# Financial Stability Board Report

AS OF 31 DECEMBER 2012
STRONG FOR ENTREPRENEURS

HAMBURG / KIEL / LUXEMBOURG,
JANUARY 2013

HSH
NORDBANK

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# FINANCIAL STABILITY BOARD REPORT

**Publication of detailed information on HSH Nordbank's portfolios which are affected by the financial markets crisis (as recommended by the Financial Stability Board).**

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

These disclosures cover the Credit Investment Portfolio and also deal with HSH Nordbank's Leveraged Finance portfolio, the former Financial Institution Group (FIG) portfolio, the exposure to US monolines and the former Credit Trading portfolio, all of which have been transferred into the Bank's Restructuring Unit (RU).

Since the first publication of the Financial Stability Board Report as per 30 June 2008, the portfolio under review has been reduced considerably (Credit Investment Portfolio from EUR 30.0 billion at year end 2007 to EUR 8.1 billion at year end 2012, Leveraged Finance portfolio from EUR 6.9 billion to EUR 2.2 billion in the same period of time, FIG Portfolio from EUR 8.7 billion at year end 2008 to EUR 1.0 billion at year end 2012 and Credit Trading portfolio from EUR 1.3 billion to EUR 0.2 billion in the same period). The remaining exposure displays a reasonably high level of stability and is expected to run down for the most part in the next years such that it makes sense to cease this report in the future. This holds the more so as the portfolios mentioned in this report will still be treated in HSH Nordbank's yearly general disclosure report that is written according to the German Banking Act (§ 26a Kreditwesengesetz).

This report will be published together with the Financial Statements of HSH Nordbank AG.

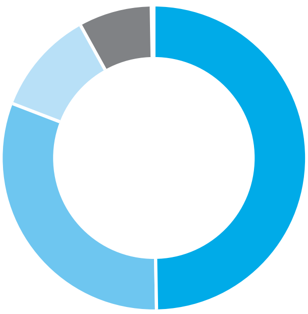
# I. CREDIT INVESTMENT PORTFOLIO

## 1. PORTFOLIO OVERVIEW

### 1.1 BREAKDOWN OF CREDIT INVESTMENT PORTFOLIO

- The CIP is a broadly diversified portfolio.
- 17.5 % of the whole portfolio is AAA rated and 85.3 % is investment grade. The sum of AAA and investment grade assets remains constant within 2012.
- The Bank continues to actively reduce the Credit Investment Portfolio. Assets with an exposure of EUR 0.2 billion were sold since year end 2011.
- Furthermore, maturities and full or partial redemptions amounted to EUR 1.7 billion since year end 2011. Due to FX effects the portfolio volume in Euro equivalent decreased by EUR 0.1 billion in 2012.
- Taken together, the CIP notional decreased by EUR 2.0 billion since year end 2011.

**BREAKDOWN OF CREDIT INVESTMENT PORTFOLIO BY ASSET CLASS**
(Exposure as of 31 December 2012)

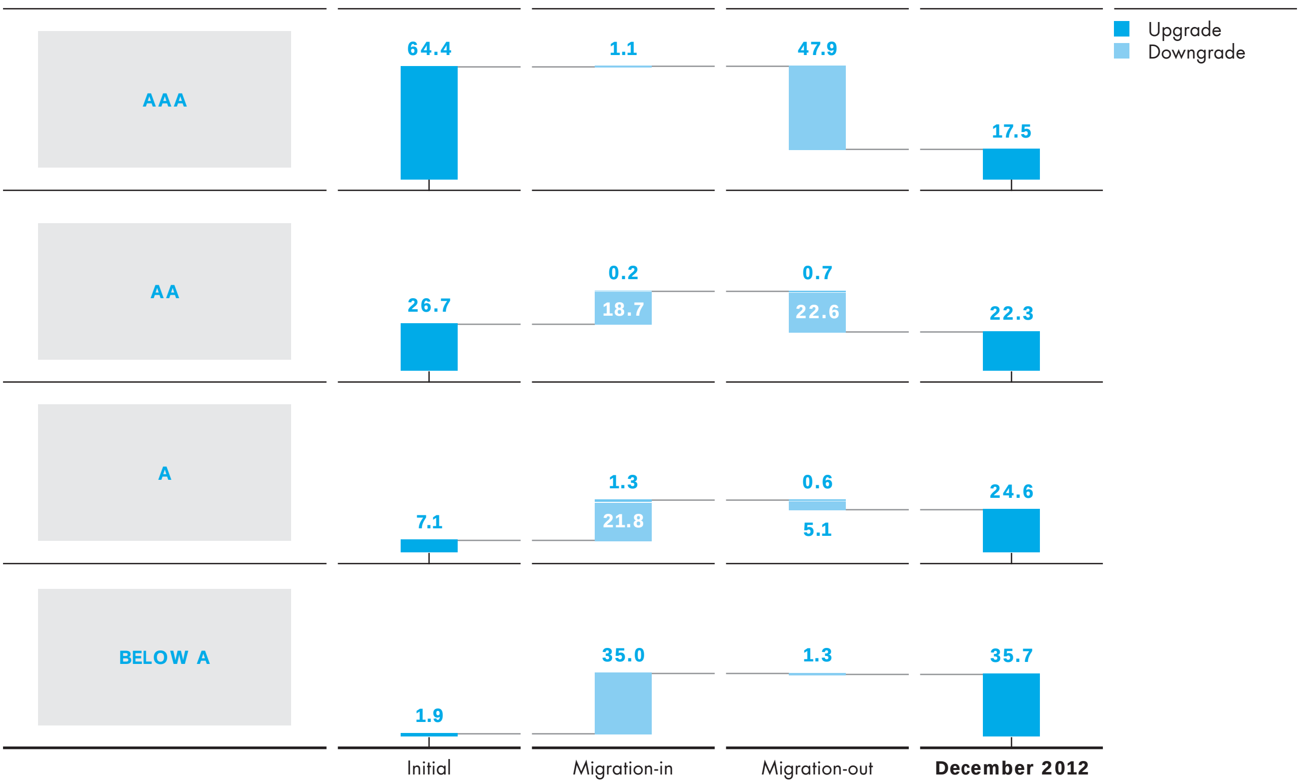


(100 % = EUR 8.13 billion)

| | | |
|---|---|---|
| 50 % | Other ABS | 4.07 |
| 31 % | Single Names | 2.51 |
| 11 % | Subprime | 0.93 |
| | thereof: RMBS HEL | 0.77 |
| | COA / COC | 0.16 |
| 8 % | SIV Carrera | 0.60 |
| | thereof: Capital Notes | 0.02 |
| | Senior Notes | 0.58 |
| 0 % | High Yield Loans / Conv. | 0.02 |
| 0 % | Special Funds | 0.01 |

## 1.2 RATING MIGRATION

**RATING DISTRIBUTION AND DEVELOPMENT OF ACTUAL PORTFOLIO**
(%)




Initial Ratings are lowest ratings whereas current ratings are Basel II ratings.

## 1.3 ANNUAL RESULT 2011 AND ANNUAL RESULT 2012

Results include effects from positions that have reached maturity or were liquidated in the meantime. Gains are shown with positive, losses with negative sign.

### ANNUAL RESULT 2011

(€ million)

| | | | | Annual result 2011 | | | |
|---|---|---|---|---|---|---|---|
| Asset Class | IFRS Category | Exposure (EUR bn) 31 Dec. 2010 | Exposure (EUR bn) 31 Dec. 2011 | M-T-M | P&L effect[1] | Revaluation Equity Surplus | Change in hidden reserve / loss 2011 |
| Synthetic CDO | DFV | 0.20 | 0.00 | 0 | 0 | 0 | 0 |
| CDS on Indices | HFT | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| Special Fund | AFS | 0.05 | 0.01 | +3 | +2 | 0 | 0 |
| SIV Carrera[3] | LAR, AFS | 0.85 | 0.73 | –1 | –1 | 0 | 0 |
| Other ABS | Mainly LAR | 5.62 | 4.71 | –10 | –12 | 0 | +2 |
| Single Names | DFV, AFS, LAR, HFT | 3.93 | 3.23 | –330 | –255 | –52 | –22 |
| Hedge Funds / Other Funds | AFS | 0.02 | 0.01 | 0 | 0 | 0 | 0 |
| Others (Convertibles, NY HY Loan Portfolio) | AFS, LAR | 0.20 | 0.12 | +1 | 0 | 0 | +1 |
| **SUM** | | **10.88** | **8.81** | **–336** | **–226** | **–52** | **–19** |
| RMBS HEL | LAR | 0.98 | 0.91 | –32 | –29[2] | 0 | –3 |
| CDO of ABS, CDO of CDO | DFV, LAR | 0.51 | 0.50 | +7 | +15 | 0 | –8 |
| **Subprime Portfolio** | | **1.49** | **1.40** | **–25** | **–14** | **0** | **–11** |
| **Total SUM** | | **12.37** | **10.21** | **–362** | **–280** | **–52** | **–29** |

[1] P&L effects resulting from relevant M-T-M changes, net change in risk provisions and realized losses / gains. Interest results et al. are unconsidered.

[2] In 2008, HSH Nordbank changed its methodology concerning the calculation of intrinsic values and recoverable amounts for impaired RMBS HEL positions. The P/L benefit from this so-called level 3 valuation was EUR 284 million in 2011. However, in 2012 this change was undone causing a negative one-time P/L-effect of roughly EUR 169 million.

[3] The HSH-sponsored Structured Investment Vehicle Carrera was deconsolidated in August 2010. Consequently, the remaining Capital Note (EUR 0.02 billion) and the senior facilities (EUR 0.58 billion) consisting of repos and liquidity lines are reported within the asset class "SIV". For details please see page 8 of this report.

**ANNUAL RESULT 2012**
(€ million)

| | | | | Annual result 2012 | | | |
|---|---|---|---|---|---|---|---|
| Asset Class | IFRS Category | Exposure (EUR bn) 31 Dec. 2011 | Exposure (EUR bn) 31 Dec. 2012 | M-T-M | P&L effect[1] | Revaluation Equity Surplus | Change in hidden reserve / loss 2012 |
| Synthetic CDO | DFV | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| CDS on Indices | HFT | 0.00 | 0.00 | 0 | 0 | 0 | 0 |
| Special Fund | AFS | 0.01 | 0.01 | +1 | +1 | 0 | 0 |
| SIV Carrera[3] | LAR, AFS | 0.73 | 0.60 | –3 | –3 | 0 | 0 |
| Other ABS | Mainly LAR | 4.71 | 4.07 | +221 | +26 | +3 | +192 |
| Single Names | DFV, AFS, LAR, HFT | 3.23 | 2.51 | +175 | +83 | +61 | +31 |
| Hedge Funds / Other Funds | AFS | 0.01 | 0.00 | +6 | +6 | 0 | 0 |
| Others (Convertibles, NY HY Loan Portfolio) | AFS, LAR | 0.12 | 0.02 | 0 | 0 | 0 | 0 |
| **SUM** | | **8.81** | **7.20** | **+400** | **+113** | **+64** | **+223** |
| RMBS HEL | LAR | 0.91 | 0.77 | –139 | –138[2] | 0 | –1 |
| CDO of ABS, CDO of CDO | DFV, LAR | 0.50 | 0.16 | +19 | +29 | 0 | –10 |
| **Subprime Portfolio** | | **1.40** | **0.93** | **–119** | **–109** | **0** | **–11** |
| **Total SUM** | | **10.21** | **8.13** | **+281** | **+4** | **+64** | **+212** |

[1] P&L effects resulting from relevant M-T-M changes, net change in risk provisions and realized losses / gains. Interest results et al. are unconsidered.

[2] In 2008, HSH Nordbank changed its methodology concerning the calculation of intrinsic values and recoverable amounts for impaired RMBS HEL positions. The P/L benefit from this so-called level 3 valuation was EUR 284 million in 2011. However, in 2012 this change was undone causing a negative one-time P/L-effect of roughly EUR 169 million.

[3] The HSH-sponsored Structured Investment Vehicle Carrera was deconsolidated in August 2010. Consequently, the remaining Capital Note (EUR 0.02 billion) and the senior facilities (EUR 0.58 billion) consisting of repos and liquidity lines are reported within the asset class "SIV". For details please see page 8 of this report.

# 2. PORTFOLIO DETAILS

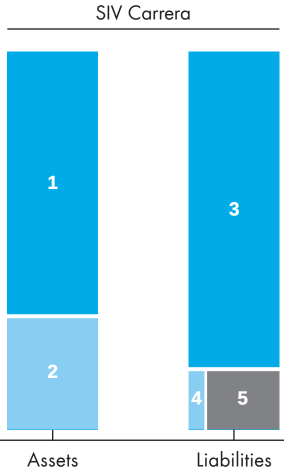
## 2.1 SIV CARRERA

**SIV**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | | |
| Capital Notes | (€ billion) | 0.02 |
| Senior Facility | (€ billion) | 0.58 |
| IFRS Category | | LAR |

- In 2010 Carrera's portfolio size was substantially reduced from EUR 2.54 billion at year end 2009 (fully consolidated until 31 December 2010) to EUR 0.95 billion by a vertical slice transaction.
- The vehicle's asset portfolio consists of ABS (70 %) and Financial Institutions (30 %).
- The credit risk of Carrera's asset pool is concentrated in the subordinated Capital Notes. HSH Nordbank only holds a minority interest in these notes (17 % of all Notes).
- The senior liabilities are fully provided by HSH Nordbank. The credit risk in these facilities is relatively low because of the efficient first-loss protection provided by the subordinated Capital Notes.

**CARRERA'S BALANCE SHEET**

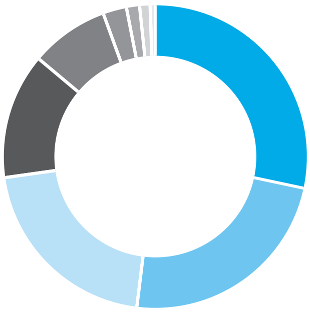



(in %)

| | | |
|---|---|---|
| 1 | ABS | 70 |
| 2 | Financial Institutions | 30 |
| | | |
| 3 | Repos & Liq. Loans | 84 |
| 4 | Capital Notes (HSH Nordbank) | 3 |
| 5 | Capital Notes (3rd Parties) | 13 |

## 2.2 OTHER ABS

### DISTRIBUTION BY REGION AND ASSET CLASS
(Exposure as of 31 December 2012)

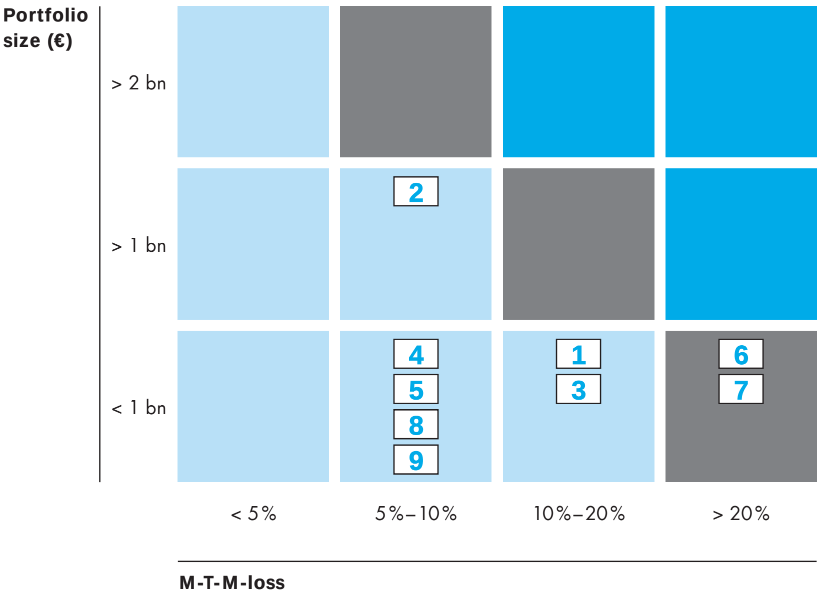


(€ billion)

| | | |
|---|---|---|
| 28.6 % | EU Yield CLO / CDO | 1.16 |
| 23.4 % | Student Loans ABS | 0.95 |
| 20.9 % | US CLO, CBO & TruPS CDO | 0.85 |
| 13.3 % | CMBS | 0.54 |
| 8.4 % | Non-US RMBS | 0.34 |
| 2.5 % | Others | 0.10 |
| 1.4 % | US Commercial Real Estate CDO | 0.06 |
| 1.0 % | EU SME CLO | 0.04 |
| 0.5 % | Emerging Markets | 0.02 |

| | | |
|---|---|---|
| Total | (€ billion) | 4.07 |
| P&L 12 | (€ million) | + 26 |
| P&L 11 | (€ million) | – 12 |

As of 31 December 2012 (life-to-date)




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

- Latent critical
- Critical

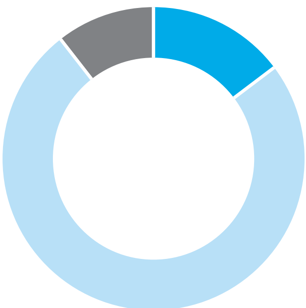
## 2.2A NON-US RMBS 1

**NON-US RMBS**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.34 |
| IFRS Category | | LAR |

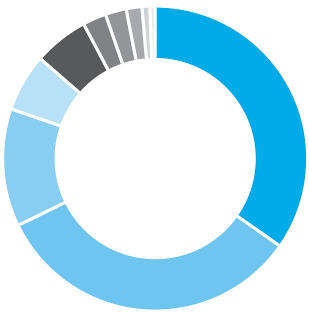
- The current portfolio consists of high quality mostly AAA rated Residential Mortgage Backed Securities ('RMBS'), concentrated mainly in the UK (47.2 %) and Spain (34.9 %).
- The Non-US RMBS portfolio has decreased further due to redemptions and selective tranche sales. 54.7 % of the current portfolio is prime, with 12.5 % UK buy-to-let ('BTL') and 32.9 % UK non-conforming ('NC').
- Overall average rating of the Non-US RMBS portfolio has deteriorated slightly from BBB to BBB – over the last 12 months due to repayments of highly rated UK Prime RMBS. As a result, the exposure of UK Prime RMBS has been reduced to 1.8 %.
- Liquidity for the UK Prime RMBS market is still reasonable and there is still good investor demand for this asset class.
- UK RMBS performance is likely to remain stable over the next year and is supported by low interest rates and stablilizing UK economy whereas major shocks to house prices, interest rates and unemployment could influence the sector. A further postive factor is the strong rental sector in the UK.
- Credit performance is relatively stable for the UK and AUS RMBS sectors.
- The outlook for Spanish and Italian RMBS remain negative due to continued economic weakness, high unemployment levels and decreasing house prices.

**DISTRIBUTION BY RATING**



| | | |
|---|---|---|
| 14.9 % | AAA | AAA |
| 74.6 % | IG | AA + – BBB – |
| 10.5 % | BIG | BB + – D |

**DISTRIBUTION BY MORTAGE TYPE & COUNTRY**



| | |
|---|---|
| 34.9 % | Spain |
| 32.9 % | UK NC |
| 12.5 % | UK BTL |
| 6.1 % | Ireland |
| 5.9 % | Italy |
| 2.5 % | Australia |
| 2.1 % | Portugal |
| 1.8 % | UK Prime |
| 0.7 % | Argentina |
| 0.5 % | Germany |

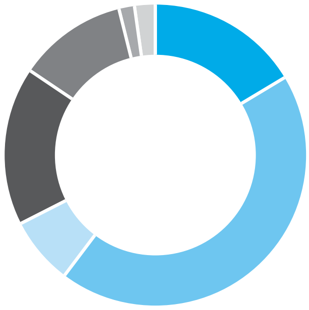
## 2.2B EU HIGH YIELD CLO / CDO 2

**EU HIGH YIELD CLO / CDO**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 1.16 |
| IFRS Category | | LAR |

- The portfolio consists primarily of managed, arbitrage cash flow CLOs, predominantly backed by first lien senior secured loans and managed by tier one managers with extensive track records.
- The investment standards included collateral criteria such as ramp-up status, portfolio quality and concentration limits, structural criteria (diversion tests, haircuts), portfolio manager quality (internal scoring) and stress tests based on cash flow analysis (break-even default rates under conservative recovery assumptions).
- Portfolio is almost entirely composed of original AAA / AA rated tranches.
- A non-negligible part of the portfolio is post the reinvestment period, has favorable reinvestment language and continues to delever.
- The US economy and most of Europe are in secular deleveraging cycles. Combined with sovereign austerity measures being gradually implemented with expected growth potential to be limited in the long term, especially in Europe's peripheral states. However, among the largest 10 country exposures, which account for 95.2 % of the aggregate pool balances, Spain accounts for just 5.1 %, Ireland for 2.9 % and Italy for 2.6 %. The largest 5 countries France, UK, Germany, the Netherlands and the US account for more than 78 %.
- Fundamentals might therefore deteriorate which should particularly affect highly leveraged companies facing the maturity wall in 2014 – 2016. However, the credit impact on the portfolio should be limited due to the seniority of the positions (i. e. high subordination and other structural safeguards).
- In 2012 European CLOs recorded similar impressive price gains compared to US CLOs with 5 % points gains for AAA tranches into mid nineties and impressive 15 – 20 % points for AA tranches into mid to high eighties.

**RATING DISTRIBUTION**



| | |
|---|---|
| 16.4 % | AAA |
| 44.0 % | AA+ |
| 7.1 % | AA |
| 17.2 % | AA– |
| 11.5 % | A+ |
| 1.8 % | A– |
| 2.0 % | BBB– |

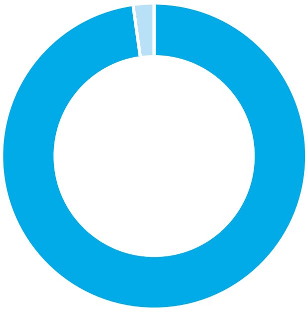
## 2.2C STUDENT LOAN ABS 3

**STUDENT LOAN ABS**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.95 |
| IFRS Category | | LAR |

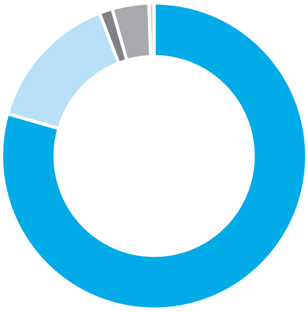
- The US government guaranteed nature of the FFELP Student Loan ABS portfolio represents a joint probability of default consisting of the performance of the underlying portfolio as well as the servicer's ability to maintain the US Government Guaranty of at least 95 % on the student loans.
- The mark-to-market of the Student Loan ABS portfolio of 89 % has increased by over 2 points compared to the 4th quarter 2011 due to the reduced supply of FFELP Student Loan ABS which has been replaced by the US Government Direct Student Loan Program. The prices have also benefited by spread tightening across all credit markets during 2012.
- The asset performance outlook for the FFELP Student Loan ABS is stable.
  - FFELP losses have remained very low due to the 95 % government guarantee, but student loan defaults have been trending up due to the elevated unemployment rate in the U.S.
  - As the portfolio becomes more seasoned we are seeing continued amortization across positions especially some of the 2005 and earlier private student loan ABS where we have more senior positions in the capital structure that have begun to pay down as the deals deleverage.
  - Beginning in January 2013 some of our 2006 subordinated FFELP ABS will have reached the step down date allowing them to begin to receive principal payments pro rata with the outstanding senior classes as long as parity triggers are passing.
- In the 4th quarter 2012 we traded $ 71 million of Student Loan Corp 2005-2 Class A3 at a high nineties dollar price which is consistent with our mandate of profitably managing the portfolio down over time.

## DISTRIBUTION BY GUARANTEES (GOVERNMENT / PRIVATE)



| | |
|---|---|
| 98 % | FFELP Guaranteed |
| 2 % | Private |

## RATING DISTRIBUTION



| | |
|---|---|
| 79.6 % | AAA |
| 14.7 % | AA |
| 1.6 % | AA– |
| 3.7 % | A– |
| 0.5 % | B |

## 2.2D CMBS 4

**CMBS**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.54 |
| IFRS Category | | LAR, AFS, DFV |

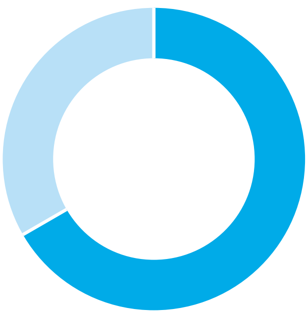
### US CMBS

- The CMBS portfolio comprises mainly conduit deals backed by a diversified portfolio of different property types throughout the country.
- New Issue CMBS reached over USD 45 billion in 2012, a 47 % growth rate from 2011. Loss expectations for CMBS have been reduced to reflect more favorable property price expectations, as well as improved credit performance with fewer delinquencies and a recovery in property net cash flow. As of Q3 2012, repeat sales increased 5 % compared to an expectation of flat performance during this period. NOI also had a similar improvement.
- Our investments are in the more senior notes of the capital structures of these transactions and we believe that the structural features and credit enhancement provide adequate shield against unexpected losses.
- M-T-M prices in the US CMBS portfolio have increased approximately 8 points as compared to the previous year as credit performance continues to improve, and the fixed rate CMBS coupons provide attractive carry as investors continue to seek for yield.

### European & Asian CMBS

- The EMEA CMBS portfolio has decreased further mainly due to redemptions.
- This is a defensive portfolio, with purchase strategy based on deal fundamentals.
- The outlook for the Non-US CMBS sector remains negative. However, due to the heterogeneous nature of European CMBS fundamentals differ considerably for individual deals.
- The decline in commercial property value, particularly secondary quality property, has caused many underlying loans to breach LTV covenants.
- We continue to see significant  extensions and defaults of underlying loans at maturity.
- Against this background there has been a deterioration of  ratings in the portfolio but expected losses are only linked to a small number of positions.
- However, most of the HSH’s EMEA CMBS investments are senior in the capital structure and current credit enhancement should essentially withstand projected loses.

**COUNTRY DISTRIBUTION**



| | |
|---|---|
| 66.8 % | Europe |
| 33.2 % | North America |

## RATING DISTRIBUTION

| | |
|---|---|
| 11.6 % | AAA |
| 1.8 % | AA + |
| 19.2 % | AA |
| 9.8 % | AA – |
| 0.8 % | A + |
| 17.2 % | A |
| 17.2 % | A – |
| 7.3 % | BBB + |
| 7.4 % | BBB |
| 2.3 % | BB |
| 1.7 % | BB – |
| 3.7 % | CC |

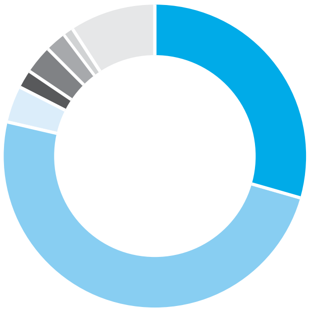
## 2.2E US CLO, CBO & TRUPS CDO 5

**PRODUCT: US CLO, CBO & TRUPS CDO**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.85 |
| IFRS Category | | LAR |

- This portfolio consists primarily of managed arbitrage US cash flow CLOs with 91.1 % CLOs backed by predominantly first lien senior secured sub-investment grade corporate loans and 8.9 % Trust Preferred CDOs backed by hybrid Trust Preferred Securities issued by small US regional banks and thrifts. All US HY CBOs have been redeemed by now.
- Defensively selected portfolio with a focus e. g. to avoid large structured finance buckets within CLOs. In terms of ranking, 74.4 % of the USD balance are first priority most senior tranches, 13.8 % are second priority "Junior AAA" tranches, 11.4 % are originally AA tranches and 0.5 % consists of one mezzanine tranche originally rated A.
- After changing their CLO rating methodology Moody's upgraded all of HSH's senior CLO tranches back to their original Aaa level, with one exception at Aa1. S&P upgraded 15 senior US CLO tranches back to their original AAA level and has 20 tranches 1 notch below at AA +.
- During 2012 generic secondary US CLO prices rallied ca. 4 % points to mid to high nineties for AAA tranches and even more impressive 10 – 15% points for AA tranches into low to mid nineties.
- According to JP Morgan Global High Yield and Leveraged Loan Research the issuer-weighted 12 months loan default rate marginally increased to 2.06 % by end of 2012. The USD balance-weighted default rate increased to 1.32 %, slightly up from 1.30 % in November and well below the long-term 25 year 3.8 % average. The annual default forecast is below 2 % for both 2013 and 2014, given the heavy amend-to-extend and refinancing activity over the past years.

## RATING DISTRIBUTION



| | |
|---|---|
| 29.6 % | AAA |
| 49.1 % | AA + |
| 4.0 % | AA |
| 2.1 % | AA – |
| 2.8 % | A + |
| 2.3 % | A – |
| 1.1 % | BBB + |
| 9.1 % | BIG |

## 2.2F EU SME CLO 6

**PRODUCT: EU SME CLO**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.04 |
| IFRS Category | | LAR |

- Diversified portfolio of European small- and mid-sized enterprise CLOs, a few other European CDOs and some Lease ABS.
- Portfolio is made up of senior positions securitized by granular pools and is well diversified over European countries and industries.
- Portfolio consists mainly of seasoned deals that continue to delever.

## 2.2G REMAINING ABS 7 8 9

### REMAINING

**US COMMERCIAL REAL ESTATE CDO**
(as of 31 December 2012)

- Only 6% of the CRE CDOs are backed by riskier collateral originated in weaker vintages (2004 to 2007). 28% of the CRE CDOs are 2001 through 2003 vintages which are performing relatively well. The remaining 66% of the CRE CDOs are backed by AAA CMBS tranches which are stable.
- The portfolio mark-to-market valuation of 72% continues to improve as the older CDOs continue to delever and ultimately pull to par. Even most of the positions originated during the weaker vintages are experiencing significant price appreciation. The largest position which is backed by AAA CMBS has also experienced price improvement with the Class A priced over 90% and the Class B trading at 70%. There are no credit concerns with this deal as the underlying AAA CMBS benefits from substantial credit enhancement.

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.06 |
| IFRS Category | | LAR, DFV |

**EMERGING MARKETS ABS**
(as of 31 December 2012)

- The weak global economy caused by the credit crisis has left marks on the Emerging Markets ABS portfolio. Over the last year a number of EM Diversified Payment Rights ABS were downgraded due to deterioration in creditworthiness of the providers of the guarantees.
- In spite of this, Emerging Markets ABS portfolio continues to show a stable performance. With respect to the DPR ABS all debt service coverage ratios (DSCR) levels continue to be considerably above the early amortization trigger levels furthermore spreads have tightened significantly in line with other sectors of the ABS market as sentiment improved and investors chased yield.
- The major part of the current Emerging Markets ABS portfolio consists of Turkish Diversified Payment Rights ABS (approx. 74%) that proceed to delever as planned. Turkey's economy remains challenged by a continuing current account deficit.

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.02 |
| IFRS Category | | LAR |

## 2.3 SINGLE NAMES

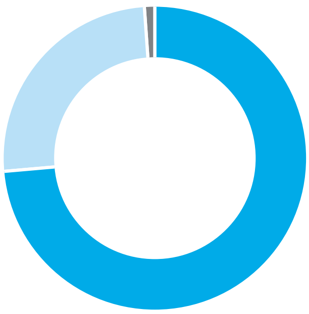
**SINGLE NAMES**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 2.51 |
| P&L 12 | (€ million) | + 83 |
| P&L 11 | (€ million) | – 255 |
| IFRS Category | | AFS, DFV, LAR, HFT |

The Single Names portfolio consists of 148 deals which are mainly Asset Swaps and Floating Rate Notes. There is only one CDS left. The portfolio was reduced in 2012 through active sales of EUR 85 million and redemptions of about EUR 631 million. The average rating of the portfolio is Baa2 with the highest single issuer concentration in the Republic of Italy, Deutsche Bank and Province of Quebec. The Top 3 countries in terms of country risk are USA, Spain and Germany.

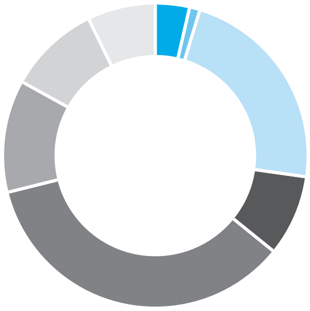
Market development in 2012 and outlook:
Whilst Europe's economic performance weakened and the eurozone debt crisis, measured in terms of public sector borrowing and budget deficits, worsened, credit-sensitive assets performed very well during 2012 as a whole, albeit with some bumps in the road. Across all rating categories, be they investment grade or sub-investment grade, credit spreads were tighter by end of December than they were at the beginning of the year. Mainly the well-known speech of Mr. Draghi in London and the following specification of the OMT program were the decisive game changer for the credit markets. The nervousness in financial markets came to an end and the banking and sovereign exposure took advantage of that development. Especially the tightening of the credit spreads of our Italy government bonds, which are categorized in DFV, has contributed a big part of the positive P&L. 2013 will be characterized by a continuation of the "great normalization process for asset allocation" as investors continue their gradual return back to a more appropriate level of risk. In particular, this should lead to a further reduction of sovereign credit premia in the euro-zone. But significant risks remain. The greatest short-term risk stems from the US fiscal cliff. The medium-term risks include the effects of large public sector debts and bank deleveraging, as well as the policy responses.

**DISTRIBUTION BY SECTOR**



| | |
|---|---|
| 73.6 % | Financials |
| 25.3 % | Public Finance |
| 1.0 % | Corporates |

### RATING DISTRIBUTION



| | |
|---|---|
| 3.7 % | AAA |
| 1.1 % | A+ |
| 22.4 % | A |
| 8.8 % | A– |
| 35.1 % | BBB+ |
| 12.0 % | BBB |
| 9.8 % | BBB– |
| 7.0 % | BB+ and below |

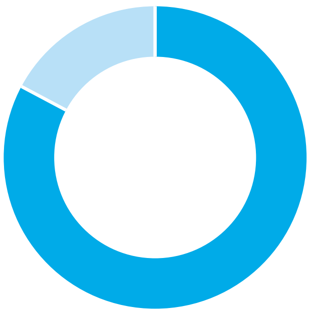
## 2.4 SUBPRIME-RELATED EXPOSURE

(as of 31 December 2012)

| | | COA / COC | HEL | Total |
|---|---|---|---|---|
| Exposure | (€ billion) | 0.16 | 0.77 | 0.93 |
| P&L 2012 | (€ million) | +29 | –138[1)] | –109 |
| P&L 2011 | (€ million) | +15 | –29 | –14 |
| IFRS Category | | DFV, LAR | LAR | |

[1)] In December 2012 the evaluation of HEL has been changed from Level 3 model prices to Level 1 / 2 mark-to-market prices. Without this effect the P&L 2012 would have been EUR +33 million.

### SEGMENTS



| | |
|---|---|
| 83.0 % | Home Equity Loans RMBS |
| 17.0 % | CDO of ABS, CDO of CDO |

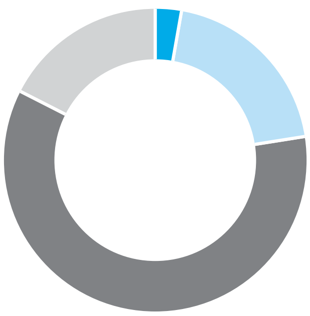
**RMBS OF HEL**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.77 |
| P&L 12 | (€ million) | – 138 |
| P&L 11 | (€ million) | – 29 |
| IFRS Category | | LAR |

The US RMBS portfolio consists primarily of subprime securities. Weak underwriting standards, fraudulent activities, the severe decline in housing and poor economic climate experienced over the last few years led to persistently high delinquencies and foreclosures which have resulted in significant losses within the transactions. These unprecedented defaults have had a predominant effect within RMBS securitizations issued between 2005 and 2007. The mezzanine classes in many transactions, particularly 2006 and 2007 vintage are expected to continue to experience losses as defaulted loans are liquidated, but the performance of the remaining loans in these transactions have shown signs of stabilizing.

- The Case Schiller 20 City composite index increased 0.7 % in October 2012 and 4.3 % year over year. These increases were stronger than the consensus forecast. The Case Schiller index increased 6.1 % over the three months through October with gains in 19 of the 20 reported metropolitan areas. The FHFA house price index continued to trend higher in November, the index increased 0.6 % during the month and the October change was revised up from 0.5 % to 0.6 %. With the housing market recovering, the combination of a pickup in sales and limited inventory has led to some firming in house prices which has been evident in the FHFA data as well as other related indicators.
- The HSH portfolio delinquency growth rates have been leveling off for most of the portfolio, losses continue to grow, particularly in the 2006 and 2007 transactions due to large pipelines of non-performing loans that are being liquidated on a monthly basis.
- The mark-to-market valuation has increased 14 points as of December 2012 compared to December 2011. This is driven by continued improving fundamentals in the portfolio as well as the more positive view for the US housing market. The mark-to-market valuation also benefited from spread tightening across the credit markets during this period.
- After a long time of not applicable price sources, in the view of HSH the market values have recovered well. Therefore a Level 3 evaluation of this portfolio is no longer necessary and HSH turns to a mark-to-market valuation of the RMBS HEL portfolio, causing a one-time loss of EUR 169 m in December 2012. As market prices continue to rise, this one-time loss will be compensated over time. After this methodical change, the accounting treatment of the HSH structured risk portfolio is now standardized over all asset classes.

**DISTRIBUTION OF NOTIONAL BY VINTAGE**



| | |
|---|---|
| 2.8 % | 2004 Vintage |
| 19.7 % | 2005 Vintage |
| 60.1 % | 2006 Vintage |
| 17.4 % | 2007 Vintage |

## RATING DISTRIBUTION BY VINTAGE

(as of 31 December 2012)

| | | |
|---|---|---|
| 2004 | Investment Grade | 91 |
| | Below Investment Grade | 9 |
| 2005 | Investment Grade | 24 |
| | Below Investment Grade | 76 |
| 2006 | Investment Grade | 5 |
| | Below Investment Grade | 95 |
| 2007 | Investment Grade | 9 |
| | Below Investment Grade | 91 |

## RMBS HEL RATING MIGRATION

(in %)

| | Oct 07 | Dec 09 | Dec 10 | Dec 11 | Dec 12 |
|---|---|---|---|---|---|
| AAA | 60 | 15 | 4 | 1 | 2 |
| **Impairment criterion** | | | | | |
| AA | 35 | 7 | 8 | 7 | 5 |
| A | 4 | 4 | 1 | 3 | 3 |
| Below A | 1 | 74 | 87 | 89 | 90 |

## RMBS HEL LOSS COVERAGE MIGRATION

(in %)

| | Oct 07 | Dec 09 | Dec 10 | Dec 11 [1)] | Dec 12 |
|---|---|---|---|---|---|
| > 2.0 | 96 | 3 | 3 | 3 | 6 |
| > 1.5 | 4 | 5 | 4 | 5 | 13 |
| **Impairment criterion** | | | | | |
| > 1.0 | 0 | 43 | 43 | 35 | 27 |
| < 1.0 | 0 | 49 | 50 | 56 | 54 |

1) Since Q4 2011 the data source for loss coverages has changed.

# II. SUMMARY OF MONOLINE EXPOSURE

## 1. EXPOSURE TO MONOLINES

**INDIRECT MONOLINE EXPOSURE**
(€ million)

| | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|
| CIP[1] wrapped ABS | 234.5 | 259.2 |
| CIP wrapped Single Names | 68.2 | 72.5 |
| Global Markets London Single Names | 73.9 | 73.9 |
| **Total** | **376.7** | **405.6** |

[1] CIP: Credit Investment Portfolio

- No direct monoline exposure.
- The exposure was decreased due to amortizations by EUR 24.6 million, FX effects led to a decrease of EUR 4.3 million.
- The total P & L effect of this portfolio amounts to EUR – 59.7 million life-to-date, consisting of impairments of EUR – 5.2 million and valuation losses on trading positions of EUR – 49.0 million.

# III. FORMER FINANCIAL INSTITUTIONS GROUP (FIG)

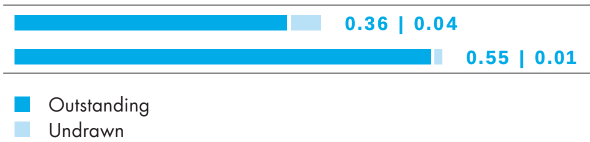
## 1. FORMER FIG

**FIG**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.96 |
| Outstanding | (€ billion) | 0.91 |
| Undrawn | (€ billion) | 0.05 |
| P&L effect 2012 | (€ million) | + 17.35 |
| IFRS Category | | predominantly LAR |

- This portfolio comprises Financial Institutions loan assets that have been allocated to the Restructuring Unit. It consists of a plain vanilla loan book to financial institutions (amounting to EUR 0.40 billion) as well as loans which are structured or have structured elements (amounting to EUR 0.56 billion).
- In 2012 the portfolio was reduced by EUR 0.74 billion (redemptions and F/X effects).

**TOTAL EXPOSURE**
(€ billion)



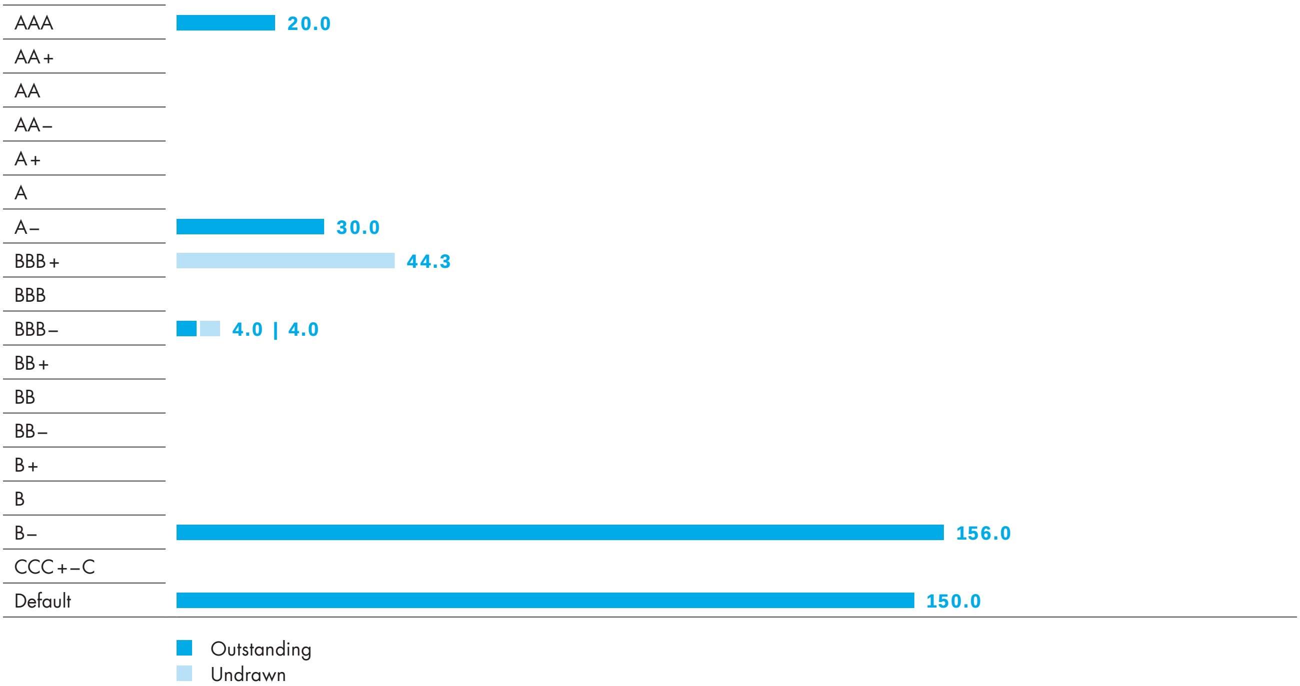

| | |
|---|---|
| FIG Plain Vanilla | 0.40 |
| FIG Structured | 0.56 |

## 2. FIG PORTFOLIO DETAILS

**FIG PLAIN VANILLA**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.40 |
| Outstanding | (€ billion) | 0.36 |
| Undrawn | (€ billion) | 0.04 |
| P&L effect 2012 | (€ million) | + 17.50 |
| IFRS Category | | predominantly LAR |

**DISTRIBUTION BY S&P RATING EQUIVALENTS FOR FIG PLAIN VANILLA – OUTSTANDING AND UNDRAWN**
(€ million)



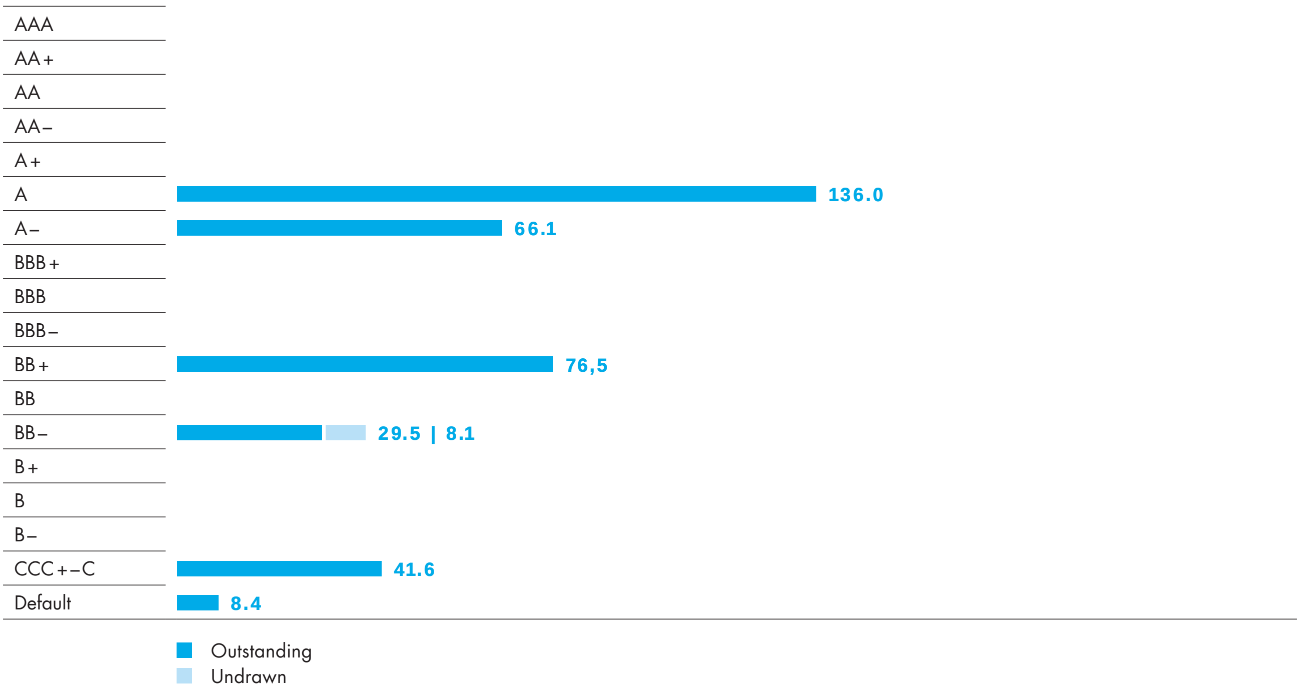

**REGIONAL DISTRIBUTION OF FIG PLAIN VANILLA – OUTSTANDING AND UNDRAWN**

| | |
|---|---|
| 39.0% | United Arab Emirates |
| 14.0% | Iceland |
| 13.0% | Bahrain |
| 11.0% | USA (undrawn) |
| 7.0% | Switzerland |
| 7.0% | Others |
| 5.0% | Germany |
| 4.0% | Kuwait |

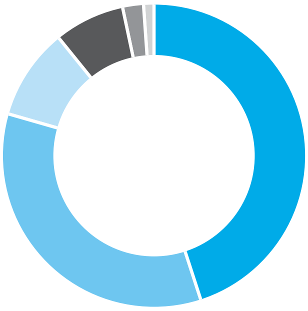
**FIG STRUCTURED**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | (€ billion) | 0.56 |
| Outstanding | (€ billion) | 0.55 |
| Undrawn | (€ billion) | 0.01 |
| P&L effect 2012 | (€ million) | –0.16 |
| IFRS Category | | predominantly LAR |

**DISTRIBUTION BY S&P RATING EQUIVALENTS FOR FIG STRUCTURED – OUTSTANDING AND UNDRAWN**
(€ million)



## REGIONAL DISTRIBUTION OF FIG STRUCTURED – OUTSTANDING AND UNDRAWN



| | |
|---|---|
| 42.0% | UK |
| 32.0% | Luxembourg (outstanding) |
| 9.0% | USA |
| 7.0% | Ireland (outstanding) |
| 2.0% | Cayman Islands (outstanding) |
| 1.0% | Ireland (undrawn) |

# IV. FORMER CREDIT TRADING

## 1. CREDIT TRADING

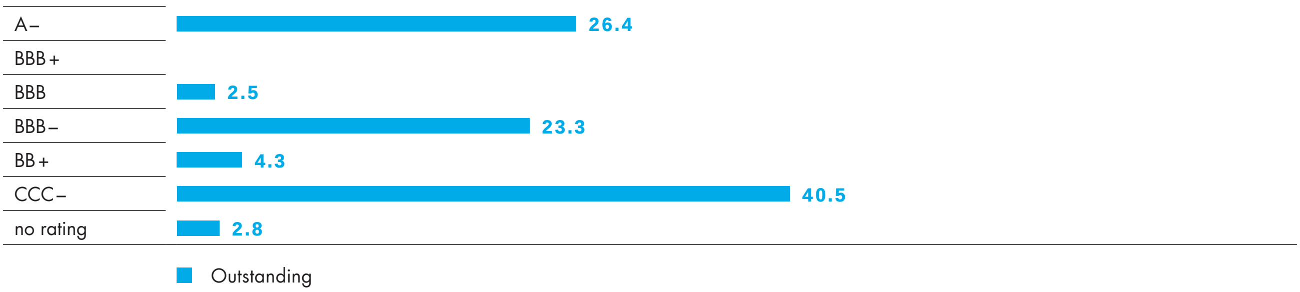
**CREDIT TRADING**
(as of 31 December 2012)

| | | |
|---|---|---|
| Exposure | | |
| Bonds | (€ million) | 182.4 |
| CDS net | (€ million) | 0.0 |
| IFRS Category | | LAR, HFT |

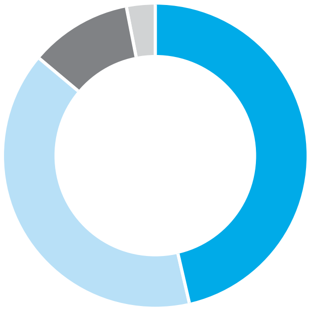
The long/short CDS portfolio of the former Credit Trading Book consists of:

- a EUR 182 million outright bond portfolio (97.2 % Financials; 52.4 % investment grade) and
- a downsized long / short Single Name CDS portfolio. Long and short positions are equal in size. Overall, the bank was:
  - EUR 17.5 million CDS short (HSH Nordbank as protection buyer);
  - EUR 17.5 million CDS long (HSH Nordbank as protection seller).

**KEY FIGURES BOND PORTFOLIO**
(in %)



## REGIONAL DISTRIBUTION OF BONDS



| | |
|---|---|
| 46.6 % | UK |
| 39.7 % | USA |
| 10.8 % | Netherlands |
| 2.8 % | Germany |

# V. LEVERAGED FINANCE (LBO)

## 1. LEVERAGED FINANCE OF GLOBAL HEAD CORPORATES

- As of 31 December 2012 funded exposure was at € 1.9 billion, unfunded exposure at € 0.3 billion.

**CHANGE IN EXPOSURE FROM 31 DECEMBER 2011**
(€ billion)

| | |
|---|---|
| Exposure as of 31 December 2011 | 3.0 |
| Net Change of Outstanding | –0.8 |
| Writedowns | 0.0 |
| Exposure as of 31 December 2012 | 2.2 |
| Risk provision as of 31 December 2012 | 0.3 |

**DISTRIBUTION BY INDUSTRY**
(in %)

| | |
|---|---|
| Industrials (Non-Autom.) | 49 |
| Consumer Prod. / Services | 15 |
| IT, Media, Telcom, Software | 10 |
| Retail | 8 |
| Automotive | 6 |
| Healthcare | 5 |
| Energy + Power | 3 |
| Others | 3 |
| Materials | 2 |

**DISTRIBUTION BY REGIONS**
(in %)

| | |
|---|---|
| Germany | 47 |
| Denmark | 15 |
| Finland | 12 |
| Sweden | 10 |
| UK | 5 |
| Others | 4 |
| Australia | 3 |
| France | 2 |
| Norway | 1 |
| Switzerland | 0 |

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

- Part of Credit Investment Portfolio (contained in NY HY Loan Portfolio).
- Portfolio has almost completely run down.

**CHANGE IN EXPOSURE**
(USD million)

| | |
|---|---|
| Exposure as of 31 December 2011 | 100 |
| Net Change of Outstanding | –77 |
| Writedowns | 0 |
| Exposure as of 31 December 2012 | 23 |
| Risk Provisions as of 31 December 2012 | 0 |

**HSH NORDBANK AG**
**HAMBURG:** Gerhart-Hauptmann-Platz 50, 20095 Hamburg, Germany
Phone +49 40 3333-0, Fax +49 40 3333-34001
**KIEL:** Martensdamm 6, 24103 Kiel, Germany
Phone +49 431 900-01, Fax +49 431 900-34002
**HSH-NORDBANK.COM**