HSH NORDBANK

PRESS RELEASE

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HSH Nordbank posts pre-tax profit of € 460 million

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- Earnings and business trend on target
- New business up 43 percent to € 7 million.
- Drivers are Real Estate Clients and Energy & Infrastructure
- Stable new business margins with good risk profiles
- CET1 capital ratio at 12.5 percent
- Von Oesterreich: "Our next objective is the successful conclusion of the EU state aid proceedings"

HAMBURG/KIEL In the first nine months of 2014 HSH Nordbank posted a Group net income well in excess of the pre-year figure. The performance in the core areas of business and the substantial reduction of legacy assets underscore the progress made by the Bank in implementing its business model. New business was increased as planned. In addition to this, income from sales of securities and equity holdings as well as a marked decrease in costs had a favourable impact on the result. The principal positive effect came from the capital protection clause, which - following heavy charges resulting from guarantee premiums in the previous years - led, as expected, to a partial reversal of the guarantee premiums with an effect on income in the first nine months of 2014. Net income before taxes increased to € 460 million as at 30 September 2014. This equates to an increase of € 555 million compared to the pre-year nine-month result (pre-year period: € -95 million). Net income after taxes improved to € 333 million (pre-year period: € -66 million).

"The bank developed as planned in the first nine months of 2014. We are therefore still on course for meeting our target and intend to close the financial year in profit territory for the first time since 2010. Encouraged by HSH Nordbank's solid performance in the ECB's Comprehensive Assessment, we are now devoting all our energy to the ongoing EU state aid proceedings, which we expect to complete in the first half of 2015," said Constantin von Oesterreich, Chairman of the Management Board of HSH Nordbank.

The Core Bank, which runs all of HSH Nordbank's future-oriented areas of business, posted net income before taxes of € 138 million in the first nine months (pre-year period: € 146

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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

million). Adjusted for the negative result of the restructuring area of shipping in the Core Bank, this would have meant earnings of € 323 million as at 30 September 2014.

New business expanded as planned

In the first nine months of 2014 new business increased as planned by some 43 percent to € 7 billion (pre-year period: € 4.9 billion). The proportion of new loans disbursed in this connection was likewise noticeably increased compared to the corresponding pre-year period under report. A good trend in new business in the Real Estate Clients and Energy & Infrastructure divisions was in contrast to the more muted expansion of business in the Corporate Clients division resulting from the situation on the market and lower sales of capital-market products due to the very low level of interest rates. Nevertheless, at € 879 million total income remained below the level of the pre-year period as planned against the backdrop of progress made in reducing portfolios and the very difficult situation in the shipping sector (pre-year period: € 1,157 million).

Net interest income in the first nine months came to € 400 million (pre-year period: € 701 million). Here, as expected, the positive influence of the new business paid out in the client segments was more than offset by the substantial reduction of the portfolio in the Restructuring Unit and the increase in impaired ship loans, the capital service of which may not be allocated to interest income according to IFRS accounting. Furthermore, the Core Bank's net interest income in the first nine months was negatively affected by a non-recurring conversion effect in connection with the hybrid financial instruments, which will be fully offset again by 2017. Whereas this effect still came to an amount of € -102 million in the first quarter of 2014, it was already down to € -90 million by the end of the September 2014. Within the framework of liquidity management a further special charge of € 48 million resulted from the sale of securities and the concomitant reversal of hedge positions. On the other hand, there was a positive effect amounting to € 104 million recorded in net income from financial investments. Moreover, the adjustment of the yield curve in order to calculate the cash value of obligations from guarantee charges expected in the future impacted on net interest income to the tune of € -21 million.

HSH Nordbank considerably raised **net commission income** in the first nine months to € 103 million compared to € 73 million in the pre-year period. A major contribution to this was made by loan commissions while cross-selling with capital-market products remained below the level of the pre-year period.

Net **trading income and income from financial investments** overall were up on the pre-year period. The key factors contributing to this were reversals of impairment losses in

the Credit Investment Portfolio, sales of securities within the framework of liquidity management and further disposals of equity holdings. These more than offset the negative effects resulting from the valuation of the Bank's own liabilities measured at their fair value and from currency translation. Net trading income amounted to € 131 million (pre-year period: € 138 million) while net income from financial investments increased to € 267 million from € 247 million in the pre-year period.

Loan loss provisions relieved by guarantee

Loan loss provisions were increased as planned in the first nine months of 2014. Once again the focus was on legacy assets in the shipping portfolio. By contrast, the Bank's other asset classes put in a low-key performance in view of the very positive risk cycle of German industry. Overall net expenditure on loan loss provisioning in lending operations, i.e. net allocations to individual and portfolio value adjustments, came to € -256 million (pre-year period: € -815 million). Including the fully hedged forex result of € -247 million (pre-year period: € 80 million) resulting from the increase in the value of the dollar, total net loan loss provisions before the hedging effect of the guarantee amounted to € -503 million (pre-year period: € -735 million). This was made up for by the offsetting effect of the guarantee amounting to € 890 million, which is composed of gross offsetting of € 433 million, expenditure from additional premiums for the first nine months of 2014 amounting to € -211 million and income of € 668 million from the partial reversal of the additional premiums with an effect on earnings within the framework of the capital protection clause in the second loss guarantee provided by the states of Hamburg and Schleswig-Holstein. This results in total loan loss provisions reported of € 387 million for the first nine months of 2014 as compared to € -457 million in the same period of the previous year.

Costs down

The reduction in **administrative expenses** to € -498 million (pre-year period: € 560 million) contributed above all a decrease in the number of employees, as a result of which **personnel expenses** fell to € -213 million (pre-year period: € -247 million). **Operating expenses excluding write-downs** declined slightly to € -230 million compared to € -233 million in the same period of the previous year. Savings made for example in consulting costs and buildings stood opposed by substantial additional expenditure resulting from regulatory requirements. For instance, expenditure for the special auditors engaged as part of the ECB's Asset Quality Review alone came to around € 14 million. Moreover, the Bank also incurred further costs in an approximately identical amount. Depreciation/amortisation of tangible and intangible assets was down to € -55 million (pre-year period: € -80 million).

Solid capital resources

HSH Nordbank demonstrated the high level of resilience of its capital position in the ECB's Comprehensive Assessment. HSH Nordbank's capital ratios as recorded at 30 September 2014 remained at a solid level according to the Basel III transitional rules applying since the beginning of 2014. As at 30 September 2014 the **CET1 ratio** stood at 12.5 percent, including

a buffer of 2.5 percentage points resulting from the capital protection clause in the second loss guarantee provided by the federal states. The basis for this is the partial reversal of the additional premiums with an effect on income as a result of the temporary debt waiver by the guarantee providers. Applying the stricter requirements for calculating capital ratios in force since 2014 - in the wake of the changeover to Basel III and from calculating regulatory capital according to German GAAP to IFRS – this ensures a CET1 ratio of at least 10.0 percent.

The Bank paid a further € -390 million to the states of Hamburg and Schleswig-Holstein in the first nine months of 2014 as expenses for public-sector guarantees for providing the second loss guarantee (pre-year period: € -279 million). The reasons for this increase are a higher ongoing base premium due to the replenishment of the guarantee facility from € 7 billion to € 10 billion in 2013 and the share of around € -87 million in the first nine months of 2014 for the agreed additional payment of the base premium for the guarantee increase. All in all, since the 2nd quarter of 2009 HSH Nordbank has paid around € 2.1 billion to the states of Hamburg and Schleswig-Holstein.

Total assets slightly increased

Total assets increased slightly to € 111 billion in the first three quarters of 2014 (31 December 2013: € 109 billion). Here the increased amount of new business stood opposed by the continued portfolio reduction in the Restructuring Unit. Furthermore, the size of the balance sheet was also increased by the US dollar exchange rate in recent months. In the first nine months of 2014 the Core Bank's segment assets increased by € 6 billion to around € 75 billion compared to 31 December 2013, while in the same period the Restructuring Unit shrank by € 4 billion to € 36 billion thanks to the continued reduction of legacy assets.

Outlook

The business and earnings trend so far this year and the gratifying performance of HSH Nordbank in the ECB's Comprehensive Assessment provide a good foundation for the further implementation on the Bank's strategy in the coming months. The focus is on harnessing the growth and earnings potential in the Core Bank's new business. The objective is to further stabilise the market position in corporate client business and to strengthen cross-selling while further increasing our core expertise in the real estate business and in the area of renewable energies and infrastructure. At the same time new business is being stepped up in shipping with the focus on international clients. In addition, the Bank is focusing on the continuing wind-down of the portfolio in order to reduce the Bank's legacy assets and the further restructuring of the shipping portfolio. Against this backdrop the Bank's loan loss provisioning remains inextricably linked to the development of the shipping markets. The results of the ECB's Asset Quality Review will only have an influence on our financial statements to the extent to which they accord with the current IFRS accounting rules.

Furthermore, the cost-cutting programme introduced and the Group restructuring will be continued with additional measures with a view to further developing HSH Nordbank in a

target-oriented manner against the backdrop of challenging underlying conditions. In this connection, at the beginning of November the Management Board approved another cost-cutting programme for the coming three years. The objective is to reduce administrative expenses from the current figure of almost € -670 million per annum by a total of € 170 million to around € -500 million per annum by the end of 2017. The savings are to be made principally in the area of operating costs while at the same time the current workforce of around 2,600 full-time employees (FTEs) is to be reduced by some 500 positions over the next three years. The measures within the framework of the savings programme will be included in detail and with the corresponding restructuring provisions in the 2014 financial statements by the end of the year.

Against this backdrop the Management Board is standing by its forecast and continues to anticipate a pre-tax profit for full-year 2014. "In order to operate in a competitive manner on the market in the long term we have to achieve a cost-to-income ratio of 50 percent. Given this backdrop, further savings are essential. In this way our Bank will become more effective and more competitive with the structures that a strong regional bank in the North needs," said Constantin von Oesterreich.

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Hamburg, 12 December 2014

Income Statement (€ m)	January to September 2014	January to September 2013	Change in %
Interest income	3,909	4,675	-16
Interest expenses	-3,323	-3,868	14
Net income from hybrid financial instruments	-186	-106	-75
Net interest income	**400**	**701**	**-43**
Net commission income	103	73	41
Result from hedging	-24	11	>-100
Net trading income	131	138	-5
Net income from financial investments	267	247	8
Net income from financial investments accounted for under the equity method	2	-13	>100
Total income	**879**	**1,157**	**-24**
Loan loss provisions	387	-457	>100
Administrative expenses	-498	-560	11
Other operating income	80	62	29
Net income before restructuring	**848**	**202**	**>100**
Result from restructuring	2	-18	>100
Expenses for government guarantees	-390	-279	-40
Net income before taxes	**460**	**-95**	**>100**
Income tax expenses (-)/income (+)	-127	29	>-100
Group net income	**333**	**-66**	**>100**
Group net income attributable to non-controlling interests	1	-2	>100
Group net income attributable to HSH Nordbank shareholders	332	-64	>100

Additional key figures of HSH Nordbank Group	30.09.2014	31.12.2013
Total assets (€ bn)	111	109
RWA before guarantee (€ bn)	69	62
RWA after guarantee (€ bn)	40	38**
Common Equity Tier 1 capital ratio * (%)	12.5 incl. buffer of 2.5 pp	13.1** incl. buffer of 3.1 pp
Tier 1 capital ratio* (%)	14.3	14.3**
Regulatory capital ratio** (%)	18.6	19.7
Employees (full-time equivalents)	2,606	2,834

* taking account of the interim results as at 30.09.2014
** based on matching periods according to the Capital Requirements Regulations (CRR), CET1 Ratio adjusted