HSH NORDBANK

PRESS RELEASE

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Core Bank posted pre-tax profit of EUR 139 million after nine months

- Core Bank has thus been profitable for past five quarters
- New business up nine percent to EUR 4.9 billion.
- Restructuring Unit recorded a loss of EUR -271 million before taxes
- As expected, the Group posted a loss of EUR -104 million
- Core Tier 1 capital ratio further improved to a high level, i.e. 12.1 percent plus 4.6 percent buffer
- Outlook reaffirmed: Loss in the three-digit million range projected for 2013 with a return to profit territory in 2014

HAMBURG/KIEL HSH Nordbank is establishing its 'bank for entrepreneurs' business model with sustained success and in the first nine months of 2013 above all increased the margins and new business. At the same time the wind-down of legacy portfolios in the Restructuring Unit continued, perceptibly reducing HSH Nordbank's risk positions. The capital ratios, which were significantly strengthened as a result of the replenished guarantee, improved again as at 30 September 2013.

Thanks to the good performance of the Core Bank after nine months of 2013 HSH Nordbank has posted net income before restructuring of EUR 165 million (previous year: EUR 283 million). The pre-year figure was based mainly on special income from the revaluation of silent participations as well as the buyback of subordinated bonds. As expected, guarantee charges totalling EUR 279 million for the period from January to September 2013 - a good two thirds of which are allocated to the Restructuring Unit - and the high level of scheduled loan loss provisions for the Bank's shipping portfolio overshadowed the Core Bank's positive business performance.

In spite of the noticeable progress made in operations, increased income and reduced administration costs, the Bank therefore posted a net loss before taxes of EUR -132 million as at 30 September 2013. In the first nine months of this year alone the Core Bank contributed EUR 139 million to this result. With the likewise positive result for the period from July to September 2013 the Core Bank has now been profitable for five quarters in succession. Con-

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VAT ID: DE 813 725 193 **CHAIRMAN OF THE SUPERVISORY BOARD:** Dr. Thomas Mirow
MANAGEMENT BOARD: Constantin von Oesterreich (Chairman), Stefan Ermisch, Torsten Temp, Edwin Wartenweiler, Matthias Wittenburg

versely, the pre-tax loss of the Restructuring Unit, which focuses on winding down troubled assets, came to EUR -271 million (pre-year period: EUR -281 million). Allowing for an income tax rebate of EUR 28 million, on 30 September 2013 there remained a Group net loss of EUR -104 million (previous year: EUR -41 million).

"The Bank now has more efficient structures and a clear market presence, which has contributed to more new business and a better earnings structure. Thanks to our strong capital ratios also compared to the rest of the sector, today we are in a good starting position to master the regulatory challenges facing us. These include the introduction of Basel III at the beginning of 2014 as well as the 'comprehensive assessment' by the European Central Bank ahead of the transfer of bank supervision to the European level. The basis for a long-term stable performance by the 'bank for entrepreneurs' has thus been strengthened. Due to a high level of loan loss provisions and the guarantee charges we are sticking with our projection and continue to anticipate a consolidated loss in a definite three-digit million range for this year. We aim to return to profit territory in fiscal 2014," said Constantin von Oesterreich, Chairman of the Management Board of HSH Nordbank.

Total income increased - new business steadily growing

In the first nine months of 2013 HSH Nordbank raised its total income to EUR 1,158 million (previous year: EUR 1,017 million). One contributory factor here was new business, which increased from quarter to quarter - in contrast to the generally restrained demand for loans. Between January and September HSH Nordbank concluded a total of EUR 4.9 billion (previous year: EUR 4.5 billion) in new business with good margins, a development that further improved both the income and the risk profile of the Core Bank. Particularly in the corporate clients, real estate and renewables sectors the Bank significantly strengthened its market position thanks to its gratifying business performance.

This also benefited net interest income, which added up to EUR 707 million between January and September (previous year: EUR 1,108 million). Adjusted for the revaluation of hybrid financial instruments, which in the previous year recorded a very positive EUR +439 million, a small increase in net interest income was achieved compared to the pre-year period in spite of the decrease in business volume. Conversely, the stepped-up wind-down of risk-prone legacy portfolios weighed on net interest income. At EUR 73 million, net commission income was virtually at the previous year's level of EUR 75 million. Whereas higher loan commissions from new business supported net commission income, business with interest rate products was still restrained due to a historically low general level of interest rates.

Net trading income improved substantially to EUR 133 million (previous year: EUR -339 million). Here the greatest influence came from lower charges from the valuation of interest rate/currency derivatives (EUR/USD basis swaps) used for funding forex transactions. Furthermore, risk-prone securities positions, especially the Credit Investment Portfolio (CIP) amounting to EUR 115 million, benefited noticeably from the improved financial market setting. The benefits in the CIP were also reflected, to the tune of EUR 94 million, in net income from financial investments, which was increased to EUR 247 million (previous year: EUR 175 million). Allowing for the offsetting effect of EUR -71 million resulting from the second loss guarantee, the contribution to earnings from the CIP amounted to a total of EUR 138 million, which is allocated solely to the Restructuring Unit.

Loan loss provisions affected by crisis in shipping sector

Loan loss provisions continue to reflect the continuing crisis in the shipping sector. In the first nine months of 2013 loan loss provisions amounted to EUR -486 million (previous year: EUR -458 million). The provisions required were mainly accounted for by legacy portfolios, which are partially covered by the second loss guarantee provided by the states of Hamburg and Schleswig-Holstein. For instance, the loan loss provisions of EUR -764 million formed for individual and general value adjustments in the first nine months were reduced by the hedging effect of the guarantee amounting to EUR 278 million. This hedging effect is diminished by the additional premium of EUR -160 million due in the reporting period and effects of offsetting reversals of impairment losses on hedged securities positions in the CIP amounting to EUR 71 million, the value of which had been adjusted in previous periods.

Administrative expenses reduced

Apart from the increase in income, the result was also positively affected by reduced administrative expenses to EUR -543 million to EUR - 558 million. The main savings here were those resulting from reducing the size of the Bank. Personnel expenses were reduced from EUR -275 million to EUR -247 million thanks to further job shedding. Compared to the end of the year the number of employees in the Group declined by a further 253 to 2,870 (calculated in full-time employees.) The decrease in operating expenses by EUR 4 million to EUR 231 million reflects, among other things, lower building expenses and IT costs, which were offset by higher project costs above all in connection with the considerable increase in regulatory requirements. The cost-income ratio for the Bank as a whole has improved to 46.9 percent from 56.8 percent as at 31 December 2012.

Replenishment of the guarantee facility caused guarantee expenses to rise
Expenditure for government guarantees increased to EUR -279 million (previous year: EUR -231 million). The reasons for this are higher ongoing guarantee fees resulting from the replenishment of the guarantee facility from EUR 7 to 10 billion as well as the share of some EUR -36 million, due in the third quarter of 2013 for the agreed special payment on the increase in the guarantee.

Since April 2009 the Bank has coped with premium expenses of EUR 3,092 million for the second loss guarantee. Of this amount EUR 1,588 million was accounted for by basic and special premiums paid for past periods, EUR 500 million for an extraordinary payment in 2011 required by the EU Commission, which the Bank subsequently received back as part of an increase in capital, and around EUR 1,004 million by basic and additional premiums in loan loss provisions. This means that the Bank has already made a significant contribution to repayment of the state aid.

Total assets substantially reduced - Core Tier 1 capital ratios further improved
In the first nine months of 2013 HSH Nordbank's total assets fell by EUR 15 billion to EUR 116 billion. Of this, EUR 69 billion were accounted for by the Core Bank and EUR 47 billion by the Restructuring Unit. Over the same period the Bank's capital ratio improved considerably, benefiting from the replenishment of the guarantee facility at the end of the first half by the states of Hamburg and Schleswig-Holstein, which resulted in a substantial decrease in risk-weighted assets. A similarly positive effect was achieved by the substantial progress made in reducing risk positions. As at 30 September 2013 HSH Nordbank had a Core Tier 1 capital ratio of 12.1 percent vis-à-vis a figure of 9.9 percent at the end of 2012. An additional buffer of 4.6 percentage points resulted from the improvable claim of the guarantors from the additional premium.

Outlook
In the coming months HSH Nordbank will resolutely continue establishing the 'bank for entrepreneurs'. The strengthened position of the Core Bank, the solid capital ratios resulting from the mid-year replenishment of the guarantee facility and the significant reduction of the risk-prone legacy portfolios are important foundations for the Bank to master the significant challenges it will face. At the same time the guarantee creates the necessary scope for the Bank to align itself in a long-term and viable way for the future in a highly competitive setting.

In the coming months the Bank will be concentrating on soliciting high-value new business in its core areas of business and selling its entire range of services with the aim of further improving the Bank's earning power on the basis of fixed risk standards. A further focus will also be on management and the reduction of the Bank's risk-prone troubled assets, most of which are to be found in the Restructuring Unit. Here special attention will be paid to the shipping portfolios. The Bank does not expect any sustained recovery of the shipping sector before 2015.

The ever more stringent requirements with regard to disclosure and data set by the banking supervisory authority are causing a considerable amount of extra work and expenditure for the banking sector. In addition to this, for HSH Nordbank the increase in the guarantee entails higher scheduled charges, which will be clearly reflected in the result for 2013. Not least because of this backdrop strict cost management has top priority for the Bank's Management Board. In November therefore measures were introduced to cut costs and improve efficiency in the Bank. The focus here is on changing the organisational set-up and reducing the number of management levels as well as making savings in administrative expenditure. The staff of around 2700 full-time employees agreed for the end of 2014 will not be affected by this.

"HSH Nordbank can look back on a solid performance in line with our plans so far this year. Our capital ratios have improved further and are at a very acceptable level, far in excess of the minimum regulatory requirements. On the basis of the progress made to date we are confident that our business model will be confirmed in the formal audit proceedings conducted by the EU Commission and that we will be able to implement the reorganisation of HSH Nordbank on schedule. We expect the audit to be completed at the earliest in the second half of 2014," said Constantin von Oesterreich, Chairman of the Management Board of HSH Nordbank.

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Income statement (€ m)	January to September 2013	January to September 2012	Change in %
Interest income	4,682	6,990	-33
Interest expenses	-3,869	-6,199	-38
Result from hybrid financial instruments	-106	317	>-100
Net interest income	**707**	**1,108**	**-36**
Net commission income	73	75	-3
Result from hedging	11	10	**10**
Net trading income	133	-339	>100
Net income from financial investments	247	175	41
Income from financial investments accounted for under the equity method	-13	-12	-8
Total income	**1,158**	**1,017**	**14**
Loan loss provisions	-486	-458	6
Administrative expenses	-543	-558	-3
Other operating result	36	282	-87
Net income before restructuring	**165**	**283**	**-42**
Result from restructuring	-18	-29	38
Expenses for government guarantees	-279	-231	21
Net income before taxes	**-132**	**23**	**>-100**
Income tax expenses	28	-64	>-100
Group net loss	**-104**	**-41**	**>-100**
Group net income attributable to non-controlling interests	-2	-1	-100
Group net income attributable to HSH Nordbank shareholders	-102	-40	>-100

Further key figures of the HSH Nordbank Group	**30 September 2013**	**31 December 2012**
Total assets (in EUR bn)	116	131
Cost income ratio (%)	46.9	56.8
RWA before guarantee (in EUR bn)	61.7	72.8
RWA after guarantee (in EUR bn)	37.1	61.0
Core Tier 1 capital ratio * (%)	12.1	9.9
Tier 1 capital ratio* (%)	16.1	12.3
Total ratio* (%)	25.2	19.1
Employees**	2,870	3,123

* including market risk positions; allowing for the interim result as at 30 September 2013 and approval of the annual financial statements of HSH Nordbank AG for 2012

** Full-time employees (FTEs)