenverbund was the centre of attention. Concerning own investments of the savings banks, the focus primarily was on short- and medium-term products.

New business enters the focus

Based on the robust economic environment in Germany as well as portfolio adjustments already completed, the Bank started expansion of new business in the Regional Bank segment in the first quarter of 2011. Customers also continued to receive extensive support with follow-up financing and prolongations of existing financing.

Total income for the Regional Bank segment rose in the first quarter to € 139 million (previous year: € 112 million). In addition to financing for new and existing customers, cross-selling transactions, particularly interest rate hedging and investments products, contributed to income. Income from the sale of LB Immo Invest GmbH also had an impact. It was possible to reduce additions to loan loss provisions to a few counterparties thanks to the improved business situation of companies. Overall, loan loss provisions fell to € – 29 million (previous year: € – 105 million). Thanks to the improved income and risk situation net income before restructuring reached € 51 million (previous year: € – 50 million).

REGIONAL BANK SEGMENT OUTLOOK

Increased business opportunities

Due to the high utilisation of production capacity, we assume that the investment activities of our corporate customers will increase. The increase in financing volume at companies in the trade sector should continue throughout the rest of 2011. In the food industry we are anticipating a significant increase in prices for agricultural products on the world markets. Overall, we predict increased demand for working capital financing. The demand for foreign trade financing and products in order to limit payment risk should continue to rise, and we also see brisk market activity in the sale of companies and parts thereof and the related financing, which we will support on a case by case basis. We anticipate that growth in business activity will increasingly be reflected in income in this division.

The German real estate market will also benefit from the positive mood in 2011. In addition to relocations not resulting in net absorption, expansions should increase again. After an increase in demand for space from corporate groups this should now spill over to small and medium-sized companies as well. At the same time, there are fewer and fewer completed properties, so we anticipate a declining supply of idle office space nearly everywhere. As a result, in most cities we anticipate increasing top rents in the office segment. An increasing number of foreign retailers is entering the German retail market. In 2011, this should contribute to a particularly defined upwards movement in retail rents in central locations. On the residential real estate market, we expect continued growth in rents, while construction activity will continue to lag behind demand in congested urban regions.

In the context of growing market activity, we see attractive opportunities in the Bank's real estate financing business in the areas of residential and commercial real estate. The market for commercial project development should also become more dynamic. Overall, we expect our new business to revive over the course of the year despite strong competition.

Based on the fixed anchoring of our Private Banking in the North German region, we are striving to expand new business with foundations and asset management, including the management of large family fortunes. A significant share of our business in private banking continues to be based on existing customer relationships of the divisions. We primarily want to increase the managed assets with these customers.

At the start of May, an agreement was concluded pertaining to the sale of the private client business of HSH Nordbank Private Banking S.A. (Luxembourg). The sale is expected to be completed in the second half of 2011.

In the Savings Bank division, we want to continue to develop our range of products for savings bank customers over the course of 2011. The support of bank and portfolio management at savings banks, credit portfolio management and syndicated loan business also continue to be significant points of focus in business with savings banks.

Special emphasis in the segment will continue to be placed on the building up and stabilising of customer deposits, which make an important contribution to refinancing our business. Furthermore we want to increasingly generate additional income in all divisions through cross-selling transactions, with investment and risk management products among other things.

SEGMENT OTHER

The net income of the Other segment was significantly influenced in the first quarter of 2011 by business of the financial markets division as well as by developments in the positions of the overall Bank.

Segment Other (€ m)	Q1-2011	Q1-2010	Change in %
Net interest income	-96	51	> -100
Net commission income	1	1	–
Net trading income	99	35	> +100
Net income from financial investments	13	9	+44
Total income	**17**	**96**	**-82**
Loan loss provisions	-14	47	> +100
Administrative expenses	-21	-47	-55
Other operating income	10	1	> +100
Net income before restructuring	**-8**	**97**	**> -100**
Average equity	434	336	+29
(€ bn)	31.3.2011	31.12.2010	
Segment assets	31	34	-8

Customer-oriented financial markets business expanded

Customer-oriented financial markets business trended positive in the first quarter of 2011. Sales of cross-selling products continued to benefit from intensive management of existing business, and contributed slightly more to net income than in the previous year. The main focus of customers was on interest rate hedging products due to the historically still comparatively low level of interest rates and the general expectation of rising rates. The significant fluctuations in the currency and raw materials markets represented particular challenges to customers in terms of risk management.

It was possible to expand the refinancing basis of HSH Nordbank in the first months of 2011. Details on our refinancing activities are set out under ‘Refinancing activities expanded’ in the chapter Business developments.

Continued concentration on support of the customer divisions

Net income in the Other segment, at € 17 million, lagged behind the previous year (€ 96 million). Overall bank items suffered from the effect of the valuation of hybrid financial instruments in accordance with IAS 39.A8, based primarily on the scheduled amortisation of the effect. With € 34 million, the Financial Markets division made a positive contribution to income. Significant contributions were made by liquidity management and business with institutional customers. Loan loss provisions, due to valuation allowances in the overall Bank’s positions in the first quarter of 2011, totalled € –14 million, after reversals of valuation allowances in the previous year, among others in business with institutional customers, yielded income in the amount of € 47 million. In total, the Bank reported net income before restructuring in the first quarter of 2011 of € –8 million for the Other segment (previous year: € 97 million).

SEGMENT OTHER OUTLOOK

Clear customer focus

For 2011, the Capital Markets area expects growth in customer activity that will be increasingly supported by new business in the lending divisions. We assume that during this process the demand for risk management products will also increase among customers. In addition to the hedging of loans, the product range of HSH Nordbank also primarily targets the comprehensive support of customers in the context of implementation of their business models.

In the context of a coordinated procedure in the German Savings Banks Finance Group, an agreement pertaining the sale of an indirect equity holding in DekaBank Deutsche Girozentrale (Frankfurt/Main) was signed in April. Completion of the sale is anticipated in the second quarter.

RESTRUCTURING UNIT SEGMENT

Portfolio reduction continues

In the first quarter of 2011, HSH Nordbank was able to continue the consistent reduction non-strategic portfolios within its internal Restructuring Unit. Total assets of this segment amounted to € 58 billion as at 31 March 2011. This corresponds to a portfolio reduction of € 5 billion compared to year end 2010 and of € 19 billion since year end 2009.

Restructuring Unit segment (€ m)	Q1–2011	Q1–2010	Change in %
Net interest income	93	163	–43
Net commission income	14	15	–7
Net trading income	56	–14	> +100
Net income from financial investments	30	20	+50
Total income	**193**	**184**	**+5**
Loan loss provisions	83	–296	> –100
Administrative expenses	–60	–63	–5
Other operating income	3	–10	> +100
Net income before restructuring	**219**	**–185**	**> +100**
Average equity	2,607	2,043	+28
(€ bn)	31.3.2011	31.12.2010	
Segment assets	58	63	–9

Winding-down of lending business ahead of plan

The lending business consolidated within the Restructuring Unit with a volume of € 31 billion as at 31 March 2011 (31 December 2010: € 35 billion) includes foreign real estate business, the business areas commodity trade finance, leasing refinancing as well as certain transactions intended to be wound down from the areas shipping, transport, energy (USA) and corporate clients (LBO). In the first quarter of 2011, we continued to drive the winding down of non-strategic loan portfolios.

The stabilisation of the European real estate markets continued during the first quarter of 2011. Germany, Great Britain, France and Sweden continue to show positive tendencies, while the recovery on the Danish and Dutch markets is lagging behind the general trend. In many cases, it was possible to speed up the winding down of the portfolio of the Bank in the European markets alongside scheduled repayments by means of unscheduled repayments, in particular as a result of active measures taken. The situation in the US real estate market remained difficult throughout the first quarter. As already at the end of 2010, however, the first signs of a slight improvement were noticed in several asset categories. However, we expect only a minor volume of loan repayments for 2011.

In the shipping portfolio, development continued largely as planned. We carried out additional restructurings so that the portfolio can be wound down more markedly in the event the market recovers further and the financing business revives in the industry sector. It was possible to achieve early repayment of some few risky commitments as the result of intensive negotiations.

Among the corporate customer portfolios in the Special Loans division, we were able to report some additional improvement in credit quality as a result of the more favourable economic trends. However, some customers are still in a very difficult financial situation. Other positive development was seen on the secondary market for selected corporate loans. The portfolios were further reduced through M&A activities as well as scheduled and unscheduled principal repayments, among other things.

The foreign LBO portfolio particularly benefited from the stabilisation of the Northern European credit markets, which enabled commitments to be reduced at a higher rate and only required moderate additions to loan loss provisions.

The assets in the Commodity Finance and Transport portfolio characterised by US dollar positions were again significantly reduced in the first quarter of 2011 taking currency effects into account.

Further progress was also made in the winding-down of non-European project financings for energy projects in the Wind-down Loans division. By focusing on the restructuring of problematic portfolios, risky assets could be reduced more quickly while the reduction of less risky assets proceeded more slowly. In the first quarter of 2011, in some cases loans were repaid early and a syndication was agreed on with a low discount.

Reductions in capital markets portfolios

The segment assets of the capital markets portfolios consolidated in the Restructuring Unit were reduced to € 27 billion by 31 March 2011 (31 December 2010: € 28 billion). The market environment in the first quarter — particularly in March — was burdened by extraordinary events such as the natural and nuclear catastrophe in Japan, conflicts in the Arab world, the continued debt crisis and various rating downgrades in the sovereign and banking area.

In the ABS and structured finance portfolios of the credit investment portfolio (CIP) the demand was stable in the first quarter of 2011, particularly in the asset classes of Prime RMBS and Consumer ABS, which was reflected in the spread trends. In the CMBS asset class, market improvements were seen in European issues driven by US investors. The CLO asset class experienced unexpected growth after Moody's upgraded ratings.

The public sector financing business continued to be characterised in the first quarter of 2011 by the European financial and debt crisis. Renewed worries about the liquidity of individual states — particularly the so-called PIGS countries — kept risk premiums in individual countries at a high level. In particular Greece, Ireland and Portugal were again under significant pressure by the end of March. At the start of May, Portugal had agreed to the conditions imposed by the EU and IWF, opening the way for financial aid under the European rescue package. Regarding Greece, market participants are increasingly assuming a restructuring of the outstanding national debt. The core nations acted as safe harbours, particularly Germany, which experienced robust economic growth. German federal states and municipalities bonds, however, showed slight yield increases. The buyers of bearer debentures and loans against borrowers' notes are increasingly requiring higher yields from federal states with high capital requirements.

The first quarter was primarily used to continue to drive the loss-minimising winding-down of loans to municipal companies.

Solid positive result

Loss-minimising winding-down of business and an improved credit environment had visible positive effects in the first quarter of 2011 on the risk and income situation of the Restructuring Unit. It was possible to reverse loan loss provisions of € 83 million (previous year: € –296 million). Foreign currency exchange also had a positive effect on loan loss provisions. Despite continued portfolio reduction, net income for the segment reached € 193 million (previous year: € 184 million). Reversals of impairment losses and gains from disposals both had positive effects. Overall, during the first quarter of 2011 the Restructuring Unit segment booked net income before restructuring of € 219 million (previous year: € –185 million).

RESTRUCTURING UNIT SEGMENT OUTLOOK

Continued winding down measures

The reduction of portfolios in 2011, in addition to portfolio reductions resulting from scheduled principal repayments, will continue to be driven additionally by active measures. The success of these measures continues to depend on the development of the economic environment in the relevant industries and financial markets. The downside potential from the portfolios will decrease in line with the continued reduction. However, increased additions to loan loss provisions are expected for individual counterparties.

In the real estate sector, the economic crisis bottomed out in the majority of European markets in 2010 and the sector will continue its moderate recovery. Against this backdrop, the Bank anticipates that it can continue to reduce its portfolios in European countries outside of Germany. The situation in the US real estate market continues to be difficult for the time being, despite slight recovery tendencies, so that we do not expect a significant reduction in the portfolio. Depending on the economic development there may be a need for loan loss provisions for individual transactions.

The winding down of positions in the shipping portfolio continues to be hindered by the reduced number of banks active in the ship financing market. The opportunities to drive forward the winding down process through syndications and brokering to other banks are thereby currently limited.

In the corporate clients portfolios and the foreign LBO portfolio of the Special Loans division, we expect continued positive market developments with further loss-minimising successes achieved in the winding down process together with declining need for loan loss provisions.

We expect continued high volatility on the capital markets throughout the rest of 2011. The development of the debt crisis and the consequences of the nuclear catastrophe in Japan should continue to influence the situation on the markets and thus the success of further winding down measures.

OUTLOOK

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

ANTICIPATED UNDERLYING CONDITIONS

Global economy continues growth trend

If the effects of the natural and nuclear catastrophe in Japan and the rise in oil prices remain limited, the global economy should continue its path towards recovery during 2011. After the very high dynamics in the last year, however, the growth should weaken slightly. In addition to price increases for commodities, restrictive political measures in the emerging economies such as interest rate increases by the central banks will dampen the economy. In many Western industrial countries, debt reduction will further burden economic activity. For the USA — supported by continued very low Federal Reserve rates — we expect a moderate recovery. The eurozone should remain on its slow growth path. The German economy will continue to grow above average, since companies here benefit relatively strongly from additional demand from abroad and domestic demand should continue to rise.

The banks will continue their restructuring in view of the changed regulatory requirements. Just as in 2010, a stress test will be carried out on the European banks this year. The European Banking Authority (EBA) will test the resistance of institutions against different economic shocks, including intensification of the debt crisis in the eurozone. HSH Nordbank will participate in the stress test, along with 89 other European banks. The publication of the results is expected in June. HSH Nordbank successfully participated in the stress test conducted in 2010.

In view of increased inflation risk, the European Central Bank should follow their first base rate increase in April with additional increases this year. For the USA, in view of the still-high levels of unemployment, we expect rising Federal Reserve rates no earlier than 2012. The yields on 10-year Bunds should continue to rise until the end of the year, with continued economic recovery, faster inflation and increased public debt. The yields of US government bonds of corresponding periods should move on even higher levels in the medium term, since inflation risks there are more extreme than in the eurozone and moreover the US lag behind the eurozone in the budget consolidation necessary. This, along with the relatively early tightening of fiscal policy in the eurozone, should continue to support the Euro against the US dollar.

In view of the uncertainties in play, an otherwise rather moderate valuation on the stock markets can be put into perspective. Without significant improvement of the situation in the crisis regions in the eurozone, potential price increases should remain moderate. On the other hand, we do not expect a significant plunge provided that no other catastrophic event occurs.

ANTICIPATED BUSINESS SITUATION

Expansion of core business

In the coming months, HSH Nordbank will continue to implement its realignment programme consistently. This includes among other things the reduction of risk positions in the Restructuring Unit, closing office locations and selling equity holdings and the ongoing optimisation of organisational structures and processes.

At the same time, based on the stabilisation achieved, return to the profit zone and strategic focus on clearly defined activities, the Bank plans a new expansion of business in the Core Bank. The customer divisions will concentrate on selected new business with reasonable income and risk profiles. In addition to the financing business, the Bank will drive the sales of the entire range of services in the context of comprehensive customer support, in order to continue to increase the benefit to the customer and exhaust all income potentials.

The net income situation of the Bank in a continued stable credit environment should also be strengthened by a lower need for loan loss provisions than in the previous year. Even in 2010, loan loss provisions fell sharply thanks to comprehensive portfolio adjustments and the economic recovery. For the year 2011, the Bank continues to expect a Group net income above the level of 2010.

The focus continues to be on the reduction of state guarantees. In mid-May 2011, another issue guaranteed by Financial Markets Stability Fund (SoFFin) with a volume of € 3 billion expired according to plan. By July 2012, the Bank will fully return the SoFFin guarantees by repayment of the remaining bonds as agreed. Moreover, in view of the stable capital situation, another reduction in the second loss guarantee of the federal states is planned, after an initial reduction by € 1 billion took place in March 2011. A second partial reduction by € 1 billion was initiated by the Bank in May 2011. The Bank expects approval to be granted by the guarantor in the near future. The expenses of the Bank decrease in line with the reduction of the guarantee.

EU state aid proceedings continue

The continued existence of HSH Nordbank AG depends on whether the European Commission in the foreseeable future approves the stabilisation measures granted by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein on a permanent basis. It is also necessary that the EU approval should only be tied to requirements which can be implemented within the framework of reasonable business planning, and in particular, which will not conflict with the effects of stabilisation measures that relieve the regulatory capital.

Extension of the refinancing basis

Over the course of 2011, HSH Nordbank plans to continue consistent implementation of its funding strategy. The Bank uses a wide variety of instruments to achieve its refinancing goals. Highlighted activities during the year are the expansion of funding among customers in the savings bank sector, the expansion of deposit business with corporate customers and other target groups as well as the expansion of the investor base in Germany and around the world. The continued reduction of refinancing costs is also in focus.

We expect that the positive profit trends and the stabilisation achieved by the Bank will contribute in 2011 to successful funding activities. Moreover, a decision of the European Commission in the review process currently still pending, which would be positively received, would further facilitate access to other investor groups and would thereby support the planned expansion of the new business of the Core Bank.

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

Anticipated segment performance

The expectations of the individual segments are influenced by developments in the economy and in the financial markets, whereby the effects on future opportunities and risks are expected to differ based on specific market conditions within the sectors. Within different credit portfolios, depending on economic developments and the markets, additional specific loan loss provisions may be required. The largest burden should still relate to on portfolios which no longer belong to the core business and which have been consolidated in the Restructuring Unit for systematic winding down. Details regarding default risk are set out in the Risk Report.

Details of developments anticipated within the individual segments are given in the Segments chapter.

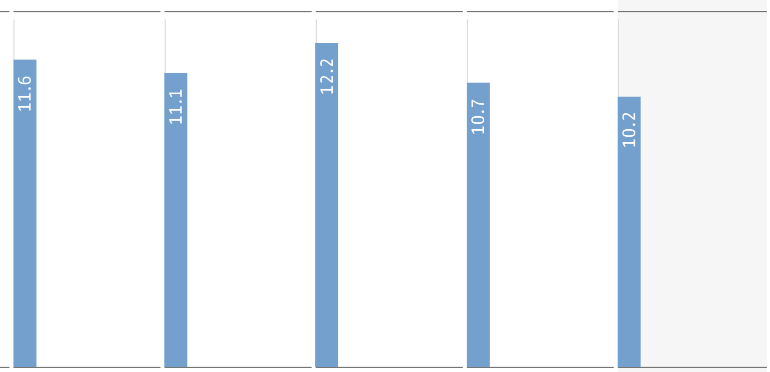
RISK REPORT

The Bank's significant risks include default, liquidity, market and operational risks. The methods, instruments and processes for the management of risks are explained in detail in the Risk Report contained in our 2010 Annual Report.

Risk-bearing capacity

As part of the monitoring of our risk-bearing capacity the economic capital required to cover any unexpected losses (overall risk) is regularly compared to the available amount of economic risk coverage potential. Economic risk coverage potential is determined using the net asset value approach. In addition to equity capital for economic purposes (including changes in the net asset value) the net asset value approach takes into account, amongst other things, unrealised gains and losses arising on securities, equity holdings and the lending business as well as effects from the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein (net total of economic mark-ups and mark-downs).

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

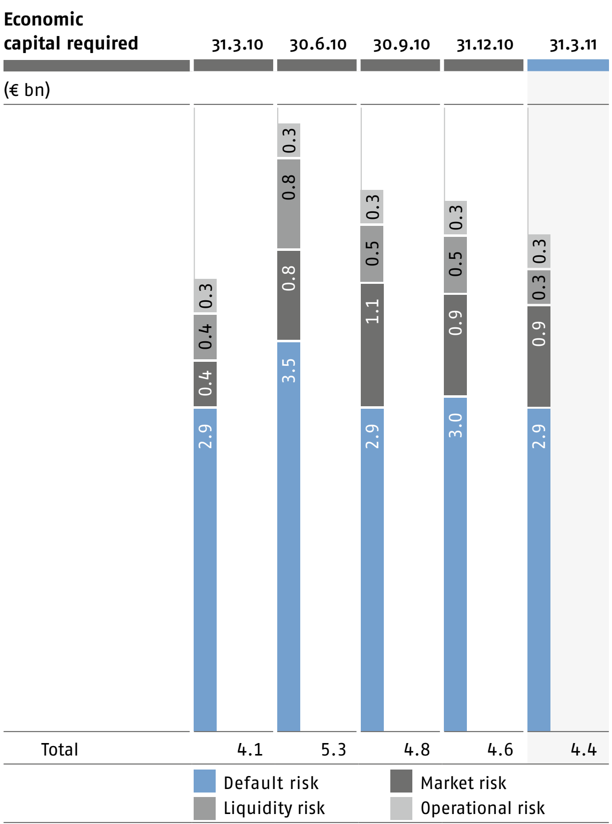


Economic risk coverage potential (€ bn)	31.3.10	30.6.10	30.9.10	31.12.10	31.3.11
Equity capital for economic purposes	13.0	13.0	13.0	12.9	12.2
Amount retained under second loss guarantee	-3.2	-3.2	-3.2	-3.2	-3.2
Net total of economic mark-ups / mark-downs	1.8	1.2	2.4	1.0	1.2
Total	**11.6**	**11.1**	**12.2**	**10.7**	**10.2**

As at 31 March 2011, risk coverage potential amounted to € 10.2 billion (31 December 2010: € 10.7 billion). Limits for individual risk types are derived from the risk coverage potential within the framework of the risk strategy.

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

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



The economic capital required for default risk as at the reporting date amounted to € 2.9 billion (31 December 2010: € 3.0 billion). The second loss guarantee of the Free and Hanseatic City of Hamburg and the Federal State of Schleswig-Holstein has clearly eased the burden since 30 June 2009, as no economic capital is required for default risk arising from the positions that fall within the scope of the second loss guarantee.

In response to the liquidity shortage in the markets, HSH Nordbank introduced a value-at-risk approach for quantifying liquidity maturity transformation risk as early as the beginning of 2008. This long-term / structural liquidity risk is an expression of the danger of increased refinancing costs on the open liquidity position. Compared to the end of 2010, the liquidity value-at-risk (LVaR) as a measurement of this risk decreased by € 0.2 billion to € 0.3 billion as at 31 March 2011. In particular, this development reflects the decrease in liquidity gaps to be notionally closed and the refinancing costs (volatilities) which arise from this closing and which are decisive for determining the LVaR. Insolvency risk, which represents the more important aspect of liquidity risk in general compared to the liquidity maturity transformation risk, is backed by a buffer of liquid funds available at any time. Information on managing the insolvency risk, amongst other things, is included in the section “Liquidity risk”.

As part of the risk-bearing capacity concept, market risk (value-at-risk), which is determined on a daily basis at a confidence level of 99.0 % and a one day holding period, is scaled up to show economic capital required for market risk positions for purposes of managing risk-bearing capacity with a confidence level of 99.9 % and a risk horizon of one year. The economic capital required for market risk as at the reporting date amounted to € 0.9 billion (31 December 2010: € 0.9 billion).

Operational risks are determined in accordance with the Standardised Approach as defined in the German Solvency Regulation (SolvV). The corresponding economic capital required amounted to € 0.3 billion as at 31 March 2011 (31 December 2010: € 0.3 billion).

As a result of the effects described above, overall economic risk decreased compared to the end of 2010 and, as of the reporting date, amounted to € 4.4 billion (31 December 2010: € 4.6 billion). The utilisation of risk coverage potential amounted to 43 % (normal case) as at the reporting date. The risk-bearing capacity was secured accordingly.

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

Risk-bearing capacity of the Group
(€ bn)

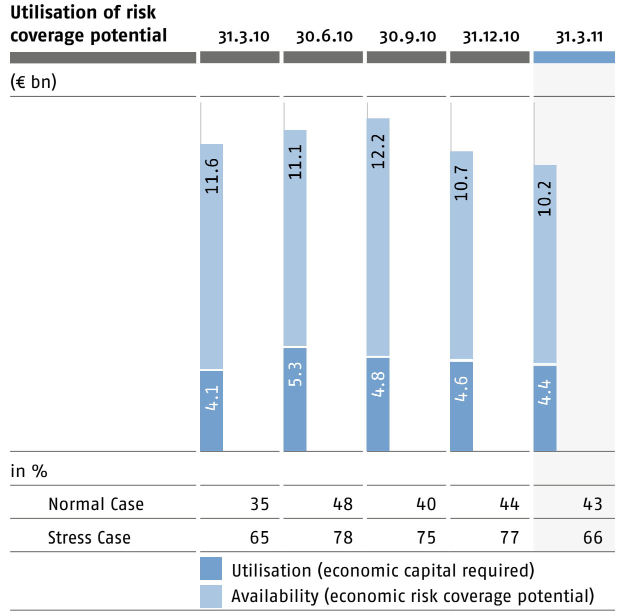
	Absolute		As a % of the risk coverage potential	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Economic risk coverage potential	**10.2**	**10.7**	**100**	**100**
Risk limits				
of which: Default risk	4.0	3.5	39	33
Market risk	2.0	2.2	20	21
Liquidity risk	0.8	0.8	7	7
Operational risk	0.3	0.3	3	3
Total	**7.1**	**6.8**	**69**	**64**
Economic capital required				
of which: Default risk	2.9	3.0	29	28
Market risk	0.9	0.9	8	9
Liquidity risk	0.3	0.5	3	4
Operational risk	0.3	0.3	3	3
Total	**4.4**	**4.6**	**43**	**44**
Risk coverage potential buffer	**5.8**	**6.0**	**57**	**56**

Furthermore within the presentation of the risk coverage potential utilisation determined as at the reporting date, utilisation reflecting stress surcharges for default, market and liquidity risks will be depicted. Methodical further development of the stress scenarios for market and liquidity risks has led to a significant reduction in utilisation in the stress case as at the reporting date. As at 31 March 2011, the risk-bearing capacity was ensured even in this economic stress case.

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

Utilisation of risk coverage potential

(€ bn)



in %	31.3.10	30.6.10	30.9.10	31.12.10	31.3.11
Normal Case	35	48	40	44	43
Stress Case	65	78	75	77	66

In March 2011, the European Banking Authority (EBA) launched another regulatory stress test for major European banks, including HSH Nordbank. The purpose is to test the resistance of the banks in different crisis scenarios. 90 banks throughout Europe are taking part in this stress test, 13 of which are based in Germany. The results from the scenarios are to be published in June 2011. HSH Nordbank successfully participated in an EU-wide regulatory stress test conducted in 2010.

Default risk

In view of comprehensive portfolio adjustments and the continued economic recovery, it was possible to reduce allocations to loan loss provisions in the lending business significantly compared to the previous year during the first quarter of 2011. Overall the Bank expects the year 2011 to be characterised by a continued positive loan environment with a lower need for loan loss provisions than in the year 2010.

The following table provides an overview of "Changes in loan loss provisions."

Changes in loan loss provisions (€ m)	1.1. – 31.3.2011				1.1. – 31.3.2010			
	Individual valuation allowances / Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Total	Individual valuation allowances / Provisions	Portfolio valuation allowances	Net income from foreign currency from loan loss provisions	Total
Sector Specialist Bank	1	144	32	177	45	–126	–38	–119
Regional Bank	–28	–2	1	–29	–106	4	–3	–105
Other	0	1	–15	–14	15	37	–5	47
Consolidation Core Bank	7	–114	2	–105	0	–10	28	18
Total Core Bank	–20	29	20	29	–46	–95	–18	–159
Restructuring Unit	12	14	57	83	–151	–37	–108	–296
Consolidation Restructuring Unit	0	–36	0	–36	0	0	0	0
Total Restructuring Unit	12	–22	57	47	–151	–37	–108	–296
Group	–8	7	77	76	–197	–132	–126	–455

Total income from loan loss provisions amounted to € 76 million as at 31 March 2011 compared to an expense of € –455 million in the previous year. Currency translation of loan loss provisions had an impact of € 77 million on this figure (previous year: € –126 million). Detailed information regarding developments within individual business areas as well as our expectations for the 2011 calendar year are presented in the chapters entitled "Segment report" and "Outlook" in this interim management report.

Details regarding the total loan loss provisions are presented in notes 12 and 21.

Because of the deterioration in their economic situation, a number of countries in the eurozone are subject to increased monitoring. The limitation of these high-risk countries was continued in the first quarter of 2011 according to the same principles.

Market risk

For purposes of measuring and managing market risk, HSH Nordbank employs a value-at-risk approach (99.0 % confidence level, holding period of one day, historical observation period of 250 days). Developments with respect to the individual market risk types during the first three months of 2011 are presented in the table below. As at 31

March 2011, the market risk related to our trading book positions amounted to € 2.5 million and that to our banking book positions amounted to € 43.1 million. Taking correlation effects which reduce risk into account, the aggregated market risk amounted to € 40.8 million. As part of the risk-bearing capacity management, the VaR is scaled up to the amount of € 0.9 billion in the framework of aggregating the individual risk types to the overall risk.

Daily value-at-risk of the Group (€ m)	Interest rate risk		Credit spread risk		Foreign exchange risk	
	1.1. – 31.3.2011	**1.1. – 31.12.2010**	**1.1. – 31.3.2011**	**1.1. – 31.12.2010**	**1.1. – 31.3.2011**	**1.1. – 31.12.2010**
Average	11.9	10.0	40.1	28.7	13.3	12.7
Maximum	13.4	25.9	41.6	45.9	16.1	32.2
Minimum	10.5	6.7	37.7	21.1	9.8	1.9
Period end amount	13.0	9.2	41.2	38.6	12.3	10.2

Daily value-at-risk of the Group (€ m)	Equity risk		Commodity risk		Market risk (aggregated)	
	1.1. – 31.3.2011	**1.1. – 31.12.2010**	**1.1. – 31.3.2011**	**1.1. – 31.12.2010**	**1.1. – 31.3.2011**	**1.1. – 31.12.2010**
Average	2.7	3.2	0.3	0.2	44.9	37.3
Maximum	3.5	4.9	0.5	1.2	50.6	65.2
Minimum	2.4	2.5	0.2	0.1	40.8	18.7
Period end amount	2.4	3.3	0.2	0.2	40,8	43.3

The value-at-risk for the Core Bank as at 31 March 2011 amounted to € 12.8 million and that of the Restructuring Unit amounted to € 48.4 million.

Daily value-at-risk of the Core Bank and the Restructuring Unit (Period end amounts, € m)	Core Bank		Restructuring Unit	
	31.3.2011	**31.12.2010**	**31.3.2011**	**31.12.2010**
Interest rate risk	16.7	14.6	19.7	18.7
Credit spread risk	11.0	9.0	28.9	30.0
Foreign exchange risk	1.8	3.7	11.9	13.6
Equity risk	1.7	2.4	1.9	2.0
Commodity risk	0.0	0.2	0.0	0.0
Market risk (aggregated)	12.8	11.7	48.4	48.9

Liquidity risk

HSH Nordbank divides its liquidity risk into insolvency risk and liquidity maturity transformation risk. Liquidity maturity transformation risk is also a component of our risk-bearing capacity concept. Please refer to that section for more details. The insolvency risk refers to the danger of the Bank not being able to meet its own payment obligations or refinancing requirements as they fall due, or not to the extent desired.

The transactions of the Bank impacting liquidity are converted into cash flows and the inflows and outflows allocated to time buckets (liquidity development report) for the purpose of measuring funding requirements. The difference between inflows and outflows may serve as a measure for the insolvency risk. These so-called gaps are compared to the respective liquidity potential which is applied to close the cumulative gaps of the individual time buckets and consequently represents the respective limit for insolvency risk. Utilisation of the limits is monitored on a daily basis.

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

The money and capital markets developed positively in the first quarter of 2011 despite the crises in North Africa and the peripheral EU countries. There remains, however, a great deal of uncertainty with regard to the future development of the debt crisis in several countries. Due to the political crises, market activities declined again in March. Thanks to the measures implemented by HSH Nordbank and the weaker US dollar, the liquidity position of the Bank was further improved. Increased efforts in attracting more short- and long-term funding as well as an expansion of the cover pool and the collateral pool were among the key measures taken by the Bank.

Since the beginning of 2011 the newly established Asset Liability Committee performs the task of portfolio management, including liquidity and funding management, in the course of the year. It is composed of the Management Board as well as the heads of Group Treasury, Group Risk Management and Finance. For operational management of e. g. resource liquidity/funding, the risk assessment of a cross-divisional committee is taken into account in the case of lending decisions of a certain volume. Among other things, this committee will budget and monitor the total utilisation of all liquidity outflows on the assets side. The basis for decision-making is, among other things, the structural liquidity development report, which is prepared in a manner consistent with the Bank's business planning and is updated regularly. This places the Bank in the position to react flexibly to market trends.

The following table shows the relative utilisation levels of the liquidity potential for individual cumulative liquidity gaps in the normal case and stress case as at 31 March 2011 as well as at 30 December 2010. Utilisation represents the share of the cumulative gap in total liquidity potential, which also includes utilisation of borrowing options at the central banks.

Limit on cumulative liquidity gaps Utilisation of liquidity potential (%)	Normal Case 31.3.2011	Normal Case 30.12.2010	Stress Case 31.3.2011	Stress Case 30.12.2010
1st day	7	3	12	4
7th day	13	23	18	24
14th day	24	39	31	42
3rd week	34	46	43	52
4th week	38	52	53	66
8th week	58	57	78	74
3rd month	64	65	89	88
6th month	67	83	98	114
9th month	68	88	104	126
12th month	75	88	118	132

Risk tolerance of the Bank is reflected, among other things, in the definition of a survival period in the sense of a minimum survival period, which describes how long a utilisation of a liquidity potential under 100% is to be maintained under the normal and stress cases for insolvency risk. In the normal case assessment the liquidity potential had a peak utilisation of 75% in the 12th month as at the reporting date. All limits within the defined survival period of twelve months were thereby adhered to. The stress case liquidity development report shows that the liquidity potential was not exceeded within the three-month survival period established by the Bank. In fact, the liquidity potential as at the reporting date is even maintained for a period of six months. Compared to the end of the year 2010, the levels of utilisation reduced significantly thanks to the measures implemented by the Bank and trends in the relevant markets.

The regulatory management parameter for liquidity risks is the liquidity ratio defined by the German Liquidity Regulation. With values between 1.70 and 1.83, our liquidity ratio remained above the regulatory minimum value of 1.0 at all times throughout the reporting period. The average value for the first three months of 2011 was 1.77 (2010: 1.72).

The liquidity position of HSH Nordbank stabilised further thanks to the measures implemented by the Bank and market trends. The long-term funding in the first quarter of 2011 was as planned, while the movement of deposits was stable. However, access to capital markets remains limited and, as a result, future long-term funding and the Bank's rating continue to represent significant challenges.

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

The additional risks and rewards faced by the Group presented in detail in the 2010 Annual Report have largely remained unchanged during the course of the year to date.

Hamburg/Kiel, 13 May 2011

Lerbinger

van Gemmeren

von Oesterreich

Temp

Visker

INTERIM REPORT

STATEMENT OF COMPREHENSIVE INCOME

for the period 1 January to 31 March 2011

Income statement (€ m)	Note	January – March 2011	Following adjustment January – March 2010	Change in %
Interest income		2,976	3,972	-25
Interest expenses		-2,612	-3,528	-26
Net income from hybrid financial instruments		-39	-37	-5
Net interest income	(6)	**325**	**407**	**-20**
Net commission income	(7)	32	42	-24
Result from hedging	(8)	-14	4	> -100
Net trading income	(9)	-34	-6	> -100
Net income from financial investments	(10)	65	27	> 100
Net income from financial investments accounted for under the equity method	(11)	-4	–	–
Total income		**370**	**474**	**-22**
Loan loss provisions	(12)	76	-455	> 100
Administrative expenses	(13)	-207	-197	5
Other operating income	(14)	4	8	-50
Net income before restructuring		**243**	**-170**	**> 100**
Result from restructuring	(15)	–	1	-100
Expenses for government guarantees	(16)	-112	-151	-26
Net income before taxes		**131**	**-320**	**> 100**
Income tax expenses(–) / income (+)		-5	44	> -100
Group net income / loss		**126**	**-276**	**> 100**
Group net income attributable to non-controlling interests		1	3	-67
Group net income attributable to HSH Nordbank shareholders		125	-279	> 100

Earnings per share (€)	Note	January – March 2011	January – March 2010
Undiluted	(17)	0.48	-1.13
Diluted		0.48	-1.06
Number of shares (millions)		**263**	**246**
Potentially dilutive ordinary shares		–	17
Weighted average number of ordinary shares outstanding adjusted for the assumed conversion – diluted		263	263

Reconciliation with total comprehensive income / loss
(€ m)

	January – March 2011	January – March 2010
Group net income / loss	126	–276
Changes in:		
Revaluation reserve (before taxes)	–10	101
of which: from exchange rate effects	–9	12
Income taxes not recognised in the income statement	1	–25
of which: from exchange rate effects	–1	1
	–9	76
Currency conversion reserve	–18	19
	–18	19
Actuarial gains/losses (before taxes)	12	–63
Income taxes not recognised in the income statement	–4	20
	8	–43
Other comprehensive income for the period	–19	52
Total comprehensive income	107	–224
Total comprehensive income attributable to non-controlling interests	1	–1
Total comprehensive income attributable to HSH Nordbank shareholders	106	–223

Quarterly review **Income statement** (€ m)	Q1/2011	Following adjustment Q4/2010	Q3/2010	Q2/2010	Q1/2010
Interest income	2,976	3,002	3,531	3,851	3,972
Interest expenses	-2,612	-2,641	-3,104	-3,418	-3,528
Net income from hybrid financial instruments	-39	-48	-40	-38	-37
Net interest income	**325**	**313**	**387**	**395**	**407**
Net commission income	32	48	76	52	42
Result from hedging	-14	-1	6	-1	4
Net trading income	-34	282	-403	-29	-6
Net income from financial investments	65	37	79	87	27
Net income from financial investments accounted for under the equity method	-4	4	–	–	–
Total income	**370**	**683**	**145**	**504**	**474**
Loan loss provisions	76	93	225	-195	-455
Administrative expenses	-207	-250	-215	-205	-197
Other operating income	4	-82	56	-44	8
Net income before restructuring	**243**	**444**	**211**	**60**	**-170**
Result from restructuring	–	–	5	-15	1
Expenses for government guarantees	-112	-126	-90	-152	-151
Net income before taxes	**131**	**318**	**126**	**-107**	**-320**
Income tax expenses (-)/income (+)	-5	-24	8	3	44
Group net income/loss	**126**	**294**	**134**	**-104**	**-276**
Group net income attributable to non-controlling interests	1	1	30	17	3
Group net income attributable to HSH Nordbank shareholders	125	293	104	-121	-279

Quarterly review
Reconciliation with
total comprehensive income / loss
(€ m)

	Q1/2011	Q4/2010	Q3/2010	Q2/2010	Q1/2010
Group net income / loss	126	294	134	-104	-276
Changes in:					
Revaluation reserve (before tax)	-10	-15	61	-8	101
of which: from exchange rates effects	-9	1	-21	18	12
Income taxes not recognised in the income statement	1	32	-21	-11	-25
of which: from exchange rate effects	-1	–	-1	2	1
	-9	17	40	-19	76
Currency conversion reserve	-18	11	-6	6	19
Actuarial gains / losses (before taxes)	12	88	24	-25	-63
Income taxes not recognised in the income statement	-4	-27	-8	8	20
	8	61	16	-17	-43
Other comprehensive income for the period	-19	89	50	-30	52
Total comprehensive income	107	383	184	-134	-224
Total comprehensive income attributable to non-controlling interests	1	1	29	18	-1
Total comprehensive income attributable to HSH Nordbank shareholders	106	382	155	-152	-223

STATEMENT OF FINANCIAL POSITION

as at 31 March 2011

(€ m)	Note	31.3.2011	31.12.2010	Change in %
Assets				
Cash reserve	(18)	1,397	1,410	–1
Loans and advances to banks	(19)	7,034	10,438	–33
Loans and advances to customers	(20)	96,194	102,858	–6
Loan loss provisions	(21)	–4,329	–4,623	–6
Positive fair value of hedging derivatives	(22)	1,094	1,838	–40
Positive adjustment item from portfolio fair value hedges		156	232	–33
Trading assets	(23)	10,355	11,282	–8
Financial investments	(24)	23,670	25,001	–5
Financial investments accounted for under the equity method	(25)	13	102	–87
Intangible assets	(26)	106	108	–2
Property, plant and equipment	(27)	136	140	–3
Investment properties	(28)	14	14	0
Non-current assets held for sale and disposal groups	(29)	1,434	404	> 100
Current tax assets		273	272	0
Deferred tax assets	(30)	1,305	1,269	3
Other assets	(31)	184	185	–1
Total assets		**139,036**	**150,930**	**–8**

(€ m)	Note	31.3.2011	31.12.2010	Change in %
Liabilities				
Liabilities to banks	(32)	24,105	26,200	–8
Liabilities to customers	(33)	45,092	50,446	–11
Securitised liabilities	(34)	43,696	44,726	–2
Negative fair values of hedging derivatives	(35)	282	362	–22
Negative adjustment item from portfolio fair value hedge		543	981	–45
Trading liabilities	(36)	8,629	11,412	–24
Provisions	(37)	1,283	1,332	–4
Liabilities relating to disposal groups	(38)	94	6	> 100
Current tax liabilities		14	15	–7
Deferred tax liabilities		110	81	36
Other liabilities	(39)	1,370	1,556	–12
Subordinated capital	(40)	8,617	8,719	–1
Equity	(41)	5,201	5,094	2
Share capital		2,635	2,635	0
Capital reserve		1,028	1,028	0
Retained earnings		1,729	1,724	0
Revaluation reserve		–236	–227	4
Currency conversion reserve		–78	–60	30
Group net income/loss		125	–3	> –100
Total before non-controlling interests		5,203	5,097	2
Non-controlling interests		–2	–3	–33
Total equity and liabilities		**139,036**	**150,930**	**–8**

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity
(€ m)

	Share capital
Adjusted as at 1 January 2010	2,460
Group net loss	–
Changes not recognised in the income statement	–
Changes recognised in the income statement	–
Exchange rate changes	–
Comprehensive income 31 March 2010	–
Change in retained earnings	–
As at 31 March 2010	2,460
As at 1 January 2011	2,635
Group net income	–
Changes not recognised in the income statement	–
Changes recognised in the income statement	–
Exchange rate changes	–
Comprehensive income 31 March 2011	–
Dividend payments and distributions	–
Changes in retained earnings	–
Consolidation adjustments	–
As at 31 March 2011	2,635

Capital reserve	Retained earnings	including actuarial gains / losses as per IAS 19	Currency conversion reserve	Revaluation reserve	Group net income / loss	Total before non-control-ling interests	Non-controlling interests	Total
1,509	1,607	118	-90	-341	-734	4,411	31	4,442
–	–	–	–	–	-279	-279	3	-276
–	-39	-43	–	91	–	52	-4	48
–	–	–	–	-12	–	-12	–	-12
–	–	–	19	-3	–	16	–	16
–	-39	-43	19	76	-279	-223	-1	-224
–	-734	–	–	–	734	–	–	–
1,509	834	75	-71	-265	-279	4,188	30	4,218
1,028	1,724	135	-60	-227	-3	5,097	-3	5,094
–	–	–	–	–	125	125	1	126
–	8	8	–	-6	–	2	–	2
–	–	–	–	-7	–	-7	–	-7
–	–	–	-18	4	–	-14	–	-14
–	8	8	-18	-9	125	106	1	107
–	–	–	–	–	–	–	–	–
–	-3	–	–	–	3	–	–	–
–	–	–	–	–	–	–	–	–
1,028	1,729	143	-78	-236	125	5,203	-2	5,201

CONDENSED CASH FLOW STATEMENT

Condensed cash flow statement
(€ m)

	January – March 2011	January – March 2010
Cash and cash equivalents as at 1 January	1,410	1,296
Cash flow from operating activities	–1,199	–1,059
Cash flow from investing activities	1,284	165
Cash flow from financing activities	–132	273
Change in cash and cash equivalents due to exchange rate fluctuations	34	6
Cash and cash equivalents as at 31 March	1,397	681

Cash and cash equivalents is equivalent to the cash reserve item in the statement of financial position and comprises cash on hand, balances at central banks, treasury bills, discounted treasury notes and similar debt instruments issued by public-sector bodies and bills of exchange.

The cash flow from operating activities is calculated using the indirect method, whereby the Group net income/loss is adjusted for non-cash expenses (increased) and non-cash income (reduced) and for cash changes in assets and liabilities used in operating activities.

EXPLANATORY NOTES

General information

1. ACCOUNTING PRINCIPLES

HSH Nordbank has issued debt instruments as defined in Section 2 (1) sentence 1 of the German Securities Trading Act (WpHG) on an organised market as defined in Section 2 (5) WpHG and is thus obliged, as a publicly traded company as defined in Regulation (EC) 1606/2002 (IAS Regulation) of the European Parliament and of the Council of 19 July 2002 in conjunction with Section 315a (1) of the German Commercial Code (HGB) to draw up its consolidated financial statements in accordance with International Accounting Standards (IFRS/IAS). International accounting standards, hereafter IFRS or standards, refer to the International Accounting Standards (IAS) and the International Financial Reporting Standards (IFRS) and the associated interpretations by the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), published by the International Accounting Standards Board (IASB) and adopted under the IAS Regulation as part of the EU endorsement.

The quarterly financial report consists of condensed interim consolidated financial statements and a consolidated management report taking into account the requirements stipulated in IAS 34. The condensed interim consolidated financial statements consist of a condensed statement of comprehensive income, a condensed statement of financial position, a condensed statement of changes in equity, a condensed statement of cash flows and selected explanatory notes.

Compared to previous reporting periods, the presentation of the statement of income disclosed separately within the framework of the total income statement was changed in order to bring it into line with in the presentation used in segment reporting and/or internal reporting purposes. In this context, total income, which is significant for purposes of commenting on results, among other things, is reported as a separate item.

The interim consolidated financial statements as at 31 March 2011 are prepared in accordance with IFRS as published by the International Accounting Standards Board (IASB) and adopted as European law by the European Union (EU). In doing so, particular attention has been paid to IAS 34 (Interim financial reporting).

In the interim consolidated financial statements, the same accounting policies have basically been applied as in the consolidated financial statements of HSH Nordbank AG as at 31 December 2010.

In accordance with IAS 34.C4, HSH Nordbank AG does not prepare any pension obligations reviews in the course of the current fiscal year and bases its figures on the data from the last expert opinion made as of 31 December 2010. Each quarter it is assessed whether essential parameters related to pension provisions have changed. If this is the case, these are adjusted accordingly and are taken into account in accounting (in particular changes in the discount factor).

During the current financial year, the following accounting standards needed to be applied for the first time as a matter of principle:

IAS 24	Related party disclosures

The International Accounting Standards Board (IASB) has amended IAS 24 Related party disclosure in order to clarify the definition of a related party. Furthermore, IAS

24 simplifies the disclosure requirements for government-related entities.

IFRS 8 Operating segments

The amendments to IFRS 8 result from changes to IAS 24. IFRS 8.34, according to which an entity needs to provide information about its major customers for the purpose of segment reporting, was amended so that additional checks must now be performed to ascertain whether a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government may be considered a single customer. The extent of economic integration between these entities must be taken into account in the course of the review.

IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction

The amendments to IFRIC 14 are relevant in the rare event that an entity is subject to minimum funding requirements and makes prepayments of the minimum funding requirement contributions.

IAS 32 Financial instruments: presentation

The amendment to IAS 32 addresses the accounting for rights issues (rights, options or warrants) on the acquisition of a fixed number of equity instruments that are denominated in a currency other than the functional currency of the issuer. To date such cases have been accounted for as derivative liabilities. Such subscription rights, offered pro rata at a fixed currency amount to the existing shareholders of an entity, are to be classified as equity, irrespective of the currency the exercise price is denominated in.

IFRIC 19 Extinguishing financial liabilities with equity instruments

The amendments to IFRIC 19 provide guidance on accounting for debt for equity swaps. IFRIC 19 is relevant where an entity issues shares or other equity instruments to extinguish all or part of a financial liability. It makes clear that equity instruments issued to a creditor to extinguish a financial liability are 'consideration paid' in accordance with IAS 39.41. The debtor should measure the equity instruments issued at fair value unless fair value is not reliably determinable, in which case the equity instruments issued are measured at the fair value of the liability extinguished. The debtor recognises in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the initial measurement of the equity instruments issued.

Application of this standard had no material impact on the interim consolidated financial statements.

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

Accounting and measurement are based on the assumption that the enterprise is a going concern. HSH Nordbank Group justifies this assumption primarily by the recapitalisation by the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg in the course of the year 2009 and a viable restructuring concept which will ensure the Bank's independent competitiveness. In evaluating the going concern status there are still material uncertainties in drawing up the interim consolidated financial statements with regard to the conclusion of the EU state aid proceedings. The continuing existence of HSH Nordbank AG depends on whether the European Commission approves the stabilisation measures implemented by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein on a permanent basis in the near future. Furthermore, it is necessary for this approval to be subject only to conditions which can be met within viable corporate planning and specifically, do not endanger the regulatory effectiveness of the regulatory capital relief under the stabilisation measures.

These interim consolidated financial statements were reviewed by an auditor.

All facts up to 13 May 2011 were taken into account.

2. EVENTS AFTER THE REPORTING DATE

Thanks to the stabilisation of the Bank and the advanced winding-down of risk assets HSH Nordbank managed to reduce the second loss guarantee provided by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein via the HSH Finanzfonds AöR by € 1 billion to € 9 billion in March 2011. It is planned to reduce the second loss guarantee even further. The Bank initiated a second partial reduction by € 1 billion in May 2011. The Bank expects approval to be granted by the guarantor in the near future.

3. PROVISION OF A GUARANTEE FACILITY

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

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

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

The guarantee expires when it is returned to the guarantor after the last reference commitment in the hedged portfolio has been met irrevocably and in full or has resulted in a guarantee claim for the full amount. HSH Nordbank AG may reduce the guarantee to € 4 billion between 1 January 2010 and the end of 2013 through partial cancellations of no more than € 3 billion per year. The guarantee may be cancelled in full from 2014 onwards. Once reduced, the maximum amount cannot be increased again.

In the first quarter of 2011 HSH Nordbank AG has reduced the guarantee provided by the federal states by € 1 billion to € 9 billion.

In exchange for the guarantee HSH Nordbank AG pays a contractual premium of 4 % p. a. on the outstanding guarantee volume. The EU Commission is currently reviewing the appropriateness of the remuneration as part of the state aid proceedings.

The guarantee from the federal states is recognised in the consolidated financial statements as a financial guarantee contract in accordance with IAS 39.9.

As at 31 December 2010, the financial guarantee has a security effect on the balance sheet for the covered portfolio. A cash draw-down of the guarantee or an obligation on the part of the guarantor did not result from the security effect on the balance sheet as at the reporting date.

If during the restructuring and workout programme measures consistent with the guarantee are implemented in respect of hedged commitments that conflict with recognition of the hedging instrument in the financial statements as a financial guarantee under IAS 39.9, commitments may be transferred to a partial guarantee under the framework agreement that falls under the definition of a credit derivative under IFRS, subject to approval from a trustee appointed by the guarantor. The maximum guarantee amount is not altered by the creation of the partial guarantee, as the sum of the individual amounts remains the same.

Once the credit derivative has been created the guarantee premium is divided pro rata between the partial guarantees. The accounting treatment of the derivative is in accordance with the requirements of IAS 39. Since the acceptance of the guarantee first commitments notified to the guarantor have been transferred to the partial guarantee of the credit derivative without being disclosed on the face of the balance sheet.

The cost of the guarantee premium is reported under the item expenses for government guarantees. The premium payments are recognised as an expense pro rata temporis.

4. ADJUSTMENTS TO PREVIOUS YEAR COMPARATIVE FIGURES

The financial statements contain various adjustments of the comparative figures of the interim consolidated financial statements as at 31 March 2010.

The adjustment made was reviewed in accordance with the requirements of IAS 8 and classified as a change in accordance with IAS 8.14 et seq.

I. CHANGE IN THE STATEMENT OF COMPREHENSIVE INCOME IAS 8.14 ET SEQ.

Changed disclosure of currency effects of loan loss provisions in accordance with IAS 8.14 et seq.

Income from the translation of loan loss provisions denominated in foreign currency that are not hedged against currency risk is currently reported under the net trading income. From the first quarter of 2011 onwards it will be disclosed under loan loss provisions. Thanks to this change in accounting policy this item provides more relevant information since currency-induced fluctuations in the net trading income and the loan loss provisions are reduced.

For this reason, disclosure of the comparative period as at 31 March 2010 was adjusted to the new presentation. The following table shows the effects of the adjustment on the income statement:

Adjustments 1st quarter 2010 **Income statement** (€ m)	January – March 2010		
	Before adjustment	**Adjustment**	**Following adjustment**
Net trading income	-132	126	-6
Loan loss provisions	-329	-126	-455
Other items (without adjustment)	141	–	141
Net income before taxes	**-320**	**–**	**-320**
Income tax expenses(–) / income (+)	44	–	44
Net income after taxes / Group net loss	**-276**	**–**	**-276**
Group net income attributable to non-controlling interests	3	–	3
Group net income attributable to HSH Nordbank shareholders	-279	–	-279

The adjustments have the following impact on the positions net trading income and the loan loss provisions in the quarterly review of the income statement:

Quarterly review Income statement (€ m)	Adjustments			
	Q4/2010	Q3/2010	Q2/2010	Q1/2010
Net trading income	30	-170	217	126
Loan loss provisions	-30	170	-217	-126

The adjustments had no effect on the reconciliation with total comprehensive income or loss.

5. SCOPE OF CONSOLIDATION

In addition to the parent company HSH Nordbank AG, Hamburg/Kiel, 48 companies (31 December 2010: 49) have been consolidated. This includes 5 (31 December 2010: 5) special purpose entities which must be consolidated according to the provisions of SIC-12.

The following subsidiaries or special purpose entities are included in the interim consolidated financial statements of HSH Nordbank AG:

	Fully consolidated companies	Registered office	Share of equity capital (in %)
1	Adessa Grundstücksverwaltungsgesellschaft mbH & Co Vermietungs KG	Wiesbaden	0.0
2	Bu Wi Beteiligungsholding GmbH	Hamburg	100.0
3	Capcellence Private Equity Beteiligungen GmbH & Co. KG 5)	Hamburg	100.0
4	Capcellence Vintage Year 05/06 Beteiligungen GmbH & Co. KG 1)	Hamburg	83.3
5	Capcellence Vintage Year 06/07 Beteiligungen GmbH & Co. KG 1)	Hamburg	83.3
6	Capcellence Vintage Year 07/08 Beteiligungen GmbH & Co. KG 1)	Hamburg	83.3
7	Capcellence Vintage Year 09 Beteiligungen GmbH & Co. KG 1)	Hamburg	83.3
8	Capcellence Vintage Year 10 Beteiligungen GmbH & Co. KG 1)	Hamburg	83.3
9	CHIOS GmbH	Hamburg	100.0
10	CPM Luxembourg S.A. 2)	Luxembourg	3.2
11	CPM Securitisation Fonds S.A. 2)	Luxembourg	3.2
12	DEERS Green Power Development Company S.L. 6)	Zaragoza	99.0
13	EALING INVESTMENTS LIMITED	London	100.0
14	Endor 8. Beteiligungs GmbH & Co. KG 3)	Hamburg	94.8
15	EQUILON GmbH	Hamburg	100.0

	Fully consolidated companies	Registered office	Share of equity capital (in %)
16	HGA Capital Grundbesitz und Anlage GmbH [3]	Hamburg	100.0
17	HSH Corporate Finance GmbH	Hamburg	100.0
18	HSH N Composits GmbH	Kiel	100.0
19	HSH N Finance (Guernsey) Limited	St. Peter Port	100.0
20	HSH N Funding I [4]	George Town	100.0
21	HSH N Funding II	George Town	100.0
22	HSH Nordbank Private Banking S.A. [2]	Luxembourg	100.0
23	HSH Nordbank Securities S.A.	Luxembourg	100.0
24	HSH Private Equity GmbH	Hamburg	100.0
25	HSH RE 2. Beteiligungs GmbH [3]	Hamburg	100.0
26	HSH RE 3. Beteiligungs GmbH [3]	Hamburg	100.0
27	HSH RE 4. Beteiligungs GmbH [3]	Hamburg	100.0
28	HSH RE 5. Beteiligungs GmbH [3]	Hamburg	100.0
29	HSH RE 6. Beteiligungs GmbH [3]	Hamburg	100.0
30	HSH RE 7. Beteiligungs GmbH [3]	Hamburg	100.0
31	HSH Real Estate AG	Hamburg	100.0
32	International Fund Services & Asset Management S.A. [2]	Luxembourg	51.5
33	JANTAR GmbH	Hamburg	100.0
34	Leashold Verwaltungs-GmbH & Co. KG	Hamburg	100.0
35	Mesitis GmbH	Hamburg	100.0
36	MINIMOA GmbH	Hamburg	100.0
37	Neptune Finance Partner S.à.r.l.	Luxembourg	100.0
38	Neptune Finance Partner II S.à.r.l.	Luxembourg	100.0
39	Neptune Ship Finance (Luxembourg) S.à.r.l. & Cie, S.e.c.s.	Luxembourg	100.0
40	Northern Blue 2009 S.A.	Luxembourg	0.0
41	Plato No. 1 S.A.	Luxembourg	0.0
42	PREGU GmbH	Hamburg	100.0
43	RESPARCS Funding I Limited Partnership	Hong Kong	0.0
44	RESPARCS Funding II Limited Partnership	St. Helier	0.0
45	Solar Holding S.à.r.l.	Luxembourg	100.0
46	Sotis S.à.r.l. [2]	Luxembourg	100.0
47	Swift Capital 1 Europäische Fondsbeteiligungen GmbH & Co. KG	Hamburg	99.3
48	THESTOR GmbH	Hamburg	100.0

1) Subsidiaries of Capcellence Private Equity Beteiligungen GmbH & Co. KG
2) Subsidiaries of HSH Nordbank Securities S.A.
3) Subsidiaries of HSH Real Estate AG
4) Subsidiary of HSH N Composits GmbH
5) Subsidiary of Private Equity GmbH
6) Subsidiary of Solar Holding S.à.r.l.

The companies RESPARCS Funding I and RESPARCS Funding II Limited Partnership are consolidated under the provisions of IAS 27 based on the majority of voting rights.

The company LB Immo Invest GmbH was sold with effect from 1 January 2011.

Notes on the income statement

6. NET INTEREST INCOME

Net interest income
(€ m)

	January – March 2011	January – March 2010
Interest income from		
Lending and money market transactions	769	1,071
Fixed-interest securities	154	199
Trading transactions	6	18
Derivative financial instruments	1,987	2,626
Unwinding	46	42
Current income from		
Equities and other non-fixed-interest securities	4	5
Associated companies	1	1
Equity holdings	7	8
Other holdings	2	2
Interest income	**2,976**	**3,972**
of which attributable to financial instruments not classified as HfT or DFV	944	1,273
Interest expenses for		
Liabilities to banks	155	210
Liabilities to customers	325	381
Securitised liabilities	268	335
Subordinated capital	64	70
Other liabilities	1	1
Derivative financial instruments	1,799	2,531
Interest expenses	**2,612**	**3,528**
of which attributable to financial instruments not classified as HfT or DFV	698	918
Net income from reestimating interest and repayment cash flows	–	–
Net income from discounting and compounding	-39	-37
Interest expenses on hybrid financial instruments	–	–
Net income from hybrid financial instruments	**-39**	**-37**
of which attributable to financial instruments not classified as HfT or DFV	-39	-37
Total	**325**	**407**

Interest income and expenses relating to trading and hedging derivatives are shown under interest income and expenses from derivative financial instruments.

Net interest income includes income and expenses arising from the amortisation of the adjustment items for portfolio fair value hedge relationships and corresponding proceeds from the closing of the underlying transactions which contributed to the adjustment items.

In case of unchanged payment expectations, a change in the present value of impaired loans and advances (unwinding) occurs over time. The interest income from such loans and advances is calculated as the present value by adding accrued interest using the original effective interest rate.

The term hybrid financial instruments covers silent participations, profit participations and bonds measured at amortised acquisition cost. Their interest depends on profit and they participate in an annual loss or group loss of the Bank.

The net income or loss from hybrid financial instruments was disclosed for the first time as of 31 December 2009. It includes both the effects on profit/loss resulting from the application of IAS 39.A8 as well as the current interest income from the instruments that fall under the scope of application of this standard.

The cumulative net income from hybrid financial instruments amounts to € 173 million (previous year: € 338 million). Net income from reestimating interest and repayment cash flows recognised for the end of the year 2010 accounts for € 602 million of this cumulative net income (previous year: € 599 million) and the net loss from discounting and compounding accounts for € –429 million (previous year: € –261 million).

The difference between valuation for tax purposes and measurement under IAS 39 A8 results in deferred taxes of € 4 million (previous year: € 4 million).

7. NET COMMISSION INCOME

Net commission income (€ m)	**January – March 2011**	**January – March 2010**
Commission income from		
Lending business	20	22
Securities business	19	14
Guarantee business	8	10
Foreign business	4	2
Payments and account transactions	2	2
Other commission income	3	9
Commission income	**56**	**59**
Commission expenses from		
Lending business	4	2
Securities business	16	10
Guarantee business	–	–
Foreign business	1	1
Payments and account transactions	1	–
Other commission expenses	2	4
Commission expenses	**24**	**17**
Total	**32**	**42**

Financial instruments not classified as HfT or DFV accounted for € 34 million (previous year: € 44 million) of net commission income.

8. RESULT FROM HEDGING

The change in value attributable to the hedged risk for designated underlying and hedging transactions in effective hedging relationships is reported under the item result from hedging. The item contains the corresponding profit contributions from micro and portfolio fair value hedges. Hedge accounting is used solely for interest rate risks.

Result from hedging (€ m)	January – March 2011	January – March 2010
Fair value changes from hedging transactions	–385	316
Micro fair value hedge	–76	48
Portfolio fair value hedge	–309	268
Fair value changes from underlyings	371	–312
Micro fair value hedge	72	–45
Portfolio fair value hedge	299	–267
Total	**–14**	**4**

9. NET TRADING INCOME

Net trading income comprises realised income / loss and the valuation result for financial instruments classified as Held for Trading (HfT) or Designated at Fair Value (DFV). Interest income and expenses for financial instruments of these categories are shown under net interest income.

Income from foreign exchange transactions, credit derivatives and commodities is stated under other products. Gains and losses on currency translation are also recorded in this income statement item.

	Bonds and interest rate derivatives		Equities and equity derivatives		Other products		Total	
Net trading income (€ m)	January – March 2011	January – March 2010	January – March 2011	January – March 2010	January – March 2011	January – March 2010	January – March 2011	January – March 2010
Realised net income								
Held for trading	–11	25	–8	–26	23	1	4	–
Designated at fair value	23	–3	–	–	–1	–	22	–3
Subtotal	**12**	**22**	**–8**	**–26**	**22**	**1**	**26**	**–3**
Valuation result								
Held for trading	–196	145	13	–15	–26	33	–209	163
Designated at fair value	168	–182	–20	15	1	1	149	–166
Subtotal	**–28**	**–37**	**–7**	**–**	**–25**	**34**	**–60**	**–3**
Total	**–16**	**–15**	**–15**	**–26**	**–3**	**35**	**–34**	**–6**

Net trading income includes net income from foreign currency of € 6 million (previous year: € 17 million).

In the period under review, € 76 million (previous year: € 28 million) of the changes in fair value of the financial assets classified as Designated at Fair Value (DFV) related to changes in the credit spread, rather than changes in market interest rates. In cumulative terms, the amount of € –622 million (previous year: € –395 million) was attributable to changes in the credit spread.

During the reporting period, changes in value related to changes in the credit spread rather than to market interest rate changes for liabilities in the category DFV amounted to € –8 million (previous year: € 84 million). In cumulative terms, a total of € 341 million (previous year: € 427 million) was attributable to changes in the credit spread.

10. NET INCOME FROM FINANCIAL INVESTMENTS

In addition to any realised gains and losses from financial investments classified as Loans and Receivables (LaR) and Available for Sale (AfS), write-downs and write-ups and portfolio valuation allowances are reported under this item. In the case of financial investments classified as available for sale, write-ups are only recognised in the income statement for debt instruments up to a maximum of the amortised cost.

Net income from financial investments (€ m)	January – March 2011	January – March 2010
Classified as AfS		
+ Realised gains/losses (–)	46	8
– Depreciation	3	14
+ Write-ups	–	7
Subtotal	**43**	**1**
Classified as LaR		
+ Realised gains/losses (–)	12	7
– Depreciation	12	31
+ Write-ups	31	50
Subtotal	**31**	**26**
– Additions to portfolio valuation allowances	9	7
+ Reversal of portfolio valuation allowances	–	7
Subtotal	**–9**	**–**
Total	**65**	**27**

The hedging effect of the guarantee facility (see note [3]) granted by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the balance sheet for the first time as at 31 December 2010, reduced from € 318 million to € 164 million in the first quarter of 2011. Reversals of portfolio valuation allowances, which were performed within the context of the hedging effect as at the end of the previous year, had to be reduced accordingly. This resulted in a reduction in loan loss provisions of € –151 million and a reduction in net income from financial investments of € –3 million.

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

As at the balance sheet date 31 March 2011, the HSH Nordbank Group owns shares in one associated company that is included in the consolidated financial statements under the equity method (see note [25]).

The pro rata net income allocable to the Group from financial investments accounted for based on the equity method amounted to € – 4 million (previous year: € 0 million).

This income is reported in the segment report as a part of net income from financial investments within the consolidation.

12. LOAN LOSS PROVISIONS

Loan loss provisions (€ m)	January – March 2011	January – March 2010
– Expenses from allocations to loan loss provisions	333	824
+ Income from reversal of loan loss provisions	319	368
Subtotal	–14	–456
– Expenses from allocations to provisions in the lending business	25	21
+ Income from reversal of provisions in the lending business	19	138
Subtotal	–6	117
– Direct write-downs	5	5
+ Payments received on loans and advances previously written down	24	15
Subtotal	19	10
+ Foreign currency income from loan loss provisions denominated in foreign currency	77	–126
Total	76	–455

Loan loss provisions in on-balance-sheet lending business relate exclusively to loans and advances classified as LaR. The following table shows the net changes:

Net changes in loan loss provisions (€ m)	January – March 2011	January – March 2010
Individual valuation allowances	–35	–319
Portfolio valuation allowances	21	–137
Total	–14	–456

The net changes in provisions in the lending business during the period under review are presented below:

Net changes in provisions in the lending business (€ m)	January – March 2011	January – March 2010
Individual loan loss provisions		
for contingent liabilities	13	58
for loan commitments	–5	–3
for other credit risks	–	57
Subtotal	8	112
Portfolio valuation allowances		
for contingent liabilities	–9	–6
for loan commitments	–5	11
for other credit risks	–	–
Subtotal	–14	5
Total	–6	117

The hedging effect of the guarantee facility (see note [3]) granted by the Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein via HSH Finanzfonds AöR, which was reported on the balance sheet for the first time as at 31 December 2010, reduced from € 318 million to € 164 million in the first quarter of 2011. Reversals of portfolio valuation allowances, which were performed within the context of the hedging effect as at the end of the previous year, had to be reduced accordingly. This resulted in a reduction in loan loss provisions of € – 151 million and a reduction in net income from financial investments of € – 3 million.

13. ADMINISTRATIVE EXPENSES

Administrative expenses (€ m)	January – March 2011	January – March 2010
Personnel expenses	93	93
Operating expenses	105	94
Depreciation on property, plant and equipment and amortisation on intangible assets	9	10
Total	**207**	**197**

14. OTHER OPERATING INCOME

Other operating income (€ m)	January – March 2011	January – March 2010
Other operating income	15	23
Other operating expenses	11	15
Total	**4**	**8**

15. RESULT FROM RESTRUCTURING

Result from restructuring (€ m)	January – March 2011	January – March 2010
Personnel expenses	7	1
Operating expenses	4	–
Income from the reversal of provisions and the release of liabilities	11	2
Total	**–**	**1**

16. EXPENSES FOR GOVERNMENT GUARANTEES

Expenses for government guarantees (€ m)	January – March 2011	January – March 2010
Financial Market Stabilisation Fund (SoFFin)	22	31
HSH Finanzfonds AöR	90	120
Total	112	151

In the first quarter of the year 2011 HSH Nordbank AG has reduced the guarantee granted by the federal states by € 1 billion to € 9 billion.

17. EARNINGS PER SHARE

To calculate earnings per share, the Group net income attributable to HSH Nordbank shareholders is divided by the weighted average number of ordinary shares outstanding during the period under review. The calculation was based on non-rounded values.

Earnings per share	January – March 2011	January – March 2010
Attributable Group net income (€ m) – undiluted	125	-279
Dilution effects from: convertible bonds	–	–
Attributable Group net income (€ m) – diluted	125	-279
Number of shares (millions)		
Average number of ordinary shares outstanding – undiluted	263	246
Dilution effects from: convertible bonds	–	17
Potentially dilutive ordinary shares	–	17
Weighted average number of ordinary shares outstanding adjusted for the assumed conversion – diluted	263	263
Earnings per share (€)		
Undiluted	0,48	-1,13
Diluted	0,48	-1,06

Notes on the statement of financial position

18. CASH RESERVE

Cash reserve
(€ m)

	31.3.2011	31.12.2010
Cash on hand	13	10
Balances at central banks	1,057	994
Of which: At the Deutsche Bundesbank	348	378
Treasury bills, discounted treasury notes and similar debt instruments issued by public-sector institutions	327	406
Of which: Eligible for refinancing at the Deutsche Bundesbank	295	299
Total	1,397	1,410

19. LOANS AND ADVANCES TO BANKS

Loans and advances to banks
(€ m)

	31.3.2011	31.12.2010
Payable on demand	2,900	5,397
Other loans and advances	4,134	5,041
Total before loan loss provisions	7,034	10,438
Loan loss provisions	185	194
Total after loan loss provisions	6,849	10,244

20. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers
(€ m)

	31.3.2011	31.12.2010
Retail customers	1,892	2,014
Corporate clients	87,683	93,352
Public authorities	6,619	7,492
Total before loan loss provisions	96,194	102,858
Loan loss provisions	4,144	4,429
Total after loan loss provisions	92,050	98,429

21. LOAN LOSS PROVISIONS

Loan loss provisions
(€ m)

	31.3.2011	31.12.2010
Loans and advances to banks	185	194
Loans and advances to customers	4,144	4,429
Loan loss provisions for items in the statement of financial position	**4,329**	**4,623**
Provisions in the lending business	436	439
Total	**4,765**	**5,062**

The development of loan loss provisions for banks during the period under review was as follows:

Development of loan loss provisions for banks
(€ m)

	Individual valuation allowances		Portfolio valuation allowances		Total	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
As at 1 January	**191**	**363**	**3**	**7**	**194**	**370**
Additions	–	6	–	0	–	6
Reversals	5	28	2	5	7	33
Utilisation	–	124	–	–	–	124
Reclassifications	–	–28	–	–	–	–28
Unwinding	–	–1	–	–	–	–1
Exchange rate changes	–2	3	–	1	–2	4
As at 31 March 2011/31 December 2010	**184**	**191**	**1**	**3**	**185**	**194**

Loan loss provisions for customers during the period under review developed as follows:

Development of loan loss provisions for liabilities to customers (€ m)	Individual valuation allowances		Portfolio valuation allowances		Total	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
As at 1 January	**3,890**	**3,165**	**539**	**1,183**	**4,429**	**4,348**
Additions	332	2,627	–	139	332	2,766
Reversals	293	1,505	19	849	312	2,354
Utilisation	124	383	–	–	124	383
Reclassifications	–	28	–	–	–	28
Unwinding	–46	–183	–	–	–46	–183
Changes in the scope of consolidation	–	–	–	–	–	–
Exchange rate changes	–102	141	–33	66	–135	207
As at 31 March 2011/31 December 2010	**3,657**	**3,890**	**487**	**539**	**4,144**	**4,429**

The value adjustments relate exclusively to items classified as loans and receivables (LaR).

22. POSITIVE FAIR VALUE OF HEDGING DERIVATIVES

The positive fair value of derivatives used in hedge accounting are accounted for in this item. Only interest swaps and interest rate currency swaps are taken into account as hedging instruments currently. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under trading assets. Hedge accounting is used solely for interest rate risks.

Positive fair value of hedging derivatives (€ m)	31.3.2011	31.12.2010
Positive fair value of derivatives used in micro fair value hedges	300	377
Positive fair value of derivatives used in portfolio fair value hedges	794	1,461
Total	**1,094**	**1,838**

Changes in this item are directly related to changes in the item negative fair value of hedging derivatives (note [35]). The overall changes in the items are mainly due to a change in portfolio composition and movements in interest rates in the USD and EUR capital markets.

23. TRADING ASSETS

Only financial assets classified as HfT are stated under trading assets. Mainly included in this category are original financial instruments held for trading purposes, including accrued interest, and derivatives with a positive fair value which are either not designated as a hedge derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting.

Trading assets

(€ m)	31.3.2011	31.12.2010
Bonds and other fixed-interest securities	1,069	1,303
Shares and other non-fixed-interest securities	13	15
Positive fair value of financial derivatives	9,197	9,956
Other trading assets	76	8
Total	**10,355**	**11,282**

24. FINANCIAL INVESTMENTS

Financial investments include specifically financial instruments not held for trading classified as AfS and LaR and, to a lesser extent, as DFV. This item includes bonds and other fixed-interest securities, equities and other non-fixed-interest securities, holdings in unconsolidated affiliated companies, holdings in joint ventures and associated companies not carried at equity in the consolidated financial statements.

Financial investments

(€ m)	31.3.2011	31.12.2010
Bonds and other fixed-interest securities	22,420	23,367
Shares and other non-fixed-interest securities	575	631
Equity holdings	506	835
Interests in affiliated companies	169	168
Total	**23,670**	**25,001**

25. FINANCIAL INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

Shares in associated companies included in the consolidated financial statements under the equity method are reported in this item.

As at the reporting date, 31 March 2011, the HSH Nordbank Group owns shares in one associated company that is included in the consolidated financial statements under the equity method. The carrying amount of this equity holding amounted to € 13 million as at 31 March 2011 (previous year: € 102 million).

Net income from financial investments accounted for under the equity method is disclosed in note [11].

A summary of the financial information as to the associated companies included in the consolidated financial statements under the equity method is presented here:

Associated companies consolidated under the equity method – Financial information
(€ m)

	31.3.2011	31.12.2010
Hamborner REIT AG		
Total assets	–	406
Total liabilities	–	-180
Sales revenue	–	26
Net income / loss	–	3
Belgravia Shipping Ltd.		
Total assets	–	42
Total liabilities	–	-1
Sales revenue	–	–
Net income / loss	–	–

The equity holding in Hamborner REIT AG was sold with effect from 25 February 2011.

The last annual financial statements of Belgravia Shipping Ltd. were made available to us as at 31 December 2010.

26. INTANGIBLE ASSETS

The item intangible assets mainly comprises software acquired or developed in-house and acquired goodwill.

Intangible assets
(€ m)

	31.3.2011	31.12.2010
Software	79	81
developed in-house	55	58
acquired	24	23
Software in development	27	27
developed in-house	9	9
acquired	18	18
Total	**106**	**108**

27. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment
(€ m)

	31.3.2011	31.12.2010
Land and buildings	44	45
Operating equipment	75	77
Leased assets	17	18
Total	**136**	**140**

28. INVESTMENT PROPERTIES

Under the item investment property all property (land or buildings) is recorded that is held to earn rent or for capital appreciation but is not used in the production or supply of goods or services of the Bank. Real estate leased as lessor in the operating leasing business is also included in this item.

Investment property
(€ m)

	31.3.2011	31.12.2010
Investment property	14	14
Total	**14**	**14**

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

Non-current assets held for sale and disposal groups
(€ m)

	31.3.2011	31.12.2010
Loans and advances to customers	999	144
Financial investments	434	241
Intangible assets	–	16
Other assets	1	3
Total	**1,434**	**404**

This item also contains disposal groups, individual equity holdings and receivables as well as securities belonging to the credit investment portfolio. It is highly likely for these assets and liabilities to be sold within the next twelve months in the course of the strategic realignment.

In the period under review loans and promissory notes in the amount of € 790 million as well as receivables from finance lease transactions in the amount of € 123 million are reported under loans and advances to customers. They relate to the portfolio of the Restructuring Unit.

Following the balance sheet date, but still during the period for preparing the interim report, loans and advances to customers as well as liabilities to customers of the Private Banking unit in Luxembourg fulfilled the requirements for classification as a disposal group in accordance with IFRS 5.6 et seq. These assets and liabilities are not allocated to the segment Regional Bank and are not contained in the above presentation in accordance with IFRS 5.12. The disposal occurred as part of the strategic realignment of the HSH Nordbank Group.

30. DEFERRED TAX ASSETS

Of deferred tax assets in the amount of € 1,305 million (31 December 2010: € 1,269 million), € 348 million (31 December 2010: € 350 million) was attributable to tax losses carried forward. The HSH Nordbank business model, strategic adjustments and the future taxable income derived from these ensure that the tax claims carried as assets will meet expectations.

31. OTHER ASSETS

Other assets
(€ m)

	31.3.2011	31.12.2010
Prepaid expenses	24	19
Tenant loans	15	14
Receivables from fund transactions	10	9
Receivables from participations and affiliates	6	8
Receivables from other taxes	3	3
Other assets	126	132
Total	**184**	**185**

32. LIABILITIES TO BANKS

Liabilities to banks
(€ m)

	31.3.2011	31.12.2010
Liabilities payable on demand	1,657	1,284
Other term liabilities	22,448	24,916
Total	**24,105**	**26,200**

33. LIABILITIES TO CUSTOMERS

Liabilities to customers
(€ m)

	31.3.2011	31.12.2010
Savings deposits	68	70
Other liabilities		
Liabilities payable on demand	9,133	8,400
Other term liabilities	35,891	41,976
Total	**45,092**	**50,446**

34. SECURITISED LIABILITIES

Securitised liabilities
(€ m)

	31.3.2011	31.12.2010
Bonds issued	43,442	44,425
Money market securities issued	254	301
Total	**43,696**	**44,726**

Under the item securitised liabilities own bonds repurchased — in part for the purpose of market support — to the amount of € 7,231 million (31 December 2010: € 8,075 million) were deducted.

As was the case at the end of 2010 HSH Nordbank AG did not hold any repurchased own money market instruments.

35. NEGATIVE FAIR VALUES OF HEDGING DERIVATIVES

This item shows the negative fair value of derivatives used in hedge accounting. At present only interest swaps and interest rate currency swaps are taken into account as hedging instruments. If a derivative is only partially designated under hedge accounting, this item contains the corresponding share of that derivative's fair value. In these cases, the remainder is stated under trading liabilities. Hedge accounting is used solely for interest rate risks.

Negative fair values of hedging derivatives
(€ m)

	31.3.2011	31.12.2010
Negative fair values of derivatives used in micro fair value hedges	112	168
Negative fair values of derivatives used in portfolio fair value hedges	170	194
Total	**282**	**362**

Changes in this item are directly related to changes in the item positive fair values of hedging derivatives (note [22]). The overall changes in the items are mainly due to a change in portfolio composition and movements in interest rates in the USD and EUR capital markets.

36. TRADING LIABILITIES

Only financial assets classified as HfT are stated under trading liabilities. Mainly included in this category are derivatives with a negative fair value which are either not designated as a hedging derivative or are used as hedging instruments but do not meet the requirements of IAS 39 for hedge accounting. Delivery commitments from short sales of securities are also stated in this category.

Trading liabilities
(€ m)

	31.3.2011	31.12.2010
Negative fair values from derivative financial instruments		
Interest rate-related business	7,865	10,447
Currency-related business	465	771
Other business	299	192
Commitments to deliver securities	–	2
Total	8,629	11,412

37. PROVISIONS

Provisions
(€ m)

	31.3.2011	31.12.2010
Provisions for pension obligations and similar obligations	569	580
Other provisions		
Provisions in the lending business	436	439
Provisions for restructuring	62	69
Provisions for litigation risks and costs	100	101
Provisions for personnel expenses	34	60
Other provisions	82	83
Total	1,283	1,332

The net change in pension obligations of € – 11 million comprises the payments for pension obligations in the amount of € 9 million, additions of € 10 million and reversals of € 12 million. The reduction is mainly due to the increase in the market interest rates.

Provisions in the lending business are composed of the following items:

Provisions in the lending business
(€ m)

	31.3.2011	31.12.2010
Specific loan loss provisions for		
contingent liabilities	147	166
irrevocable loan commitments	188	184
other credit risks	12	12
Subtotal	347	362
Portfolio loan loss provisions for		
contingent liabilities	60	52
irrevocable loan commitments	29	25
Subtotal	89	77
Total	436	439

38. LIABILITIES RELATING TO DISPOSAL GROUPS

Liabilities relating to disposal groups
(€ m)

	31.3.2011	31.12.2010
Liabilities to banks	86	–
Liabilities to customers	7	–
Provisions	–	6
Other liabilities	1	–
Total	**94**	**6**

39. OTHER LIABILITIES

Other liabilities
(€ m)

	31.3.2011	31.12.2010
Collateral provided for guarantees given	1,016	1,230
Personnel liabilities	52	30
Liabilities for outstanding invoices	45	40
Deferred income	23	27
Liabilities for restructuring	16	22
Other tax liabilities	9	10
Other	209	197
Total	**1,370**	**1,556**

The collateral provided for assumed liabilities serves to hedge leasing transactions of our customers with third parties.

40. SUBORDINATED CAPITAL

Subordinated capital
(€ m)

	31.3.2011	31.12.2010
Subordinated liabilities	5,171	5,222
Silent participations	1,472	1,466
Profit participation capital	1,974	2,031
Total	**8,617**	**8,719**

The carrying amounts of silent participations and profit participation capital were determined on the basis of assumptions of the future earnings situation of HSH Nordbank Group and assumptions with regard to making use of termination or extension options (IAS 39.A8).

41. EQUITY

Equity
(€ m)

	31.3.2011	31.12.2010
Share capital	2,635	2,635
Capital reserve	1,028	1,028
Retained earnings	1,729	1,724
Gains on pension obligations and similar obligations not recognised in the income statement	212	201
Deferred taxes on gains from pension obligations and similar obligations not recognised in the income statement	-69	-66
Revaluation reserve	-236	-227
Currency conversion reserve	-78	-60
Group net income / loss	125	-3
Total before non-controlling interests	**5,203**	**5,097**
Non-controlling interests	-2	-3
Total	**5,201**	**5,094**

Changes in ordinary shares
(number of shares)

	31.3.2011	31.12.2010
Number at the beginning of the year	263,508,277	246,017,368
Capital increase	–	17,490,909
Number at end of the period	**263,508,277**	**263,508,277**

Segment reporting

42. SEGMENT REPORT

(€ m / %)	Sector Specialist Bank 31.3.2011	Sector Specialist Bank 31.3.2010	Regional Bank 31.3.2011	Regional Bank 31.3.2010	Other 31.3.2011	Other 31.3.2010	Consolidation Core Bank 31.3.2011	Consolidation Core Bank 31.3.2010
Net interest income	134	113	90	89	-96	51	105	-1
Net commission income	6	7	15	16	1	1	-4	3
Result from hedging	–	–	–	–	–	–	-14	4
Net trading income	21	-5	14	7	99	35	-224	-29
Net income from financial investments	–	4	20	–	13	9	1	-6
Total income	**161**	**119**	**139**	**112**	**17**	**96**	**-136**	**-29**
Loan loss provisions	177	-119	-29	-105	-14	47	-105	18
Administrative expenses	-65	-40	-59	-54	-21	-47	-2	7
Other operating income	2	–	–	-3	10	1	-11	20
Net income before restructuring	**275**	**-40**	**51**	**-50**	**-8**	**97**	**-254**	**16**
Result from restructuring	–	–	–	–	–	–	2	1
Expenses for government guarantees	–	–	–	–	–	–	-53	-84
Net income before taxes	**275**	**-40**	**51**	**-50**	**-8**	**97**	**-305**	**-67**
Cost / Income Ratio (CIR)	40 %	34 %	42 %	48 %	–	–	–	–
Return on equity before tax and restructuring expenses	96 %	-14 %	28 %	-34 %	–	–	–	–
Average equity	1,147	1,176	731	586	434	336	156	144

	Sector Specialist Bank 31.3.2011	Sector Specialist Bank 31.12.2010	Regional Bank 31.3.2011	Regional Bank 31.12.2010	Other 31.3.2011	Other 31.12.2010	Consolidation Core Bank 31.3.2011	Consolidation Core Bank 31.12.2010
Segment assets (€ bn)	**29**	**31**	**21**	**23**	**31**	**34**	**–**	**–**

Total Core Bank		Restructuring Unit		Consolidation Restructuring Unit		Total Restructuring Unit		Group	
31.3.2011	31.3.2010	31.3.2011	31.3.2010	31.3.2011	31.3.2010	31.3.2011	31.3.2010	31.3.2011	31.3.2010
233	252	93	163	-1	-8	92	155	325	407
18	27	14	15	–	–	14	15	32	42
-14	4	–	–	–	–	–	–	-14	4
-90	8	56	-14	–	–	56	-14	-34	-6
34	7	30	20	-3	–	27	20	61	27
181	298	193	184	-4	-8	189	176	370	474
29	-159	83	-296	-36	–	47	-296	76	-455
-147	-134	-60	-63	–	–	-60	-63	-207	-197
1	18	3	-10	–	–	3	-10	4	8
64	23	219	-185	-40	-8	179	-193	243	-170
2	1	–	–	-2	–	-2	–	–	1
-53	-84	–	–	-59	-67	-59	-67	-112	-151
13	-60	219	-185	-101	-75	118	-260	131	-320
81 %	45 %	–	–	–	–	–	–	56 %	42 %
10 %	4 %	–	–	–	–	–	–	19 %	-16 %
2,468	2,242	2,607	2,043	73	45	2,680	2,088	5,148	4,330

31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
81	88	58	63	–	–	58	63	139	151

Segment reporting is in accordance with the provisions of IFRS 8. The segments are based on the internal organisational structure in alignment with product and customer groups.

HSH Nordbank's Core Bank consists of the Sector Specialist Bank, Regional Bank and Other segments. Results of the Shipping, Aviation and Energy & Infrastructure division as well as results of the corporate division of the segment are reported under the Sector Specialist Bank segment. The Regional Bank segment reports the results of the divisions Corporate Clients, Real Estate Clients, Savings Banks and Private Banking as well as the results of the common corporate division. Net income in these segments is earned primarily from loan and financial products as well as financing-related services. The segment Other includes the financial market business, with the central refinancing function for the Group and the Bank's overall position including strategic participations.

In the course of the realignment of the Bank the Restructuring Unit of HSH Nordbank is responsible for the winding down of credit and capital market transactions that are not continued in the Core Bank. The Restructuring Unit is divided into three divisions and structured independently from the market and trading divisions of the Bank. The Special Loans division primarily manages restructuring cases and the Wind-Down Loans division mainly manages the other loan portfolios. A third division is responsible for the capital market portfolios (Divestments). In addition the Restructuring Unit performs supporting administrative functions.

The basis for the segment reporting is internal reporting to management. Income and expenses were assigned to the segments in which they originated.

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

The cost/income ratio and return on equity are not shown in the segment report for the segments Restructuring Unit and Other. The segment Other is a summary in accordance with IFRS 8.16. The ratios are not shown for this segment as a joint ratio for the summary provides little information. In the case of the Restructuring Unit, the segment involves business areas which are not strategic and are currently being wound down. This segment is not managed on the basis of these ratios.

Net interest income is calculated in accordance with the Fund Transfer Pricing (FTP). The planned investment and financing profit in the segment Other is distributed among the business segments on the basis of economic capital committed. The transformation contribution is allocated to the segments Sector Specialist Bank and Regional Bank on the basis of average receivables. The costs of the SoFFin liquidity guarantee are taken into account in this allocation.

Total income recognised in the segments is exclusively from external customers.

Internal cost allocations are used to represent the internal service relationships. From 2011 internal cost allocations are included in the allocation of overhead costs of the Group. Group overhead costs in the segment Other are allocated to the segments based on risk-weighted assets before guarantees, directly allocated costs, the balance sheet total and from 2011 onwards the share in the internal cost allocation from 2010.

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

Measurement and recognition differences are principally reported under the consolidation of net interest income. To a certain extent, these resulted from the costs for the SoFFin liquidity guarantee as part of the expense for public guarantees as well as the present value of net interest income.

The result from hedging as well as the development of the trading result due to hedge inefficiencies under commercial law and credit rating effects on DFV liabilities is part of the consolidation process and is not allocated to segments.

Portfolio valuation allowances are shown in the segments in which they originated. Changes to portfolio valuation allowances on the basis of the hedging effects of the second loss guarantee are not subject to a segment assignment.

Average (reported) equity capital was allocated to the segments on the basis of risk-weighted assets before guarantees. The cost/income ratio is the ratio of administrative expenses to total income. Return on equity is the ratio of net income before restructuring to average equity. See note [11] for comments on companies consolidated under the equity method recognised as part of net income from financial investments.

Notes on financial instruments

43. CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS BY IAS 39 CATEGORY

Carrying amounts of financial instruments by IAS 39 category (€ m)							**31.3.2011**
	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	Total
Assets							
Cash reserve	1,070	327	–	–	–	–	1,397
Loans and advances to banks	6,814	41	179	–	–	–	7,034
Loans and advances to customers	94,963	–	1,105	–	–	–	96,068
Receivables under finance leases	–	–	–	–	–	126	126
Positive fair values of hedging derivatives	–	–	–	–	–	1,094	1,094
Trading assets	–	–	–	10,355	–	–	10,355
Financial investments	13,928	7,292	2,450	–	–	–	23,670
Non-current assets held for sale and disposal groups	1,031	403	–	–	–	–	1,434
Other assets	184	–	–	–	–	–	184
Total assets	**117,990**	**8,063**	**3,734**	**10,355**	**–**	**1,220**	**141,362**
Liabilities							
Liabilities to banks	–	–	308	–	23,797	–	24,105
Liabilities to customers	–	–	3,403	–	41,689	–	45,092
Securitised liabilities	–	–	5,353	–	38,343	–	43,696
Negative fair values of hedging derivatives	–	–	–	–	–	282	282
Trading liabilities	–	–	–	8,629	–	–	8,629
Liabilities relating to disposal groups	–	–	–	–	94	–	94
Subordinated capital	–	–	1,961	–	6,656	–	8,617
Other liabilities	–	–	–	–	1,370	–	1,370
Total liabilities	**–**	**–**	**11,025**	**8,629**	**111,949**	**282**	**131,885**

Carrying amounts of financial instruments by IAS 39 category (€ m)							**31.12.2010**
	LaR	AfS	DFV	HfT	LIA	No IAS 39 category	Total
Assets							
Cash reserve	1,003	407	–	–	–	–	1,410
Loans and advances to banks	10,188	42	208	–	–	–	10,438
Loans and advances to customers	101,428	–	1,156	–	–	–	102,584
Receivables under finance leases	–	–	–	–	–	274	274
Positive fair values of hedging derivatives	–	–	–	–	–	1,838	1,838
Trading assets	–	–	–	11,282	–	–	11,282
Financial investments	14,438	7,804	2,759	–	–	–	25,001
Non-current assets held for sale and disposal groups	148	48	193	–	–	–	389
Other assets	185	–	–	–	–	–	185
Total assets	**127,390**	**8,301**	**4,316**	**11,282**	**–**	**2,112**	**153,401**
Liabilities							
Liabilities to banks	–	–	315	–	25,885	–	26,200
Liabilities to customers	–	–	3,519	–	46,927	–	50,446
Securitised liabilities	–	–	5,486	–	39,240	–	44,726
Negative fair values of hedging derivatives	–	–	–	–	–	362	362
Trading liabilities	–	–	–	11,412	–	–	11,412
Liabilities relating to disposal groups	–	–	–	–	–	–	–
Subordinated capital	–	–	2,030	–	6,689	–	8,719
Other liabilities	–	–	–	–	1,556	–	1,556
Total liabilities	**–**	**–**	**11,350**	**11,412**	**120,297**	**362**	**143,421**

44. RECLASSIFICATION UNDER IAS 39 (2008 REVISION)

HSH Nordbank Group exercised the option of reclassifying assets under IAS 39 (2008 revision) as LaR where they meet the relevant requirements, were not intended for short-term sale at the time of reclassification and are due to be held for the foreseeable future. The assets were reclassified in 2008 and 2009 due to the global financial crisis and the consequences it has had on the valuation of securities holdings. The reclassifications were performed in accordance with IAS 39.50D or IAS 39.50E respectively.

The reclassification as LaR measures fair value at the time of reclassification at cost or amortised cost respectively. At the time of reclassification an effective interest rate is determined which is used for subsequent measurement of the amortised acquisition cost. For reclassification of financial instruments from AfS to LaR the revaluation reserve recognised up to the point of reclassification is released through net interest income on a pro rata temporis basis in accordance with IAS 39.54 a).

During the third quarter of 2008, financial instruments were reclassified from the categories HfT and AfS into LAR.

The impact of reclassifications on the interim consolidated financial statements is shown below.

(€ m)	Carrying amount as at the time of reclassification	31.3.2011 Carrying amount	31.3.2011 Fair Value	31.12.2010 Carrying amount	31.12.2010 Fair Value
Reclassified from HfT to LaR	1,020	198	194	211	199
Reclassified from AfS to LaR	1,841	266	259	269	262
Total financial assets reclassified as LaR	**2,861**	**464**	**453**	**480**	**461**

The effective interest rate applied in the case of financial instruments in the category HfT was between 0.03 % and 14.72 % and for financial instruments in the category AfS was between 2.97 % and 9.75 %. Anticipated repayments amounted to € 2,988 million.

The decrease in carrying amounts and fair values of the reclassified financial instruments was due to extensive changes in holdings. At the time of reclassification as HfT, the carrying amount of the financial instruments affected was € 804 million and the carrying amount of assets classified as AfS was € 1,602 million. The changes in holdings are the result of sales in the course of the strategic realignment of the HSH Nordbank Group and were not intended or foreseeable at the time of reclassification; some resulted from maturities arising.

More assets were reclassified in the second quarter of 2009. These are shown in the following table.

(€ m)	Carrying amount as at the time of reclassification	31.3.2011 Carrying amount	31.3.2011 Fair Value	31.12.2010 Carrying amount	31.12.2010 Fair Value
Reclassified from HfT to LaR	399	359	362	371	379
Reclassified from AfS to LaR	6,336	5,637	5,518	5,766	5,706
Total financial assets reclassified as LaR	**6,735**	**5,996**	**5,880**	**6,137**	**6,085**

The effective interest rate applied in the case of financial instruments in the category HfT was between 1.21 % and 5.06 % and for financial instruments in the category AfS was between 0.87 % and 5.00 %. Anticipated repayments amounted to € 6,859 million.

Shown below is the impact all holdings reclassified to date would have had on the income statement and revaluation reserve if they had not been reclassified:

If the reclassification had not taken place, there would have been a valuation result of € 14 million and a revaluation reserve of € 54 million up until 31 March 2010.

For financial instruments reclassified from HfT the valuation result in the income statement for the current reporting period would have been € 13 million for the financial instruments reclassified in the 2008 financial year and € – 4 million for the financial instruments reclassified in the 2009 financial year.

For financial instruments reclassified from AfS the valuation result in the revaluation reserve for the current reporting period would have been € – 4 million for the financial instruments reclassified in the 2008 financial year and € – 52 million for the financial instruments reclassified in the 2009 financial year.

Shown below is the actual impact of all holdings reclassified to date on the income statement of the current reporting period:

(€ m)	January – March 2011 From HfT	January – March 2011 From AfS	January – March 2011 Total	January – March 2010 From HfT	January – March 2010 From AfS	January – March 2010 Total
Net interest income	4	40	44	5	45	50
Net trading income	–4	–17	–21	1	1	2
Net income from financial investments	–2	–	–2	2	8	10
Total	**–2**	**23**	**21**	**8**	**54**	**62**

45. DISCLOSURE OF FAIR VALUE IN ACCORDANCE WITH IFRS 7

In addition to changes to the valuation levels of individual transactions, there were significant changes to the valuation levels of interest-bearing securities in the period under review. As at 31 March 2011 it was possible to assign these to valuation level 1 instead of their previous level 2 thanks to improvements in the markets. These securities have a carrying amount of € 453 million as at 31 March 2011.

46. CREDIT RISK ANALYSIS OF FINANCIAL ASSETS AND DETAILS OF COLLATERAL

I. CREDIT QUALITY OF FINANCIAL INSTRUMENTS WHICH ARE NEITHER IMPAIRED NOR OVERDUE

The table below gives information on the credit quality of financial instruments which were neither impaired nor overdue as of the reporting date. The table provides a breakdown of the financial instruments by category and rating class of the respective counterparty.

Credit quality (€ m)	1 (AAA) to 1 (AA+)		1 (AA) to 1 (A–)	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Held for Trading (HfT)				
Trading assets	3,679	4,171	4,135	4,027
Designated at Fair Value (DFV)				
Loans and advances to banks	89	131	59	50
Loans and advances to customers	1,068	1,079	–	–
Financial investments	637	796	1,349	1,519
Non-current assets held for sale and disposal groups	–	180	–	–
Available for Sale (AfS)				
Cash reserve	327	407	–	–
Loans and advances to banks	25	26	10	11
Financial investments	4,076	4,134	1,654	1,816
Non-current assets held for sale and disposal groups	246	29	100	12
Loans and Receivables (LaR)				
Cash reserve	1,070	1,003	–	–
Loans and advances to banks	3,898	4,522	1,850	3,035
Loans and advances to customers	8,854	9,893	11,042	12,208
Financial investments	7,757	8,127	3,160	3,249
Non-current assets held for sale and disposal groups	113	17	141	21
Other assets	–	–	–	–
No IAS 39 category				
Positive fair values of hedging derivatives	484	833	595	978
Receivables under finance leases	13	32	17	39
Total	32,336	35,380	24,112	26,965

	2 to 5		6 to 9		10 to 12		13 to 15		16 to 18	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
	778	940	653	795	359	448	304	350	447	551
	31	27	–	–	–	–	–	–	–	–
	11	11	26	66	–	–	–	–	–	–
	118	137	205	175	2	2	118	111	21	20
	–	2	–	11	–	–	–	–	–	–
	–	–	–	–	–	–	–	–	–	–
	3	3	2	2	–	–	–	–	–	–
	512	548	354	379	20	37	67	65	7	6
	31	4	21	3	1	–	4	–	–	–
	–	–	–	–	–	–	–	–	–	–
	621	2,148	109	185	71	63	2	2	–	–
	18,339	19,585	19,606	20,625	9,463	9,814	8,109	8,453	5,332	5,472
	1,796	1,689	170	222	116	125	374	398	59	62
	234	34	250	35	121	17	104	15	68	9
	–	–	184	185	–	–	–	–	–	–
	7	14	7	11	1	–	–	2	–	–
	29	62	31	66	15	31	13	27	8	17
	22,510	25,204	21,618	22,760	10,169	10,537	9,095	9,423	5,942	6,137

II. CARRYING AMOUNTS OF OVERDUE, UNIMPAIRED FINANCIAL ASSETS

The table below shows the financial assets which were overdue but unimpaired as of the reporting date. The assets are broken down by category. Categories not shown have no overdue assets.

Carrying amounts of overdue, unimpaired financial assets (€ m)	Overdue < 3 months		Overdue 3 to 6 months		Overdue 6 to 12 months		Overdue > 12 months	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Loans and Receivables (LaR)								
Loans and advances to banks	43	5	–	–	–	–	–	–
Loans and advances to customers	1,602	1,369	328	481	590	691	852	783
Total	1,645	1,374	328	481	590	691	852	783

Payments of € 39 million on transactions with a carrying amount volume of € 1,058 million were received up to ten days after the reporting date of 31 March 2011. Payments are regarded as being in arrears when they are one day overdue.

The overdue, non-impaired credit portfolio is contrasted with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

III. IMPAIRED FINANCIAL ASSETS

The table below shows all impaired financial assets and the associated collateral received as of the reporting date. The financial assets are broken down by category.

Impaired financial assets (€ m)	Gross carrying amount of impaired financial assets		Impairment		Carrying amount of financial assets after impairment	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Loans and Receivables (LaR)						
Loans and advances to banks	221	228	184	191	38	37
Loans and advances to customers	10,846	12,054	3,657	3,890	7,188	8,164
Financial investments [1]	941	1,080	444	514	497	566
Available for Sale (AfS)						
Financial investments [1]	1,021	1,353	420	535	601	818
Total	13,029	14,715	4,705	5,130	8,324	9,585

[1] Financial investments classified as LaR and AfS are shown net in the statement of financial position, i.e. at their carrying amounts less impairment.

The impaired credit portfolio is secured with collateral in the form of real estate liens, ship mortgages, aircraft mortgages, assignments and transfers of ownership by way of security. The collateral assigned largely comprises physical assets.

IV. CREDIT RISK EXPOSURE

With the exception of loans and advances to banks and customers, credit risk exposure in accordance with IFRS 7.36 (a) as at the balance sheet date corresponds to the book value of financial assets as presented in note [43] as well as off-balance sheet liabilities as presented in note [47]

In the case of loans and advances to banks and customers, the credit risk exposure corresponds to the book value after value adjustments as presented in note [21]. The maximum default risk of the loans and advances designated at fair value (DFV) is not reduced by associated credit derivatives.

Collateral as well as other risk-reducing agreements are not reflected in these amounts.

47. CONTINGENT LIABILITIES AND IRREVOCABLE LOAN COMMITMENTS

Off-balance-sheet business
(€ m)

	31.3.2011	31.12.2010
Contingent liabilities	3,102	3,270
Irrevocable loan commitments	8,634	9,526
Total	**11,736**	**12,796**

Other disclosures

48. REPORT ON BUSINESS IN DERIVATIVES

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

I. VOLUMES

Derivative transactions with interest rate risks (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Interest rate swaps	349,997	378,890	5,996	7,490	6,704	8,574
FRAs	6,291	4,122	2	–	2	2
Swaptions						
Long positions	1,817	1,781	55	59	–	–
Short positions	2,799	2,748	2	2	115	130
Caps, floors	16,128	17,637	157	206	112	146
Exchange-traded contracts	5,392	5,211	–	–	–	–
Other forward interest rate transactions	7,229	9,870	87	165	69	64
Total	**389,653**	**420,259**	**6,299**	**7,922**	**7,002**	**8,916**

Derivative transactions with interest rate and currency risks (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Cross currency interest rate swaps	40,713	43,188	1,594	838	493	1,145
Total	**40,713**	**43,188**	**1,594**	**838**	**493**	**1,145**

Derivative transactions with currency risks (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Forward exchange transactions	16,932	19,421	347	237	195	468
Currency options						
Long positions	2,267	1,859	311	333	–	–
Short positions	2,012	1,609	–	–	270	303
Total	**21,211**	**22,889**	**658**	**570**	**465**	**771**

Derivative transactions with equity and other price risks (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Equity options						
Long positions	441	469	39	42	–	–
Short positions	143	143	–	–	34	36
Forward equity transactions	–	–	–	–	–	–
Exchange-traded contracts	13	33	2	5	3	7
Equity/index-based swaps	276	287	1	2	46	53
Commodity-based transactions	1,284	1,115	221	114	209	82
Total	**2,157**	**2,047**	**263**	**163**	**292**	**178**

Credit derivatives (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Guarantor position	357	589	3	6	5	9
Secured position	877	1,113	84	100	2	5
Total	**1,234**	**1,702**	**87**	**106**	**7**	**14**

Derivative transactions in structured products (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Structured products	12,816	12,087	296	357	370	386
Total	**12,816**	**12,087**	**296**	**357**	**370**	**386**

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

Derivative transactions in fair value hedge accounting (€ m)	Nominal values		Positive market values		Negative market values	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Fair value hedges						
Interest rate swaps	35,486	35,317	1,036	1,793	278	357
Cross currency interest rate swaps	306	306	58	45	4	5
Total	35,792	35,623	1,094	1,838	282	362

II. MATURITIES

Maturities (€ m)	Positive market values of derivatives		Positive market values of derivatives from fair value hedging		Negative market values, derivatives		Negative market values of derivatives from fair value hedging	
	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010	31.3.2011	31.12.2010
Residual terms								
Up to 3 months	592	401	35	3	362	689	–	–
3 months to 1 year	902	734	70	91	714	769	16	14
1 year to 5 years	3,661	3,867	620	1,297	3,162	4,340	148	184
More than 5 years	4,042	4,954	369	447	4,391	5,612	118	164
Total	9,197	9,956	1,094	1,838	8,629	11,410	282	362

49. DISCLOSURES ON COLLATERAL TRANSFERRED AND RECEIVED

I. COLLATERAL TRANSFERRED

As at 31 March 2011 HSH Nordbank Group had assets transferred as collateral with a carrying amount of € 3,377 million (31 December 2010: € 5,735 million) which do not meet the requirements for derecognition under IAS 39. The assets transferred as collateral continue to be recognised by the HSH Nordbank Group, as the interest rate risk, credit risk and other material risks as well as the prospects of appreciation and interest income largely reside with the HSH Nordbank Group.

Carrying amounts of transferred collateral (€ m)	31.3.2011	31.12.2010
Loans and advances	3,377	5,650
Loans and advances to banks	2,254	4,408
Loans and advances to customers	1,123	1,242
Trading assets / Financial investments	–	85
Total	3,377	5,735

The collateral transferred comprises mainly assets used for the collateralisation of OTC derivative transactions. The decrease in loans and advances transferred as collateral is associated with a decrease of the carrying amounts of the collateralised trading liabilities. Repurchase agreements are separately reported below. A small amount of collateral has been transferred in the course of securities lending business.

The following table shows the carrying amounts of the liabilities related to the collateral transferred:

Carrying amounts of liabilities
(€ m)

	31.3.2011	31.12.2010
Liabilities to banks	558	545
Trading liabilities	2,623	4,809
Total	**3,181**	**5,354**

The carrying amounts of liabilities to development banks are recognised in the amount of the corresponding loan transferred as collateral.

Money market borrowing generally involves pledging and transferring securities lodged with the European Central Bank. Loan notes and other receivables from lending are not pledged to the European Central Bank, but are assigned without this being disclosed. It is not possible to resell or pledge in the interim.

The HSH Nordbank Group securitised customer loans as part of structured transactions and thereby generated senior notes which were eligible for refinancing at the central bank and which were received by the ECB pledged securities account in the amount of € 756 million as at 31 March 2011. The underlying customer loans are included in loans and advances to customers.

In addition, the HSH Nordbank Group concludes repurchase agreements under repo master agreements both on a national and international scale. The associated liabilities are recognised under liabilities to banks or liabilities to customers. At the end of the reporting period, the carrying amount of the securities transferred as collateral in the framework of repo transactions was € 3,188 million (31 December 2010: € 7,106 million). The corresponding liabilities are recognised in the amount of € 2,602 million (31 December 2010: € 6,889 million). The requirements for derecognition under IAS 39 are not met. The securities sold under repurchase agreements continue to be recognised in the statement of financial position of the Group, as the interest rate risk, credit risk and other material risk as well as opportunities related to appreciation in value and interest income continue to be borne by HSH Nordbank Group.

Repo and securities lending transactions are monitored by measuring transactions on a daily basis. If there is a shortfall in collateral the counterparty may require HSH Nordbank Group to provide additional securities to increase collateral. Where HSH Nordbank Group has provided collateral and the market situation changes such that the cover provided is excessive, it is entitled to require the counterparty to release collateral. The collateral provided is subject to a full transfer of rights, i. e. the party receiving collateral may act like an owner and in particular may transfer or pledge such collateral. In the case of securities collateral, securities of the same type and quality ('the same sort') must be delivered or returned unencumbered. Where collateral has been provided in the form of securities, it may not be returned in cash.

The above conditions and collateral modalities apply to triparty repo transactions between HSH Nordbank Group and its counterparties accordingly. The transactions are executed via a triparty agent.

II. COLLATERAL RECEIVED

The HSH Nordbank Group received collateral from counterparties with a total fair value of € 4,305 million (31 December 2010: € 3,591 million). The collateral received is split up as follows: € 802 million (31 December 2010: € 566 million) related to OTC derivatives and structured transactions including a small amount of collateral related to securities lending transactions. The Group received collateral in the amount of € 3,503 million (31 December 2010: € 3,025 million) within the framework of genuine repo transactions where it acted as the lender. This includes cash collateral in the amount of € 802 million (31 December 2010: € 566 million). Of the collateral received € 1,895 million (31 December 2010: € 1,843 million) was resold or pledged. There are no restrictions on disposal or realisation. HSH Nordbank Group is obliged to return all collateral resold or pledged to the guarantor without exception.

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

III. OTHER COLLATERAL RECEIVED

In the reporting period assets from the realisation of collateral in the amount of € 31 million (31 December 2010: € 0 million) were recognised.

In November 2008, HSH Nordbank AG received a guarantee facility for up to a maximum of € 30 billion from SoFFin. This was reduced to € 17 billion in coordination with SoFFin with effect from the end of the year 2009. The guarantee facility expired as agreed on 31 December 2010. The guarantees for the existing issues remain in force. As at 31 March 2011 issues in the amount of € 9 billion (31 December 2010: € 9 billion) are still outstanding. After the balance sheet date and during the period for drafting the interim report an issue of € 3 billion expired according to plan with effect of 11 May 2011.

€ 1 billion of the guarantee facility provided to HSH Nordbank AG and certain group companies by the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg via HSH Finanzfonds AöR, with an initial amount of € 10 billion, was repaid in the first quarter of 2011, reducing the outstanding balance to € 9 billion. HSH Nordbank pays a premium of four per cent per annum on the outstanding balance of the guarantee to the federal states.

For further information on the second loss guarantee please refer to note [3] and the Management Report. The costs of these guarantees is disclosed in the income statement under the item expenses for government guarantees (see note [16]).

50. RELATED PARTIES

The HSH Nordbank Group does business with related parties and companies. These include the HSH Finanzfonds AöR as parent company, the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50%. Furthermore, business relations exist with subsidiaries which are controlled but not consolidated for reasons of materiality, associated companies, individuals in key positions and their relatives and companies controlled by these individuals. Individuals in key positions comprise exclusively the members of the Management and Supervisory Boards of HSH Nordbank AG.

In the course of the normal business operations transactions are entered into at arm's length with companies and parties that are related parties. These transactions include loans, sight and term deposits, derivatives and securities transactions.

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

For transactions with HSH Finanzfonds AöR as well as with the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg, which each participate in HSH Finanzfonds AöR at 50% the Bank makes use of IAS 24.25.

As a significant transaction within the meaning of IAS 24 the guarantee is measured based on the guarantee facility provided by the federal state of Schleswig-Holstein and the Free and Hanseatic City of Hamburg to HSH Nordbank AG and certain subsidiaries via HSH Finanzfonds AöR. Please refer to note [3] and [16] for more details.

II. SUBSIDIARIES

The transactions with unconsolidated subsidiaries are shown below:

Subsidiaries – assets
(€ m)

	31.3.2011	31.12.2010
Loans and advances to customers	479	479
Loan loss provisions	-27	-15
Trading assets	40	44
Financial investments	309	316
Other assets	2	4
Total	**803**	**828**

Subsidiaries – liabilities
(€ m)

	31.3.2011	31.12.2010
Liabilities to customers	127	118
Trading liabilities	–	1
Provisions in the lending business	17	1
Other liabilities	3	3
Total	**147**	**123**

Subsidiaries – income statement
(€ m)

	January – March 2011	January – March 2010
Net interest income	3	7
Loan loss provisions	3	1
Net trading income	–	-16
Other operating income	-1	–
Total	**5**	**-8**

Furthermore there are contingent liabilities to subsidiaries in the amount of € 28 million (31 December 2010: € 7 million) and € 30 million (31 December 2010: € 33 million) of irrevocable loan commitments.

There are € 3 million of other financial liabilities to subsidiaries (31 December 2010: € 3 million).

III. ASSOCIATED COMPANIES

The following tables show transactions with associated companies not included in the consolidated financial statements under the equity method:

Associated companies – assets
(€ m)

	31.3.2011	31.12.2010
Loans and advances to customers	788	843
Loan loss provisions	-31	-36
Trading assets	4	8
Financial investments	555	899
Other assets	4	4
Total	**1,320**	**1,718**

Associated companies – liabilities
(€ m)

	31.3.2011	31.12.2010
Liabilities to customers	69	67
Securitised liabilities	99	98
Trading liabilities	1	1
Provisions in the lending business	–	1
Other liabilities	1	1
Total	**170**	**168**

Associated companies – income statement
(€ m)

	January – March 2011	January – March 2010
Net interest income	9	8
Loan loss provisions	–	11
Net trading income	-3	1
Net income from financial investments	-1	2
Total	**5**	**22**

In addition, there are € 12 million (31 December 2010: € 12 million) of contingent liabilities to associated companies and € 46 million (31 December 2010: € 88 million) of irrevocable loan commitments.

Other financial liabilities to associated companies amount to € 148 million (31 December 2010: € 151 million).

IV. JOINT VENTURES

The following tables show transactions with joint ventures not included in the consolidated financial statements under the equity method:

Joint ventures – assets
(€ m)

	31.3.2011	31.12.2010
Loans and advances to customers	124	134
Loan loss provisions	-5	-5
Trading assets	12	14
Total	**131**	**143**

Joint ventures – liabilities
(€ m)

	31.3.2011	31.12.2010
Liabilities to customers	–	1
Total	**–**	**1**

Joint ventures – income statement
(€ m)

	January – March 2011	January – March 2010
Net interest income	3	–
Net trading income	-1	–
Total	**2**	**–**

V. OTHER RELATED PARTIES AND COMPANIES

No transactions with individuals in key positions at HSH Nordbank AG, or their close relatives, or companies controlled by these individuals were recorded as at the balance sheet date.

51. NAMES OF BOARD MEMBERS AND DIRECTORSHIPS HELD

I. THE SUPERVISORY BOARD OF THE HSH NORDBANK GROUP

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

Olaf Behm, Tangstedt
Employee of HSH Nordbank AG
Deputy Chairman

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

Astrid Balduin, Kiel
Employee of HSH Nordbank AG

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

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

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

Jürgen Friedland, Kiel
Employee of HSH Nordbank AG

Jens-Peter Gotthardt, Moorrege
Employee of HSH Nordbank AG

Torsten Heick, Rellingen
Employee of HSH Nordbank AG

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

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

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

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

Manfred Lener, Kiel
Employee of HSH Nordbank AG

Rieka Meetz-Schawaller, Kiel
Employee of HSH Nordbank AG

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

Dr. Hans Reckers, Bad Homburg
Former member of the Management Board,
Deutsche Bundesbank

Edda Redeker, Kiel
ver.di, Northern district

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

II. MEMBERS OF THE RISK COMMITTEE

Dr. Hans Reckers
Chairman

Dr. David Morgan
Deputy Chairman

Astrid Balduin

Olaf Behm

Jürgen Friedland

Torsten Heick

Dr. Rainer Klemmt-Nissen

Hilmar Kopper

Manfred Lener

Bernd Wrede

III. MEMBERS OF THE AUDIT COMMITTEE

Dr. Joachim Lemppenau
Chairman

Lutz Koopmann
Deputy Chairman

Olaf Behm

Jürgen Friedland

Jens-Peter Gotthardt

Oke Heuer

Hilmar Kopper

Rieka Meetz-Schawaller

IV. MEMBERS OF THE GENERAL COMMITTEE

Hilmar Kopper
Chairman

Olaf Behm

Oke Heuer

Dr. Rainer Klemmt-Nissen

Lutz Koopmann

Rieka Meetz-Schawaller

Dr. David Morgan

V. MEMBERS OF THE MEDIATION COMMITTEE

Hilmar Kopper
Chairman

Olaf Behm

Dr. Rainer Klemmt-Nissen

Manfred Lener

VI. THE MANAGEMENT BOARD OF THE HSH NORDBANK GROUP

As at 1 April 2011 a new business allocation plan came into force for members of the Management Board. The following table shows the current structure of the Management Board:

Dr. Paul Lerbinger
since 1 March 2011: Member of the Management Board
since 1 April 2011: Chairman
Responsible for the following divisions:
Corporate Communication, Human Resources, Legal, Internal Audit, Corporate Development IT, Operations (organisational / disciplinary allocation) Capital Markets Clients, Capital Markets Structuring & Trading, Group Treasury (organisational / disciplinary allocation; technical responsibility lies with the overall Management Board)
Born 1955

Prof. Dr. Dirk Jens Nonnenmacher
until 31 March 2011: Chairman
Responsible for the following divisions:
Group Communications, Human Resources, Legal, Internal Audit, Corporate Development Taxes, Finance (on a temporary basis) IT, Operations (organisational / disciplinary allocation)
Born 1963

Dr. Martin van Gemmeren
Responsible for the Restructuring Unit with the divisions:
Wind-down Loans, Special Loans, Divestments
Born 1970

Constantin von Oesterreich
Responsible for the following divisions:
Group Risk Management, Credit Risk Management, Loan and Collateral Management, Restructuring
Also responsible from 1 April 2011 on a temporary basis for: Taxes, Finance
Born 1953

Torsten Temp
Responsible for the following divisions:
Aviation, Energy & Infrastructure and Shipping
Born 1960

Bernhard Visker
Responsible for the following divisions:
Corporate Clients, Real Estate Clients, Private Banking, Savings Banks
Also responsible until 31 March 2011 for:
Capital Markets Clients, Capital Markets Structuring & Trading, Group Treasury (organisational / disciplinary allocation; technical responsibility lies with the overall Management Board)
Born 1966

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

Hamburg / Kiel, 13 May 2011

Lerbinger

van Gemmeren

von Oesterreich

Temp

Visker

Review Opinion

TO HSH NORDBANK AG, HAMBURG AND KIEL

We have reviewed the condensed interim consolidated financial statements of HSH Nordbank AG, Hamburg and Kiel, — comprising the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the condensed cash flow statement and selected explanatory notes — together with the interim group management report of HSH Nordbank AG for the period from 1 January to 31 March, 2011. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements applicable to interim group management reports.

Without qualifying this review opinion, we refer to the discussion in the interim group management report in the paragraph 'EU-Beihilfeverfahren dauert an' (EU state aid proceedings continue) as well as to the selected explanatory notes under Note 1. Therein it is disclosed that the continued existence of HSH Nordbank AG as a going concern depends on whether the European Commission approves the stabilization measures implemented by the Free and Hanseatic City of Hamburg and the State of Schleswig-Holstein in the foreseeable future on a permanent basis. It is also necessary that the EU approval should only be tied to requirements which can be implemented within the framework of reasonable business planning, and in particular, which will not conflict the effect of stabilization measures that relieve the regulatory capital.

Hamburg, dated 16 May 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Krall | Madsen

Krall	Madsen
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement by the Management Board

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

Hamburg/Kiel, 13 May 2011

Lerbinger van Gemmeren

von Oesterreich Temp

Visker

IMPRINT

Published by
HSH Nordbank AG
Gerhart-Hauptmann-Platz 50
20095 Hamburg
Phone: +49 40-3333-0
Fax: +49 40-3333-34001

Martensdamm 6
24103 Kiel
Phone: +49 431-900-01
Fax: +49 431-900-34002

Investor Relations
Phone: +49 40-3333-14601
Fax: +49 40-3333-614601

This interim report is available for download at
www.hsh-nordbank.com

This is an English translation of the original German version of the interim report.

Forward–Looking Statements
This interim report includes certain forward-looking statements. These statements are based on our beliefs and assumptions, on information currently available to us and on sources we believe to be reliable. Forward-looking statements include all statements that are not historical facts, including statements concerning possible or assumed future growth opportunities and future economic developments.

Such forward-looking statements rely on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are outside of our control, that could cause actual results to differ materially from such statements. You should not put undue reliance on any forward-looking statements. We make no representation or warranty as to the accuracy or completeness of such forward-looking statements contained in this report or that any forecast contained herein will be achieved. We have no intention or obligation to update forward-looking statements after we distribute this report. Above all, information contained in this interim report does not state an offer to buy or sell any security of HSH Nordbank AG.

HSH Nordbank AG
Gerhart-Hauptmann-Platz 50
20095 Hamburg
Phone +49 40 3333-0
Fax +40 40 3333-34001

Martensdamm 6
24103 Kiel
Phone +49 431 900-01
Fax +49 431 900-34002

info@hsh-nordbank.com
www.hsh-nordbank.com