HSH NORDBANK AG

Interim Report as at September 30, 2005

HSH NORDBANK

HSH Nordbank Group at a Glance

Key figures	Jan.-Sept. 2005	Jan.-Sept. 2004	% change
Operating profit before risk provisions (€ million)	903.3	877.0	3.0
Operating profit after risk provisions (€ million)	532.3	546.4	-2.6
Net income (€ million)	338.7	201.5	68.1
	Jan.-Sept. 2005	**2004**	**Jan.-Sept. 2004**
Return on equity (%)	14.0	12.8	12.3
Cost/income ratio (%)	42.0	39.9	39.7
	09/30/2005	**12/31/2004**	**09/30/2004**
Total assets (€ million)	190,721	164,090	171,122
Tier 1 capital ratio (%), German Banking Act	6.7	7.0	7.1
Tier 1 capital ratio (%), BIS	6.5	6.7	6.8
Total capital ratio (%), German Banking Act	10.1	10.0	10.3
Total capital ratio (%), BIS	9.8	9.7	9.9
Employees	4,497	4,347	4,522

Long-term ratings	Unguaranteed obligations*	Guaranteed obligations
Moody's	A1	Aa3
Standard & Poor's	A	AA-
Fitch	A	AAA

* Obligations not covered by Anstaltslast (maintenance obligation) and Gewährträgerhaftung (guarantee obligation).

- HSH Nordbank AG is a strong regional bank in Northern Europe. Furthermore, it is a provider of specialist finance operating around the world and an acknowledged partner on the international capital markets.

- HSH Nordbank offers its customers a broad range of innovative products coupled with expert individual advice. It is, together with the savings banks, market leader in its core region of Hamburg and Schleswig-Holstein. Across Schleswig-Holstein it maintains a special business relationship with the savings banks based on an agreement of association.

- As a provider of specialist finance, its particular focus is on transportation and real estate. In fact, HSH Nordbank is the world's leading provider of ship finance and covers the entire value chain in the transportation segment. In the area of real estate finance, HSH Nordbank is one of the strongest banks in Germany. It is active on a selective basis in the metropolitan regions of the United States and Europe.

- A network of branches and representative offices in the Bank's core regions of South-East Asia and the Baltic Sea region supports its global operations and allows it to provide on-the-spot assistance to its customers in their international business ventures. In keeping with its status as an acknowledged partner on the capital markets, HSH Nordbank has offices in all main financial centers including London and New York.

- Established on June 2, 2003, HSH Nordbank AG is the result of the merger between Hamburgische Landesbank and Landesbank Schleswig-Holstein (LB Kiel). It has total assets of some EUR 190 billion and roughly 4,500 employees around the world. HSH Nordbank has twin headquarters in Hamburg and Kiel.

Ladies and Gentlemen,

HSH Nordbank continued successfully on its chosen path in the first nine months of 2005. Particularly encouraging was the fact that the rise in operating profit before risk provisions, as well as the fresh capital injected by our stockholders allowed us to replenish our reserves substantially following the sizeable withdrawal that was necessitated by the EU reimbursement.

We raised our operating return on equity to 14 %. This reflects the growing success we are having in selling an increasingly wider range of banking services, which in turn results in higher net commission income. Our comprehensive range extends from conventional capital market products for hedging price risks and competitive cash management solutions to arranging acquisition finance deals and structuring securitization transactions for our clients' portfolios. At the same time, we have been able to generate extensive new business in the specialized finance area in particular. However, this has been tempered in many cases by loan repayments made by customers prior to maturity, as well as mounting pressure on margins in the wake of substantially more intense competition in some areas of business.

As a result of additional spending on our new and sophisticated business model, we recorded a further scheduled double-digit increase in costs, but have already taken steps to cap this growth in the future. One of these measures involves systematically trimming positions no longer required as a result of the Bank's realignment. Even so, we will continue to recruit new employees for specialist positions whenever we are unable to fill them internally by training existing staff. Thus, on balance, staff numbers are unlikely to decline over the next few years.

Turning to 2005 as a whole, we expect operating profit to exceed the previous year's figure. Given the difficult overall market conditions, this would be a gratifying achievement, allowing HSH Nordbank to continue its successful course even in the absence of state guarantees.

Hamburg/Kiel, November 2005

Alexander Stuhlmann
Chairman of the Management Board of HSH Nordbank AG

Business Performance of the HSH Nordbank Group

HSH Nordbank remains on course after the first nine months

- **Operating income up 7 %**
- **Further decline in loan-loss provisions**
- **Sharp increase in reserves**
- **Net income up 68 %**
- **Return on equity improved from 12.3 % to 14.0 %**

Earnings situation

In total, **operating income** climbed by 7.0 % to a good EUR 1.5 billion, with the gain having been underpinned by all income items.

Net interest income rose by 3.3 % year on year to just under EUR 1.2 billion despite the still restrained capital spending of German businesses and the persistent pressure on margins.

Net commission income was up 10.4 % on the same period in 2004, coming to EUR 219 million in the first nine months of 2005. This increase was due to higher loan commissions – in particular from our international lending business, reflecting the larger number of arranger positions assumed by the Group.

Net trading income rose by 35.3 % over the first nine months of 2004 to EUR 97 million. This result was again achieved without higher risk exposure.

Net other operating income totaled EUR 58 million in the first nine months, up 44.7 % on the 2004 figure of EUR 40 million. This increase was in particular attributable to gains on the sale of shares in AGV, HSH Nordbank's lease finance subsidiary.

In all, **administrative expenses** were as budgeted substantially above the previous year's level, rising by 13.0 % to a total of EUR 654 million in the first three quarters of 2005. However, in the light of foreseeable developments and the steps already taken, it will be possible to limit this rate of growth in the future.

Operating expenses increased by 11.2 % to EUR 349 million, due primarily to higher consulting expenses in connection with the implementation of the new strategy. Looking ahead over the next few years, this item should decline substantially due to a sizeable drop in consulting expenditure.

Personnel expenses amounted to EUR 304 million, up 15.1 % year on year. This increase was due to the necessary staff hired to implement the new strategy, as well as to pay-scale increases and to higher pension provisions. In the medium term, the rise in personnel expenses will be perceptibly limited by the personnel measures that have been initiated. As of September 30, 2005, the number of Group **employees** came to 4,497, a marginal decline of 25 over the same date one year earlier.

In spite of expenditure on the new business model with its greater focus on services, the **cost/income ratio** still looks good. However, at 42.0 %, it is higher than in the previous year (September 30, 2004: 39.7 %).

Operating profit before risk provisions/evaluation amounted to EUR 903 million in the period under review, 3.0 % higher than in 2004.

At the end of the first nine months of 2005, the item **risk provisions/evaluation** stood at EUR 371 million, up 12.2 % on the previous year. Of this amount, however, EUR 250 million – i.e. by far the bulk – is accounted for by allocations to the reserves pursuant to Section 340 f+g of the German Commercial Code. To compare, the Bank set aside reserves of EUR 135 million in the first nine months of 2004.

In the **lending business**, risk provisions amounted to EUR 173 million – a further decline of EUR 23 million or 11.7 %. Risk provisions for the **securities business** were written back by EUR 101 million in the first nine months, constituting an improvement of EUR 103 million over 2004. Combined risk provisions for the lending and the securities business thus contracted by EUR 126 million year on year.

As a result of the large allocations to reserves, **operating profit after risk provisions** was down slightly, i.e. by 2.6 % to EUR 532 million.

The operating **return on equity (ROE)** stood at 14.0 % on September 30, 2005, an improvement of 1.7 percentage points year on year, an increase of 1.2 percentage points compared with December 31, 2004.

At EUR 339 million, the HSH Nordbank Group's **net income** for the period exceeded that of the previous year by a substantial 68.1 %. When assessing this figure, it should be noted that part of the impact of the settlement of the EU subsidization proceedings was accounted for in an extraordinary result of EUR 162 million.

Thus, we used the entire additional capital of EUR 556 million provided by the stockholders – equaling the total reimbursement (EUR 756 million) less the Bank's retention amount (EUR 200 million) – to replenish the reserves pursuant to Section 340g of the German Commercial Code. Associated with this are deferred taxes amounting to EUR 222 million. In addition, we formed provisions for restructuring measures in the amount of EUR 60 million.

Income statement

€ million	Jan.–Sept. 2005	Jan.–Sept. 2004	Change absolute	%
Operating income	1,556.8	1,455.3	101.5	7.0
– Net interest income	1,183.7	1,145.9	37.8	3.3
– Net commission income	218.9	198.2	20.7	10.4
– Net trading income	96.6	71.4	25.2	35.3
– Net other operating income	57.6	39.8	17.8	44.7
Administrative expenses	-653.5	-578.3	-75.2	13.0
– Personnel expenses	-304.3	-264.3	-40.0	15.1
– Operating expenses	-349.2	-314.0	-35.2	11.2
Operating profit before risk provisions/evaluation	**903.3**	**877.0**	**26.3**	**3.0**
Risk provisions/evaluation	-371.0	-330.6	-40.4	12.2
– Loan loss provisions	-172.5	-195.3	22.8	-11.7
– Securities	101.1	-2.3	103.4	>-100
– Equity holdings	-49.6	2.0	-51.6	>-100
– Reserves	-250.0	-135.0	-115.0	85.2
Operating profit after risk provisions/evaluation	**532.3**	**546.4**	**-14.1**	**-2.6**
Extraordinary result	162.0	0.0	162.0	
– Capital injected by stockholders	556.2	0.0	556.2	
– Reserves pursuant to § 340g HGB	-556.2	0.0	-556.2	
– Deferred taxes	222.0	0.0	222.0	
– Provision for restructuring measures	-60.0	0.0	-60.0	
Taxes on income	-126.8	-99.3	-27.5	27.7
Payouts on silent participations	-228.8	-245.6	16.8	-6.8
Net income	**338.7**	**201.5**	**137.2**	**68.1**

Assets and financial position

Total assets rose to EUR 190.7 billion in the year to September 30, 2005 (from EUR 164.1 million on December 31, 2004). This significant gain reflects – along with the strong rise in U.S. dollar exchange rates – vibrant new lending business in many business areas. There was also a strong increase in loan commitments. Business volume has consequently grown by even more than balance sheet assets. Stepped-up refunding in the capital markets meant an increase in certificated liabilities, which still constitute the largest item on the liabilities side.

The Tier 1 capital ratio pursuant to the German Banking Act contracted slightly to 6.7 % (from 7.0 % on December 31, 2004) – not including possible allocations to revenue reserves using the net income for the period – as the rise in risk-weighted assets in the wake of greater business volumes was stronger than the increase in Tier 1 capital. The stockholders had strengthened the Bank’s capital significantly in July of this year by injecting EUR 556 million. In addition, the Bank took on a sizeable amount of subordinated debt, resulting in a sharp increase in liable capital to EUR 12.0 billion (December 31, 2004: EUR 9.7 billion).

Balance sheet

€ million			
Assets	09/30/2005	12/31/2004	09/30/2004
Cash reserve, debt instruments issued by public institutions, bills of exchange eligible for refinancing	433	351	3,321
Loans and advances to banks	40,170	35,588	34,777
Loans and advances to customers	89,466	78,470	80,031
Total securities	53,763	45,913	46,858
Equity holdings in affiliated and associated companies	1,938	1,651	1,820
Trust assets	387	385	357
Other assets	4,564	1,733	3,958
Total assets	**190,721**	**164,090**	**171,122**
Liabilities and equity capital	09/30/2005	12/31/2004	09/30/2004
Liabilities to banks	48,090	44,269	41,878
Liabilities to customers	53,439	46,454	51,617
Certificated liabilities	69,179	58,134	59,075
Trust liabilities	387	385	357
Subordinated debt	4,087	2,550	2,605
Profit participation capital	1,462	1,497	1,497
Fund for general banking risks	744	6	365
Equity capital	6,836	6,536	6,419
Other liabilities	6,497	4,260	7,309
Total liabilities	**190,721**	**164,090**	**171,122**
Contingent liabilities	11,449	11,449	11,880
Irrevocable loan commitments	19,919	13,893	14,300
Derivatives (credit risk equivalent)	12,958	10,663	8,979
Business volume	**235,046**	**200,094**	**206,282**
Lending volume	**229,070**	**197,311**	**200,001**

Regulatory figures

€ billion	09/30/2005	12/31/2004	09/30/2004
Total liable capital pursuant to KWG (German Banking Act)	12.0	9.7	10.6
Total liable capital pursuant to BIS	11.9	9.7	10.5
Tier 1 capital	6.8	6.2	6.6
Risk-weighted assets (KWG)	101.5	88.5	92.8
Risk-weighted assets including market risk position (KWG)	118.9	97.4	102.5
Risk-weighted assets (BIS)	104.9	92.1	96.5
Risk-weighted assets including market risk position (BIS)	121.5	100.0	105.5
%			
Solvency ratio (KWG)	11.2	11.0	11.7
Total capital ratio (KWG) (including market risk position)	10.1	10.0	10.3
Solvency ratio (BIS)	10.8	10.5	10.8
Total capital ratio (BIS) (including market risk position)	9.8	9.7	9.9
Tier 1 capital ratio (KWG)	6.7	7.0	7.1
Tier 1 capital ratio (BIS)	6.5	6.7	6.8

Market risks in the trading book and in the banking book

Market risks are defined as potential losses that may result from detrimental changes in the market value of our positions resulting from fluctuation in interest rates, exchange rates, stock prices, and indices.[1] As of September 30, 2005, the market-risk exposure of our trading book positions stood at EUR 28.3 million and that of our banking book positions at EUR 29.1 million. Aggregate market risk was valued at EUR 18.5 million due to risk-reducing correlation effects.

Daily Value at Risk (VaR)

	Market risk (aggregated)	
€ million	Jan.–Sept. 2005	2004
Average	26.4	44.5
Maximum	39.0	116.2
Minimum	18.5	14.9
End of period	18.5	26.4

Performance of Individual Segments[2]

Shipping Clients segment

The Shipping Clients segment's good performance in the first half continued in the third quarter. Operating profit after risk provisions rose to EUR 197.4 million (EUR 166.5 million on September 30, 2004), while the return on Tier 1 capital[3] climbed to 21.7 % (from 18.4 % on September 30, 2004).

Amounting to EUR 5.2 billion, new business was vibrant and more than offset the effects of a large volume of maturing loans and non-scheduled repayments as a result of shipping companies' good liquidity situation. The trend in the exchange rate of the U.S. dollar exerted an additional positive effect in the course of the year, since more than 75 % of our portfolio consists of USD receivables. We enjoyed cross-selling benefits both with new and long-standing customers, thanks to which net commission income was significantly above the previous year's figure. There is demand not only for conventional hedging products, but increasingly also for consulting services and structured special products, the development of which we have stepped up in our Bank by establishing the new "Structuring and Development" unit.

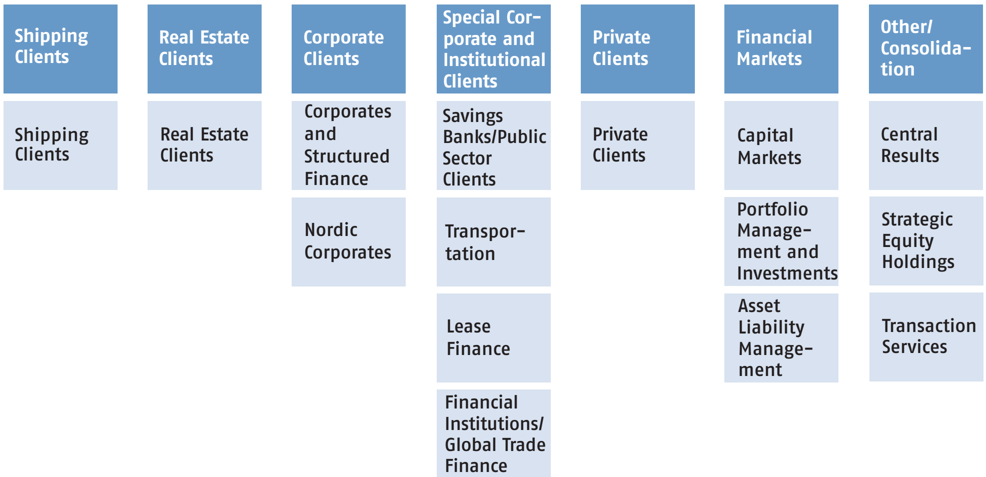
[1] Market risk is measured using a value-at-risk approach by means of historical simulation with a confidence level of 99 %, a holding period of one day and an observation period of 250 days.
[2] The scope of the income and expenses not assigned to the business segments has been reduced since the end of 2004. The figures for the previous year have been adjusted accordingly. Cf. also table on page 16.
[3] The return on Tier 1 capital is the ratio of operating profit after risk provisions to average Tier 1 capital employed. The allocation of Tier 1 capital across the segments is based on an assumed ratio of 6 % of risk positions.

The increased competition with many new providers in the ship-finance sector as well as the ongoing, dynamic trend in the charter markets means that margins on new business are contracting sharply. Against this backdrop, we regard net interest income at roughly the previous year's level as a good result. Risk provisioning was down again substantially year on year, thanks to the favorable market conditions.

With its second ship-loan securitization transaction in the context of a private placement, HSH Nordbank transferred the credit risks of a select portfolio of ship loans totaling about USD 570 million by issuing credit-linked notes. Ocean Star 2005 was the first public securitization transaction in the Landesbank sector after the abolition of state guarantees in mid-July 2005. Thanks to the successful closing of Ocean Star 2004 and Ocean Star 2005 with a total volume of about USD 1.6 billion, HSH Nordbank succeeded within one year in establishing ship loans as a new tradable asset class on the capital market.

Segment structure

HSH Nordbank



Real Estate Clients segment

Thanks above all to the continued decrease in risk provisioning, as well as to a significant rise in net commission income, the segment's operating profit after risk provisions was up to EUR 116.0 million (EUR 33.6 million). The return on Tier 1 capital climbed to 15.6 % (4.4 %).

The sharper focus on international operations made a particularly strong contribution to the good performance. In 2005, we raised the proportion of new business accounted for by foreign markets – given the difficult conditions prevailing on the German real estate market – to more than 50 %. By opening offices in Paris (March 2005) and San Francisco (November 2005) we established a local presence in further major international real estate markets. Greater demand for capital-market and payment-transaction products, as well as expansion of our services business, also benefited earnings performance. The operations of our real estate holding HSH N Real Estate AG, in which the Bank has pooled much of its real-estate-related services business since the end of 2004, was stepped up further in specifically targeted areas.

Since the beginning of this year, HSH N Real Estate has succeeded in, among other things, underscoring its expertise in the fund business by fully placing three closed-end real estate funds. With the aim of launching more closed-end funds and special real estate funds, the company acquired high-quality residential and office properties, among other places in Las Vegas, Budapest, Paris, and Hamburg, which will be transferred to the funds. Business with "Spezialfonds" conducted by LB Immo Invest GmbH was further expanded by increasing the number of such newly launched Special Funds involving pools of segregated assets, as well as by extensive placement of equity capital.

In October, HSH N Real Estate acquired nearly 75 % of the equity in DSK Deutsche Stadt- und Grundstücksentwicklungsgesellschaft mbH, Wiesbaden. DSK is a leading company providing real estate services to municipalities. Together with BIG Bau-Investitions-Gesellschaft mbH, which is already part of the portfolio of holdings, this will enable HSH N Real Estate to realize considerable synergies in the area of urban regeneration and development.

HSH Nordbank sold 60 % of the shares it held in W. Jacobsen AG in October as well. W. Jacobsen AG is a real estate company with property in Northern Germany.

Corporate Clients segment

This segment comprises the global corporate client business run from Hamburg and Kiel (Corporates and Structured Finance), as well as the operations of the Copenhagen branch (Nordic Corporates) in which corporate clients are involved. The increase in operating profit after risk provisions to EUR 162.7 million (EUR 153.6 million) was due to growth in income that more than offset the higher risk provisions. The return on Tier 1 capital climbed to 23.1 % (21.5 %).

Corporates and Structured Finance
The trend of the first half of the year continued in the third quarter as well. The heavy pressure on margins persists because our mid-sized target customers are still also being heavily wooed by the major commercial banks. In addition, there is also mounting competition from foreign players.

The further increase in profit that was nevertheless achieved is based on sharpened focus on target customers combined with our increasingly services-oriented range of products. For instance, we offer innovative capital-market-related solutions for boosting the capital of medium-sized enterprises as an alternative to conventional borrowing. Moreover, we help our clients to take advantage of the potential that frequently exists in the area of interest optimization. A larger amount of net risk provisioning was a factor weighing on the business result of the third quarter. Over the year as a whole, however, we expect risk costs to be down on the previous year's amounts.

A large number of successful transactions, as well as product innovations characterized the third quarter in the Structured Finance division. Structuring of the "NILEG" (sale of real estate from the holdings of Nord/LB) leveraged buyout merits particular mention. We were the mandated lead arranger of this transaction amounting to a total of about EUR 1.3 billion.

Nordic Corporates
This division, which is geared to Northern Europe and the Baltic States, continued to enjoy strong demand from medium-sized corporate clients for its wide range of banking services. Its lending volume rose by about EUR 400 million in the third quarter alone.

The further increase in the contribution to earnings is not least the result of a cross-selling program launched at the beginning of the year to increase income from capital-market products. As part of the stepped-up collaboration with other units of the Bank, the fusing of the Nordic Corporates' relationship-management platform with the sector expertise of the Transportation division has made a particularly promising start.

Special Corporate and Institutional Clients segment

This segment comprises the Transportation, Savings Banks/Public Sector Clients, Lease Finance, and Financial Institutions/Global Trade Finance divisions. Operating profit after risk provisions rose from EUR 147.2 million to EUR 161.3 million. The return on Tier 1 capital came to 22.6 % (21.3 %). Both higher net interest and net commission income contributed to the improved result, in total more than offsetting the increased risk-provisioning requirement.

Transportation
Boosted by the dynamic market – particularly so in the international aviation sector – the Transportation division generated a double-digit rate of increase in its contribution to net earnings year on year. We achieved this thanks to both higher margins in the lending business and additional income in the services business. Early repayments did, however, partially offset the large volume of new business (up 19 %). Risk provisioning was appropriately adjusted in the context of the insolvency proceedings that two U.S. air carriers – Delta Airlines and Northwest Airlines – recently initiated.

We remain a sought-after partner for complex transactions in the aviation sector. For example, we successfully structured and arranged a leasing transaction for Jade Cargo International (covering three new Boeing B747-400ERF cargo aircraft). Jade International Cargo is a joint venture between Lufthansa Cargo and Shenzhen Airlines. A follow-on transaction involving another three aircraft is scheduled for November of this year.

HSH Nordbank further bolstered its position as one of Europe's leading banks in the area of airport finance. We are, for example, involved in the partial privatization of Brussels airport, and are assisting in refinancing the already privatized regional airport in Bristol. We gained another major customer by establishing an ongoing business relationship with Cologne/Bonn airport.

Savings Banks / Public Sector Clients

Our collaboration with savings banks, which we stepped up at the beginning of the year, is increasingly bearing fruit. For instance, the volume of new business involving joint commitments in the syndicated loan business already exceeded the expectations for the whole of 2005 after three quarters. Moreover, the demand for capital-market products tailored to meet specific requirements, as well as advisory services for savings banks and public sector banks has already resulted in appreciable earnings growth. Income from services accounted for more than 50 % of total income in the first nine months of 2005. We were, with the aim of further extending joint operations with the savings banks in the state of Schleswig-Holstein in 2006, engaged in talks in the third quarter that should be closed by the end of 2005.

Lease Finance

Against the backdrop of persistently muted capital spending, the lease finance business largely lived up to our expectations, with lending volumes having been raised slightly to around EUR 8.5 billion. At around EUR 2.1 billion (up 23.5 % on the same period in 2004), new business matched our budget for the year and underscored our strong position in the domestic market. We again recorded encouraging growth with structured leasing transactions, as a result of which substantially greater service income was recorded. Nonetheless, we failed to repeat the previous year's good operating profit. This was primarily attributable to heavier competition with a corresponding effect on rates in a still liquid funding market for leasing companies, as well as a rise in the relative proportion of equipment leasing with shorter fixed-term periods. With margins virtually unchanged, net interest income remained steady. Special mention should be made of the lower overall risk-provisioning requirements in the Lease Finance division. In line with our strategy, we will continue to extend our operations in foreign markets as well. With the establishment of a lease finance unit at our New York branch we intend to make greater, albeit selective use of business potential in the United States, the world's largest lease finance market, as of 2006.

Financial Institutions / Global Trade Finance

The Financial Institutions division continued to perform well in the first nine months of the fiscal year. In fact, eleven transactions in the core area of debt finance solutions were arranged in the third quarter alone. Furthermore, earnings were spurred by greater demand for complex individual capital-market solutions as well as payment-transaction products. Not least of all, the addition of structured finance deals to the range of products and services had a positive impact on earnings. At the same time, the proportion of income from services rose sharply to more than 50 % of total earnings.

Despite the continued plentiful liquidity in the markets and heightened competitive pressure, the Global Trade Finance division achieved further growth in business volumes, with the teams stationed at the foreign offices in New York, London, and Singapore making a greater contribution to business expansion. Arrangement mandates were in particular gained in the structured soft commodity finance sector. Bilateral business with leading commodity dealers and conventional export / foreign trade finance were also successfully expanded.

Private Clients segment

In the Private Clients segment, which has also included the international private banking business activities of our Luxembourg office since the beginning of the year, operating profit after risk provisions rose to EUR 24.5 (EUR 18.9) million. The return on Tier 1 capital came to 18.8 % (16.2 %).

Buoyed by an upbeat market, securities trading and related service income was brisk in the third quarter, thus marking an end to the investor restraint observed at the beginning of the year. Our return-oriented equity investments such as "BUSS Global Container Fonds I" and the private-equity fund "HSH N Quartett I" met with strong demand. The addition of more than 125 new asset-management mandates also had a beneficial impact on business performance. By concentrating our international private banking operations in Luxembourg and linking them more closely with our private client business established in Northern Germany, we have enhanced the efficient deployment of the entire range of products and services.

Financial Markets segment[4]

With operating profit after risk provisions of EUR 352.9 (EUR 257.5) million, the Financial Markets segment, which comprises the Portfolio Management and Investments, Capital Markets as well as Asset Liability Management divisions, made a significant contribution to the Bank's overall profit. This increase was due to substantially higher net interest income and capital gains realized. The return on Tier 1 capital came to 30.9 % (26.0 %).

Portfolio Management and Investments
In the first nine months of the year, the Portfolio Management and Investments (PMI) division, which is responsible for HSH Nordbank's own investments in securities, placed its business operations on an even broader footing and once again increased its already large contribution to earnings, thanks also to the capital gains realized on ABS paper. On the other hand, no major writedowns were necessary.

The Bank has been handling securitization transactions on the capital market for a number of years now. One of the purposes is to transfer risk from the Bank's loan portfolio in order to release equity for potential new business. HSH Nordbank clients are now also able to make use of the Bank's expertise in structuring and securitizing portfolios. Our New York branch has already executed several aircraft and container finance transactions with a total volume of over USD 900 million for the Bank's clients.

In the third quarter, the Poseidon Funding conduit established by the Bank commenced business. This conduit is an entity through which portfolios of non-rated borrowers are securitized so that they can be brought to the capital market. Among other things, this allows lease finance and trade receivables to be securitized quickly and individually and placed in the market so that the resultant risks can be sold to third parties in a structured form. This structure provides large mid-sized companies in particular with a new source of funding.

[4] The segmental breakdown by client responsibility means that net commission income generated from capital market products is not reported in the Financial Markets segment.

In the space of only a few months after being set up, HSH N Financial Markets Advisory AG (FMA), a subsidiary of HSH Nordbank AG, has emerged as a competent partner for capital market-oriented consulting services. The range of services, which is geared to banks and insurance companies among others, was extended in the third quarter to include M&A strategy and process consulting. Here, the focus is on a comparative enterprise evaluation of the merger partners as well as the management of mutual due-diligence reviews. FMA offers its products beyond its core Northern German region across Germany and plans to extend its footprint to include in the future other countries as well.

Capital Markets

A substantial increase in the earnings of the Capital Markets division was achieved by concentrating on client business. Special mention should particularly be made of the sustained strong demand for our innovative structured retail issues. The good net trading income was also fueled by volatility in the capital and foreign-exchange markets.

Syndication business has been particularly successful in the bond and equity areas. We are increasingly taking a lead or co-lead position in issues. As part of efforts to diversify our funding basis, we launched a U.S. medium-term note program with a total volume of USD 15 billion in June, and fully placed an initial issue of USD 1 billion in the United States in the form of an extendible note. In addition, we were involved in private placements and structured issues on the capital market in the third quarter. The issues already form part of the debt-issuance program launched in July. Compared with the first half of the year, funding activity was scaled back as scheduled in the third quarter.

Asset Liability Management

HSH Nordbank continues to enjoy a good standing in the capital market even after the abolition of the state guarantees on July 19, 2005. As expected, liquidity costs rose only moderately in the third quarter due not least of all to the fact that we adjusted our liquidity management early on to prepare for the changed conditions.

The Bank had raised funds of a substantial size on the international capital markets in the first half. The resultant good liquidity has enabled the Bank to scale back its funding activity considerably over the last few months. This testifies to the success of the Bank’s funding management during this transitional phase. Among other things, we are broadening our funding basis as much as we can in response to what we expect to be higher liquidity and funding costs given the new environment in which we are operating.

Other / Consolidation segment

Strategic Equity Holdings

Effective September 1, 2005, HSH Nordbank AG spun-off the Services competence center. These activities are now being performed by three service companies, HSH N Gesellschaft für Einkauf und Rechnungswesen GmbH, HSH N Gastro+Event GmbH and HSH Print+ Logistics GmbH. These three service companies, as well as HSH N Facility Management GmbH and HSH N Baltic Sea GmbH have been transferred to a holding company called HSH N FM+S Holding AG, which was set up by HSH Nordbank. With this structure, which is geared to future requirements, these companies will operate as service providers and continue to concentrate primarily on the HSH Nordbank Group. At the same time, however, the range of services will also be increasingly made available to third parties in the future.

Transaction Services

Demand for efficient products for handling electronic and other types of payment, as well as documentary business remains strong, although this business is increasingly being affected by mounting competition and sensitivity to prices shown by customers – particularly in the payments area. Even so, income from domestic payments rose slightly in spite of a slight drop in the number of transactions. This is also due to concerted efforts to approach customers jointly with the market divisions and the new Distribution Management unit. The uptrend in documentary business seen in the first half of the year continued, with import business making a particular contribution thanks to a further increase in income and the number of transactions.

Segment report[6]

€ million	Shipping Clients	Real Estate Clients	Corporate Clients	Special Corporate and Institutional Clients	Private Clients	Financial Markets	Other/ Consolidation	Group Total
Net interest income								
Jan.–Sept. 2005	219.5	208.4	219.4	201.3	48.4	356.4	-69.7	1,183.7
Jan.–Sept. 2004	224.8	200.9	196.2	190.0	43.2	261.4	29.5	1,145.9
+ Net commission income								
Jan.–Sept. 2005	70.4	87.1	93.6	104.7	20.5	-94.8	-62.6	218.9
Jan.–Sept. 2004	50.0	41.7	72.6	75.2	11.0	-43.4	-8.9	198.2
+ Net trading income								
Jan.–Sept. 2005	0.0	0.0	0.0	0.0	0.0	196.9	-100.3	96.6
Jan.–Sept. 2004	0.0	0.0	0.0	0.0	0.0	196.6	-125.2	71.4
+ Net other operating income								
Jan.–Sept. 2005	0.0	0.0	0.0	0.0	0.0	0.0	57.6	57.6
Jan.–Sept. 2004	0.0	0.0	0.0	0.0	0.0	0.0	39.8	39.8
= **Total income**								
Jan.–Sept. 2005	289.9	295.5	313.0	306.0	68.9	458.5	-175.0	1,556.8
Jan.–Sept. 2004	274.8	242.6	268.8	265.2	54.2	414.6	-64.8	1,455.3
– Personnel expenses								
Jan.–Sept. 2005	43.7	46.1	46.3	44.2	17.5	85.5	20.9	304.3
Jan.–Sept. 2004	41.3	42.4	44.4	40.0	15.4	68.4	12.5	264.3
– Operating expenses								
Jan.–Sept. 2005	50.2	57.9	58.0	68.7	22.9	67.1	24.4	349.2
Jan.–Sept. 2004	47.8	49.8	52.2	61.2	16.4	67.9	18.7	314.0
= **Operating profit before risk provisions**								
Jan.–Sept. 2005	196.0	191.5	208.7	193.1	28.5	305.9	-220.4	903.3
Jan.–Sept. 2004	185.6	150.4	172.2	164.0	22.5	278.3	-96.0	877.0
– Risk provisions								
Jan.–Sept. 2005	-1.4	75.5	46.0	31.8	4.0	-47.0	262.1	371.0
Jan.–Sept. 2004	19.1	116.8	18.6	16.8	3.6	20.8	135.0	330.6
= **Operating profit after risk provisions**								
Jan.–Sept. 2005	197.4	116.0	162.7	161.3	24.5	352.9	-482.5	532.3
Jan.–Sept. 2004	166.5	33.6	153.6	147.2	18.9	257.5	-231.0	546.4
Average risk positions								
Jan.–Sept. 2005	20,243.1	16,530.1	15,683.2	15,840.9	2,898.2	25,411.0	10,997.8	107,604.3
Jan.–Sept. 2004	20,069.1	17,077.4	15,911.1	15,366.0	2,596.3	21,970.4	8,926.3	101,916.6
Average employed regulatory capital (10%)								
Jan.–Sept. 2005	2,024.3	1,653.0	1,568.3	1,584.1	289.8	2,541.1	1,099.8	10,760.4
Jan.–Sept. 2004	2,006.9	1,707.7	1,591.1	1,536.6	259.6	2,197.0	892.6	10,191.7
Average employed Tier 1 capital (6%)								
Jan.–Sept. 2005	1,214.6	991.8	941.0	950.5	173.9	1,524.7	659.8	6,456.3
Jan.–Sept. 2004	1,204.1	1,024.6	954.7	922.0	155.8	1,318.2	535.6	6,115.0
Return on tier 1 capital								
Jan.–Sept. 2005	21.7%	15.6%	23.1%	22.6%	18.8%	30.9%	–	–
Jan.–Sept. 2004	18.4%	4.4%	21.5%	21.3%	16.2%	26.0%	–	–
Cost/income ratio (CIR)								
Jan.–Sept. 2005	32.4%	35.2%	33.3%	36.9%	58.6%	33.3%	–	42.0%
Jan.–Sept. 2004	32.4%	38.0%	35.9%	38.2%	58.5%	32.9%	–	39.7%
Return on equity (ROE)								
Jan.–Sept. 2005								14.0%
Jan.–Sept. 2004								12.3%

[6] Primary segment reporting: segmentation by area of business.
The segmental breakdown by client responsibility means that net commission income generated from capital market products is not reported in the Financial Markets segment.
Return on Tier 1 capital = operating profit after risk provisions / Tier 1 capital (6% of average risk positions).

Rounding differences may occur.

Further Disclosures

Statement of changes in equity capital*

€ million	09/30/2005	12/31/2004
Subscribed capital	4,602.4	5,040.4
Capital reserves	1,646.4	1,164.3
Group revenue reserves	241.6	199.5
Difference arising from capital consolidation	0.9	3.4
Minority interests	5.8	5.8
Profit	338.8	122.2
On-balance-sheet equity capital	**6,835.9**	**6,535.6**

* Starting 2005, equity capital also includes the prorated unappropriated profit.

Cash flow statement

€ million	09/30/2005	12/31/2004
Cash and cash equivalents on January 1	**344.1**	**339.7**
Cash flow from operating activities	4,425.5	-4,880.8
Cash flow from investing activities	-5,579.5	5,566.6
Cash flow from financing activities	1,235.1	-681.4
Cash and cash equivalents at the end of the period	**425.2**	**344.1**

Derivatives business

€ million	09/30/2005 – residual terms			Nominal amounts		Positive market values	
	< 1 year	1 – 5 years	> 5 years	09/30/2005	12/31/2004	09/30/2005	12/31/2004
Interest-rate risks	171,332.70	94,914.20	113,426.90	379,673.80	322,860.70	8,039.70	6,096.80
Currency risks	49,986.60	7,345.60	5,012.60	62,344.80	61,582.40	1,283.20	1,574.20
Stock price risks	1,330.50	2,923.70	1,537.60	5,791.80	5,095.30	500.60	258.20

Credit derivatives	Nominal amounts	
	09/30/2005	12/31/2004
Protection sold	5,143	5,222
Protection bought	2,766	2,812

Income statement – quarterly overview

€ million	Q3/2005	Q2/2005	Q1/2005	Q4/2004	Q3/2004	Q2/2004	Q1/2004
Net interest income	411.6	383.7	388.4	378.3	379.3	430.8	335.8
Net commission income	78.8	70.5	69.6	75.8	74.7	56.7	66.8
Net trading income	38,3	26.4	31.9	41.4	22.7	21.7	27.0
Administrative expenses	-226.0	-225.3	-202.2	-205.0	-207.7	-188.5	-182.1
– Personnel expenses	-105.8	-103.9	-94.6	-92.9	-91.0	-85.4	-87.9
– Operating expenses	-120.2	-121.4	-107.6	-112.1	-116.7	-103.1	-94.2
Net other operating income	15.5	22.9	19.2	13.3	24.9	7.6	7.3
Operating profit before risk	**318.2**	**278.2**	**306.9**	**303.8**	**293.9**	**328.3**	**254.8**
Risk provisions/evaluation	-196.7	-93.2	-81.1	-15.6	-154.0	-124.6	-52.0
Operating profit after risk	**121.5**	**185.0**	**225.8**	**288.2**	**139.9**	**203.7**	**202.8**
Extraordinary result	162.0	0.0	0.0	-206.3	0.0	0.0	0.0
Income taxes	-29.3	-42.6	-54.9	-77.6	-8.2	-46.3	-44.8
Payouts on silent participations	-70.8	-80.1	-77.9	-78.8	-82.0	-81.6	-82.0
Net income	**183.4**	**62.3**	**93.0**	**-74.5**	**49.7**	**75.8**	**76.0**

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Financial Calendar

March 2, 2006 Press conference: Preliminary figures of the 2005 financial year

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