HSH NORDBANK

PRESS RELEASE
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HSH Nordbank starts fiscal 2014 with a good first quarter

- New business almost doubled year on year to EUR 2.1 billion
- Loan loss provisioning expense down substantially
- Pre-tax profit of EUR 354 million
- Common equity Tier 1 capital ratio including buffer solid at 13.0 percent – capital protection clause working
- Outlook for fiscal 2014 reaffirmed: a profit before and after tax

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HAMBURG/KIEL As expected, HSH Nordbank started into fiscal 2014 with a good first quarter, underpinned by operating successes in the Core Bank, progressing organisational improvements and reduced loan loss provisioning expense. The capital protection clause exerted a crucially beneficial effect on earnings, which – after heavy charges of EUR -902 million arising from guarantee premiums in the 2013 financial statements – resulted, as expected, in a partial reversal with effect on profit and loss effective 31 March 2014. The Bank generated a pre-tax profit of EUR 354 million in the first three months of 2014 (previous year: EUR 71 million). This figure includes expenses of EUR -129 million for the guarantee provided by the federal states of Hamburg and Schleswig-Holstein. After taxes, the Bank posted consolidated net income of EUR 213 million (previous year: EUR 74 million). Outlook for 2014 as a whole remains unchanged: the Bank projects a profit before and after taxes.

The Core Bank provided pre-tax earnings of EUR 109 million (previous year: EUR 115 million). This involved a reduction in the Core Bank's earnings by a non-recurring amount of EUR 102 million due to a conversion effect pertaining to hybrid financial instruments, which will be fully offset again by 2017. The Core Bank thus continued its series of positive quarterly results begun in the third quarter of 2012, which was interrupted only in the final quarter of previous year due to substantial increase in loan loss provisioning for commitments involving restructuring in the Shipping division, with the profit in the first quarter of 2014. The Restructuring Unit benefited substantially from the effect of the capital protection clause as well as from further impairment reversals in the Credit Investment Portfolio and also made a positive contribution with pre-tax earnings of EUR 245 million (previous year: a loss of EUR -44 million).

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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

"Our first-quarter results and the progress made in terms of operating profit in recent months substantiate our forecast that we will again generate a profit, also after taxes, for the whole of the 2014 financial year. Earnings are being underpinned particularly by the Core Bank, which is proving capable of successfully expanding its business even in a difficult setting," said Constantin von Oesterreich, Chairman of the Management Board of HSH Nordbank.

Dynamic new business performance

In its lending business, the Core Bank followed on from its dynamic performance towards the end of the previous year during the first three months of 2014. New business was, at a total of EUR 2.1 billion, almost double the figure of EUR 1.1 billion for the same quarter in the previous year. An on the whole considerably increased disbursement ratio on newly granted loans was encouraging in this respect. Furthermore, the interest margins achieved remained at an adequate level despite the fiercer competition on the German banking market. The sales units succeeded in further enhancing their market penetration in the core business areas. The Real Estate Clients division made the largest contribution to new business with a total of EUR 1.2 billion. The Corporate Clients business felt a generally subdued demand for loans on the market at the beginning of the year.

HSH Nordbank's total income came to EUR 238 million (previous year: EUR 419 million). Adjusted for an exceptional effect involving planned adjustment of the effective interest rate for hybrid instruments, which will be fully offset within the next few years, net interest income and therefore also total income would have turned out higher by EUR 102 million. Also reflected in the first quarter of 2014 was the successful portfolio wind-down of about further 25 percent of the Restructuring Unit's assets compared to the same quarter of the past year. This resulted in a significant, albeit planned, decrease in the Restructuring Unit's net interest income. Overall, net interest income dropped to EUR 60 million from EUR 262 million in the same quarter of the previous year.

Net commission income increased to EUR 34 million versus the figure of EUR 32 million for the same quarter of the previous year. Greater income from the cross-selling business, which was boosted in the wake of the rise in new business, contributed to the increased income. This was reflected above all in greater loan commissions, whereas capital market products made a disproportionately smaller contribution to cross-selling due also to the lower level of interest rates.

Overall, net trading and net income from financial investments remained above the pre-year level due to positive valuation effects and gains on disposals of securities. At EUR 49 million, net trading income fell short of the result of EUR 62 million for the same period of the previous year. Whereas valuation of interest-rate/currency derivatives (EUR/USD basis swaps) as well as own liabilities measured at fair value exerted a negative effect, reduced counterparty risks in the derivatives segments, among other factors, has a positive effect. The net income from financial investments of EUR 99 million (previous year: EUR 68 million) reflected the positive performance of securities and disposal gains against the backdrop of easing tensions on the financial markets. Alongside the disposal of further government bonds, impairment reversals in the Credit Investment Portfolio managed by the Restructuring Unit made a particularly positive contribution to earnings, with a large proportion of this accounted for by bonds related to the US residential real estate market.

Sharp decrease in loan loss provisioning expense

The need for loan loss provision was significantly lower in the first quarter of 2014 than in the previous year. With the Bank having substantially increased its loan loss provisioning in 2013 in order thereby to account particularly for the risk arising from the intensified shipping business crisis, the expense was now down significantly to EUR -59 million from EUR -307 million in the same period of the previous year.

The capital protection clause exerted a beneficial effect on loan loss provisioning. This mechanism was set up by the EU Commission and is intended to ensure a Common equity Tier 1 capital ratio of at least ten percent through partial reversal of additional premiums for the guarantee. As the expense for the additional premium was previously recognised in loan loss provisioning with negative effect on income, the benefit of partially reversing the additional premium also had to be recognised here. In total, the item loan-loss provisioning came to income of EUR 394 million, which comprised actual loan-loss provisioning in the negative amount of EUR -59 million and the offsetting effect of the guarantee of EUR 453 million.

Costs reduced

Administrative expenses in the first quarter posted another decrease to EUR -166 million (previous year: EUR -172 million). The item personnel expenses, which was down from EUR -84 million to EUR -75 million, reflected above all the further reduction in the number of employees. The number of the Group's full-time employees was down by 72 versus the end of 2013, i.e. to 2,762. Operating expenses (excluding depreciation/amortisation) rose slightly from EUR -78 million to EUR -80 million. The reasons for this included higher project costs and substantial additional costs related to regulatory requirements.

Guarantee expense for basic premium up

The basic premiums paid to the federal states of Hamburg and Schleswig-Holstein for providing the guarantee rose to EUR -129 million in the first quarter versus EUR -70 million in the previous year and is recognised in the item Expenses for government guarantees' in the income statement. The reasons for this increase are a higher ongoing basic premium due to the replenishment of the guarantee facility from seven to ten billion euros in the middle of the past year as well as the proportion of about EUR -29 million incurred in the first quarter of 2014 of the agreed subsequent payment of the basic premium because of the guarantee increase. The premiums that HSH Nordbank previously paid to the guarantor rose to EUR 1.9 billion in the first quarter (31.12.2013: EUR 1.7 billion), of which EUR 1.6 billion is accounted for by the ongoing basic premium and EUR 0.3 billion for the subsequent payment. HSH Nordbank is, with the premiums paid, making a significant contribution to compensating for the aid provided by the states of Hamburg and Schleswig-Holstein.

Total assets increased in the Core Bank

Against the backdrop of the success in generating new business, the Core Bank's total assets rose by two billion euros to EUR 71 billion (31.12.2013: EUR 69 billion). The Restructuring Unit simultaneously continued to wind down legacy assets. Following the significant EUR 13 billion reduction of its assets in 2013, the Restructuring Unit made cuts by a further two billion euros to EUR 35 billion before consolidation in the first quarter of 2014. Overall, the Bank's total assets remained virtually unchanged from the end of 2013 at EUR 109 billion.

Solid Common equity Tier 1 capital ratio after switch to Basel III

HSH Nordbank's capital ratios as at 31 March 2014 were at a solid level also after the switch to Basel III and of regulatory capital measurement from HGB to IFRS. According to the applicable Basel III transition rules, the Tier 1 capital ratio including market-risk positions came to 14.4 percent at the end of the quarter. The Common equity Tier 1 capital ratio – including a buffer of three percentage points due to the capital protection clause – stood at 13.0 percent (phased in). Also in anticipation of fully loaded implementation of the Basel III rules, which, as it stands, are to be introduced by 2024, HSH Nordbank's Common equity Tier 1 capital ratio reached a good figure of 11.7 percent including a buffer of 1.7 percentage points at the end of the first quarter.

Hamburg, 6 June 2014

Outlook

With a solid Common equity Tier I capital ratio in line with Basel III, the Bank has established a good foundation for the further application of the business model for its Core Bank. At the same time, the improved capital base due to the increase in the guarantee of mid-2013 boosted the Bank's resilience. Against this backdrop, the Bank regards itself as well-prepared for the business and regulatory challenges ahead, the primary ones being the persisting shipping crisis, the pending EU decision in the ongoing state aid proceedings on replenishment of the guarantee as well as the comprehensive assessment of the European banking sector that the ECB has started.

Based on the successful start to the year, the Management Board will forge ahead in the upcoming months with its strategy of setting the Bank up on a consistently stable and profitable course. The focus in this respect is above all on risk-aware expansion of client business in the Core Bank and the ongoing, speedy wind-down of legacy assets in the Restructuring Unit. The Management Board still projects positive results both before and after taxes for the 2014 financial year. Key contributing factors in this respect will be the expected relief to loan loss provisioning including the positive effect of the capital protection clause, lower administrative expenditure as well as the growing new business.

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Income Statement (EUR million)	**January to March 2014**	**January to March 2013**	**Change in %**
Interest income	1,316	1,521	-13
Interest expense	-1,122	-1,231	-9
Net income from hybrid financial instruments	-134	-28	>-100
Net interest income	**60**	**262**	**-77**
Net commission income	34	32	6
Result from hedging	-6	-5	-20
Net trading income	49	62	-21
Net income from financial investments	99	68	46
Net income from financial assets accounted for under the equity method	2	-	-
Total income	**238**	**419**	**-43**
Loan loss provisions	394	-133	>-100
Administrative expenses	-166	-172	-3
Other operating income	22	34	-35
Net income before restructuring	**488**	**148**	**>100**
Result from restructuring	-5	-7	29
Expenses for goverment guarentees	-129	-70	84
Net income before taxes	**354**	**71**	**>100**
Income taxes	-141	3	>100
Group net result	**213**	**74**	**>100**
Group net result attributable to non-controlling interests	-	-1	100
Group net result attributable to HSH Nordbank shareholders	213	75	>100

Additional key figures of HSH Nordbank Group	**31/03/2014**	**31/12/2013**
Total assets (EUR billion)	109	109
RWA before guarantee (EUR billion)	62	62
RWA after guarantee (EUR billion)	37	36
Common equity Tier 1 capital ratio * (%)	10.0 plus 3.0 buffer	11.7 plus 5.2 buffer
Tier 1 capital ratio* (%)	14.4	15.3
Regulatory capital ratio (%)	19.6	23.8
Employees**	2,762	2,834

* taking into account the interim result as at 31 March 2014 and the adopted financial statements for 2013 of HSH Nordbank AG; ratios as at 31 December 2013 according to Basel II
** Full-time equivalents