PRESS RELEASE

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HSH Nordbank continues positive trend - pre-tax profit of € 234 million in Q1

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- Q1 new business up by almost one-quarter to € 2.6 (2.1) billion
- Q1 income rising by a good 45% to € 342 (235) million
- Bank levy for full year weighed earnings down by € 40 million
- Forecast unchanged: figures in the black projected for 2015

HAMBURG/KIEL HSH Nordbank has had a successful start to the current financial year, generating a pre-tax profit of € 234 million in the first quarter of 2015 (pre-year period: € 355 million). The Bank thereby continued the positive trend following the earnings turnaround in the previous year and recorded a substantial increase in operating income in its Real Estate and Energy & Infrastructure divisions and in ship finance. Moreover, the risk-prone legacy assets were reduced further and, thanks to the progress made with the programme to reduce operating and personnel expenses launched in 2014, the Bank also lowered its administrative expenses. However, at € 289 (Q1 2014: 487) million the debt waiver of the guarantors contributed much less to earnings than during its first application in early 2014. Regardless of the debt waiver € 330 million were incurred in base and additional premiums for the guarantee of the federal states of Hamburg and Schleswig-Holstein in the first quarter. Thus, since 2009 a total of € 2.4 billion has been paid to the guarantors in base premiums alone.

The first payment of the European bank levy totalling € 40 million for 2015 as a whole was taken into account in full in the past quarter, as were the € 14 million for the deposit guarantee system of the German Savings Banks Finance Group. After deducting the tax expense, Group net income of € 206 (215) million remained. Against the backdrop of the good earnings and cost performance the Bank reaffirms its targets for this year: following on from a return to profit territory with Group net income for the year of € 160 million in 2014, HSH Nordbank continues to project a profit for 2015 as a whole.

"As expected, the Bank had a good start to the year: we are making visible progress in terms of operating profit and have costs under control, although legacy assets remain a heavy burden. Here, it will be important to find a viable solution for the long term in the ongoing talks with the EU Commission. After all, we will not be able to free ourselves permanently from the legacy assets unless our shareholders and the EU Commission pave the way for structural changes. The Bank for its part will do everything it can to continue generating good results in its operations," said Constantin von Oesterreich, Chairman of the Management Board of HSH Nordbank AG.

Total income increased – administrative expenses reduced as planned

The Group's total income improved substantially to € 342 (235) million in the first quarter, which is equivalent to an increase of a good 45 percent over the pre-year period. Net interest income of € 267 million, compared with € 55 million in the first three months of 2014, was a major contributing factor. Growing new business of the Core Bank in tandem with a stable margin trend had a perceptibly positive effect. Net interest income also reflects the disappearance of special effects that exerted strain in the previous year together with a positive extraordinary effect in connection with the trend in interest rates over the past few months. As expected, the encouraging effects from client business were offset by the deliberate portfolio wind-down in the Restructuring Unit and loan repayments in the Core Bank.

Net commission income rose to € 38 (34) million, mainly as a result of higher loan commissions and the increasingly successful cross-selling of other products and services extending beyond loan finance. Net trading income amounting to € 27 (51) million reflected valuation effects in connection with volatility on the financial and currency markets. At the same time, net income from financial investments of € 5 (99) million fell short of the previous year's figure, which benefited from higher capital gains and the reversal of impairment losses.

The cost-cutting programme launched in 2014 is showing further benefit. The Bank plans to reduce its administrative expenses down to € 500 million per annum by 2018 in order to achieve a cost base that is competitive over the long term. In the first three months of 2015 administrative expenses were reduced as planned, to € -162 million, down from € -173 million in the pre-year quarter. The number of full-time equivalent jobs was cut by 70 to 2,509 FTEs, resulting in a decline in personnel expenses to € -71 (-75) million.

Higher earning power and portfolio quality – valuation effects exerting strain

The Core Bank, which contains HSH Nordbank's strategic business areas, generated a qualitatively improved net income before taxes of € 109 (109) million in the first quarter because the figure absorbed the € 14 million for the guarantee system of the German Savings Banks Finance Group as well as € 30 million for the European bank levy, while the remaining € 10 million was charged to the Restructuring Unit. The expansion of new business had a perceptibly positive effect, rising by around one-quarter to € 2.6 (2.1) billion in the first quarter of 2015 when compared with the pre-year period. Moreover, the percentage of disbursed new loans rose; in tandem with the trend in the USD rate this led to higher total assets of € 79 (76) billion in the Core Bank. Despite the challenging underlying conditions, interest margins were encouragingly stable, as a result of which the earning power of new business picked up as volumes rose. Moreover, due to less risk-prone new exposures and the reduction of existing loans with comparatively unfavourable risk parameters, the quality of the Core Bank's portfolios improved. The cross-selling result with services extending beyond loan finance, such as foreign trade finance and payment transactions, was improved perceptibly. Due to the volatility on the financial and currency markets, clients moreover had a higher hedging requirement across all areas of the Core Bank, which had a positive effect on sales of capital market products.

Once again, the Real Estate Clients division made a major contribution to new business in the first quarter of 2015 at € 1.5 (1.2) billion; at the same time, the Energy & Infrastructure division at € 0.3 (0.1) billion and the Shipping division at € 0.5 (0.4) billion increased their new business. With its clear focus on an adequate risk/return profile and against the backdrop of muted loan demand in corporate finance, at € 0.3 (0.4) billion new business of the Corporates division fell slightly short of the previous year's figure.

To confront the challenges in the persistently difficult market setting of German medium sized businesses, HSH Nordbank recently realigned its corporate client business and pooled its Corporates, Energy & Infrastructure and Wealth Management divisions into a new Corporate Clients division. In future, the focus of this division will mainly be on retail, food, logistics & infrastructure, energy and healthcare. The Bank will thus concentrate on those areas where it has an established expertise that is recognised by the market.

The encouraging earnings trend stood opposed by scheduled and premature loan repayments and restructuring activities in the ship loan business. Moreover, various valuation effects, provisions for the newly introduced European bank levy and the contribution to the deposit guarantee system of the savings banks, which were essentially absorbed by the Core Bank, exerted strain.

Loan loss provisions affected by legacy assets in the ship portfolio and the guarantee

Loan loss provisions in the first quarter of 2015 were accounted for mainly by restructuring measures in the ship portfolios in order to wind down risky legacy exposures. These charges stood opposed by perceptible net reversals of real estate and corporate loans in the Restructuring Unit.

Net loan loss provisions, i.e. net allocations to individual and portfolio valuation allowances, came to € -113 (-52) million. The offsetting effect of the guarantee includes valuation allowances for the guarantee portfolio together with corresponding currency effects and totals € 238 million net (gross compensation € 700 million less the forex result of € -462 million). Moreover, the additional premium of € -212 million reported in loan loss provisions reduces the compensation. Also included in loan loss provisions – with a positive relief – is the debt waiver of the guarantors amounting to € 289 million. All told, therefore, positive loan loss provisions of € 202 (396) million were recorded for the first quarter of 2015.

Solid CET1 ratios pursuant to Basel III

The potential waiver by the guarantors of additional premiums in order to ensure a Common Equity Tier 1 (CET1) ratio of ten percent (capital protection clause) resulted in the reversal of guarantee premiums of € 289 million recognised in the income statement in the first quarter. This figure is substantially lower than the € 487 million from the first-time application of the debt waiver in the wake of the switch to Basel III in the first quarter of 2014 and also below the € -330 (-169) million in charges from base and additional premiums for the period from January to March 2015.

Based on the Basel III transitional rules (phase in) the CET1 ratio is 12.0 percent (includes a buffer of 2.0 percentage points from the capital protection clause). Even based on the assumption of full implementation of the Basel III rules (fully loaded) the CET1 ratio was a solid 11.0 percent (includes a buffer of 1.0 percentage points).

This reduction of 0.6 percentage points in the CET1 ratio pursuant to Basel III when compared with 31 December 2014 is attributable to the increase in risk weighted assets to € 41.8 billion resulting essentially from the appreciation in the USD (€/USD 1.08 as at 31 March 2015 vs. €/USD 1.21 as at 31 December 2014) and the business performance.

2015 affected by structural changes — continuity on the Management Board

The good business performance and positive result in the first quarter of 2015 demonstrate that HSH Nordbank is successfully forging ahead with the implementation of its strategy. With the progressive expansion of its client business, the resolute wind-down of risk-prone legacy assets and the restructuring measures it has initiated, the Bank is steadily strengthening the basis for the future.

With a view to the ongoing EU state aid proceedings HSH Nordbank's objective is to reach a general agreement in the next few months aimed at securing the Bank's future over the long term. To this end, structural changes with regard to the second loss guarantee are being discussed in order to improve HSH Nordbank's profitability and its ability to tie up capital amid a challenging setting for banks. Moreover, the wind-down or restructuring of risk-prone legacy assets will be facilitated in the future.

HSH Nordbank is confident that these envisaged changes will be taken into account in the context of the EU proceedings. A successful conclusion to this dialogue would free the Bank of substantial legacy assets and enable it to continue the successful implementation of its business model, thereby making a major contribution to ensure the Bank's viable future positioning over the long term.

During this decisive time for the future of the Bank HSH Nordbank is underscoring the importance of personnel continuity in its key management positions: At today's meeting the Supervisory Board renewed the Management Board contracts with Chief Financial Officer Stefan Ermisch and with Matthias Wittenburg, who is responsible for the capital markets and corporate clients business, by a further three years. Stefan Ermisch was moreover appointed Deputy Chairman of the Management Board by the Supervisory Board. "Stefan Ermisch and Matthias Wittenburg have played a key role in the repositioning and realignment of HSH Nordbank. I am delighted that both will continue these important tasks. Moreover, the appointment of Mr. Ermisch as Deputy Chairman of the Management Board represents a further strengthening of our Bank's management capacity," said Dr. Thomas Mirow, Chairman of HSH Nordbank AG's Supervisory Board.

HSH NORDBANK

Hamburg, 29 May 2015

Income statement (€ m)	**Jan. – March 2015**	Jan. – March[1] 2014	Change in %
Interest income	1,239	1,312	– 6
Interest expenses	- 944	– 1,123	– 16
Net income from hybrid financial instruments	– 28	– 134	79
Net interest income	**267**	**55**	**>100**
Net commission income	38	34	12
Result from hedging	5	– 6	>100
Net trading income	27	51	– 47
Net income from financial investments	5	99	– 95
Net income from investments accounted for using the equity method	–	2	–100
Total income	**342**	**235**	**46**
Loan loss provisions	202	396	– 49
Administrative expenses	– 162	– 173	– 6
Other operating income	15	31	– 52
Expenses for European bank levy	– 40	–	> 100
Net income before restructuring	**357**	**489**	**– 27**
Restructuring result	– 5	– 5	–
Expenses for government guarantees	– 118	– 129	– 9
Net income before taxes	**234**	**355**	**– 34**
Income tax expenses	– 28	– 140	– 80
Group net income	**206**	**215**	**– 4**
Consolidated net income attributable to non-controlling interests	–	–	–
Consolidated net income attributable to HSH Nordbank shareholders	206	215	– 4

[1] After adjustment pursuant to IAS 8.14 ff.

Additional key figures of HSH Nordbank Group	**31.03.2015**	**31.12.2014**
Total assets (in € bn)	113	110
Cost-income ratio (%)	45	70
RWA after guarantee (in € bn)	42	40
Common Equity Tier 1 ratio (CET1 ratio, phased in) (%)[1] [2]	12.0	12.6
Tier 1 capital ratio (%)[1]	13.7	14.4
Regulatory capital ratio (%)[1]	18.1	18.7
Full-time staff (FTE)	**2,509**	**2,579**

[1] In accordance with in-period calculation as per the provisions of the Capital Requirements Regulation (CRR).

[2] Incl. a buffer of 2.0 (31 March 2015) or 2.6 percentage points (31 December 2014) from the capital protection clause.