HSH NORDBANK

Press Release

HSH Nordbank achieves fresh start under difficult market conditions

- **Introduction of a new business model and positioning as a 'bank for entrepreneurs' launched on the market following conclusion of the EU state aid proceedings**
- **Positive feedback from clients: new business and cross-selling significantly increased**
- **Net income before restructuring improved to EUR 914 million in fiscal 2011, while heavy exceptional charges due to implementation of the EU's requirements and euro debt crisis resulted in a Group net loss of EUR -263 million**
- **Second loss guarantee from the federal states of Schleswig-Holstein and Hamburg compensates for increased risk-provisioning requirement**
- **Paul Lerbinger, Chairman of the Management Board: "We have, with the parameters set in the 2011 financial year, established a good starting base for expanding our market position further in the years ahead."**

Hamburg/Kiel, 23 March 2012 – HSH Nordbank succeeded in making a fresh start in the past year despite the very difficult conditions underlying the banking industry. "The conclusion of the EU state aid proceedings last September marked the beginning of a new era for us. We were quick in getting started with implementing the EU's tough requirements and at the same time successfully launched our new business model. In so doing, we established a good starting point for further expanding our position as a 'bank for entrepreneurs' on the market in the years ahead," said Paul Lerbinger, Chairman of the Management Board, at HSH Nordbank's balance sheet press conference in Hamburg.

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Focus on the entrepreneur target group bearing fruit

The end to the more than two and a half years EU state aid proceedings – the standout event for HSH Nordbank in its past financial year – entailed a range of conditions and commitments. Among others, these include downsizing the Bank significantly and relinquishing some areas of business.

Our entrepreneurial answer to this challenge involves the fundamental reorganisation of HSH Nordbank Bank into a sales-driven and medium-sized bank for entrepreneurs. The Management Board launched the transformation programme immediately following the EU decision and has since resolutely taken it forward. Especially in northern Germany the Bank is focused on business with corporate clients, real estate clients as well as clients in upmarket private banking and on business with savings banks. On the international level, HSH Nordbank is concentrating, in the context of its new business model, on entrepreneurial clients in the areas of shipping as well as energy and infrastructure.

Generally, HSH Nordbank is aiming for owner-managed businesses and their owners. In this group we also include ship-owners in the shipping business and property developers in the real estate business. The concentration on a clearly defined target group that this entails and our focus on a product range tailored precisely for this clientele already bore first fruit in the past year. This was reflected especially in the second half of the year – i.e. after the new business model was launched – in the amount of new business concluded, in successfully gaining new clients and in the extended scope of cross-selling. “We have already received a high amount of approval from our clients for our new concept. In operating terms, HSH Nordbank has therefore emerged stronger from its 2011 financial year," Paul Lerbinger said.

Positive result before restructuring cancelled out by exceptional charges resulting from conclusion of the EU state aid proceedings

Both the direct and indirect effects of the EU proceedings impacted on HSH Nordbank’s figures.

In a very challenging market setting, the Bank closed out its 2011 financial year with a satisfactory result before restructuring. The respective figure improved by more than 50 percent year on year to EUR 914 million, helped by the hedging effect of the second loss guarantee. However, various negative, exceptional factors cancelled

out this positive result before restructuring. First and foremost this involved the one-off payment required by the EU of EUR 500 million to the guarantors, i.e. the federal states of Hamburg and Schleswig-Holstein. This raised expenditure on public-sector guarantees – despite the significant reduction in the corresponding amount during the past year – to EUR -883 million (previous year: EUR -519 million). Furthermore, the result of restructuring amounting to EUR -235 million (previous year: EUR -9 million) had a negative impact. In particular, this item includes spending on the Bank's reorganisation as necessitated by the EU's decision.

As forecast in August of last year, a negative result was recorded after deducting taxes. Given the circumstances, this was a moderate consolidated net loss of EUR -263 million, as opposed to net income of EUR 104 million in the previous year.

Euro debt crisis weighs on net trading income and net income from financial investments

In 2011, HSH Nordbank assisted its clients not only by extending existing loans. New business also rose appreciably again in the wake of the introduction of the new business model in the second half of the year. Nearly half of our new business amounting to EUR 4.9 billion (previous year: EUR 3.9 billion) was transacted in the fourth quarter alone. The positive effect on earnings of the success achieved in business with clients in the second half of the year will, however, not be fully reflected in either net interest or net commission income until the 2012 financial year.

As expected, the 2011 net interest income was, at EUR 1.35 billion, down from the previous year's level (EUR 1.50 billion) because of the ongoing reduction of total assets. While net commission income benefited in the previous year from the greater need for restructuring of individual exposures, particularly the absence of loan commissions in the aviation business as well as among shipping exposures that were to be reduced weighed on the result in 2011. The Bank committed itself vis-à-vis the EU to terminating its business involving object-related aviation finance, international real estate business as well as financing of cruise and roll-on/roll-off ships and not to engage in any more new business in these areas. Net commission income therefore dropped to EUR 120 million (previous year: EUR 281 million).

Despite what is, compared with the banking industry in general, a very manageable exposure involving government bonds of highly indebted euro countries, the Bank could not detach itself from the

adverse effects from the European sovereign debt crisis in the past year. This was reflected particularly in the net trading income and in net income from financial investments. The Bank wrote down its total exposure to Greece to about 20 % of its nominal amount. Overall, we recorded impairment losses and write-downs on government bonds of so-called PIIGS countries in the amount of EUR -261 million. Net trading income came to of EUR -173 million (previous year: a loss of EUR -156 million), while net income from financial investments dropped to EUR 90 million (previous year: EUR 215 million).

Second loss guarantee provided by the federal states bringing about effects

Disposals of equity holdings and shareholdings as well as remeasurement of hybrid financial instruments benefited the result for fiscal 2011. Furthermore, the second loss guarantee provided by the federal states of Hamburg and Schleswig-Holstein exerted a risk-minimising effect as intended when it was granted.

The Bank made substantial write-downs in its lending business in the past year – above all concerning exposures in the shipping business and involving international real estate, but also for other impairments of trading assets and financial investments. Against these provisioning measures EUR 1.043 billion were credited to the income statement in order to map the hedging effect of the guarantee. As a result, in terms of loan loss provisioning income of EUR 389 million was booked (previous year: a charge of EUR -317 million).

This booking does not entail any actual payment obligations whatsoever on the part of the federal states. This would be the case only if the actual losses on the backed portfolio were to exceed the first-loss piece of EUR 3.2 billion that the Bank must bear on its own. The actual losses on the portfolio backed since April 2009 amount to only about EUR 219 million.

“The increased risk provisioning is a consequence of the Bank’s very conservative risk policy. We are thereby taking account in particular of the once again aggravated situation on the international shipping markets in the fourth quarter. Over the medium to long term we still expect that we shall – in the wake of a macroeconomic recovery and stabilisation in the shipping industry – reverse large parts of our loan loss provisions, and that we will no longer need the hedging effect that the second loss guarantee currently provides. Until then the second loss guarantee will show the positive impact for which it was designed: it cushions risk, thereby easing the burden on the Bank’s results without triggering actual payments from the guarantor. We are

firmly convinced that this will also continue to be the case," Paul Lerbinger commented.

Costs reduced

HSH Nordbank cut its administrative expenses by EUR 30 million to EUR -837 million in 2011 (previous year: EUR -867 million). Excluding the extension of the scope of consolidation by 44 entities, the Bank would, as a consequence of further staff cuts and savings on non-personnel costs, have recorded a decrease of EUR 91 million.

Solid Tier 1 capital ratio despite new regulatory requirements

The trend in total assets reflects HSH Nordbank's continued concentration on its core business. Total assets decreased to EUR 136 billion in the past year (31 December 2010: EUR 151 billion). HSH Nordbank has thus reduced the size of its balance sheet by more than one third within three years. Of the yearend totals, the Restructuring Unit accounted for EUR 59 billion and the Core Bank for EUR 77 billion. The latter figure is therefore EUR 5 billion below the maximum agreed with the EU for the end of 2014.

HSH Nordbank's capital resources at the end of fiscal 2011 remained at a solid and internationally competitive level. Its Tier 1 capital ratio including market risk positions came to 13.8 % (31 December 2010: 15.2 %). The decrease in the ratio was the result of the significantly greater regulatory requirements due to implementation of the Third Capital Requirements Directive (CRD III) within the European Union. In particular, our portfolio backed via the second loss guarantee is, according to CRD III, rated as re-securitisation. CRD III requires a larger minimum risk weighting (20 %, up from 7 %) to be applied to this – which in turn led to an increase in risk-weighted assets and the aforementioned drop in the Tier 1 capital ratio. This therefore does not indicate any changes whatsoever in HSH Nordbank's underlying capital strength.

Government guarantees scaled back further

This solid financial situation is also reflected in the further reduction in the government guarantees in the past year. The Bank has already reduced the original EUR 10 billion second loss guarantee by EUR 3 billion. It plans further, ongoing reduction of the second loss guarantee for the years ahead as well. Furthermore, the Bank reduced government guarantees of the Financial Market Stabilisation Fund (SoFFin) from the original EUR 17 billion to EUR 3 billion at the

end of January 2012. The Bank will repay the last SoFFin-guaranteed bond outstanding by mid 2012. “The reduction in the government guarantees is an expression of the Bank’s substantial restructuring progress and its regained operating strength,” Paul Lerbinger commented.

Outlook: taking advantage of scope for profitable growth

Forming the basis for this is the new business model, implementation of which is progressing rapidly. “HSH Nordbank’s task now, as a significantly smaller institution, is on the basis of its existing, reliable client relationships to profitably grow its business further in a demanding risk, competitive and funding environment,” Paul Lerbinger said. The significant progress made in reducing total assets and the target set by the EU Commission for the Core Bank's size provide ample scope for doing so. Above all, HSH Nordbank will focus this year on stepping up and enhancing its business relationships with its existing clients. Initiatives like the initiative for large medium-sized companies, ‘Unternehmer Postionen Nord’, by which we are also visibly underscoring our commitment to our business clientele both inside and outside the Bank, will also contribute in this regard. At the same time, the objective is also to gradually convince new clients of HSH Nordbank’s capabilities and to forge ahead with the targeted expansion – also beyond the Bank’s core region.

Despite the increasing success in client business that is expected, the general trend of business is likely to be chiefly determined again in 2012 by macroeconomic performance, the further consequences of the European sovereign debt crisis and the implementation of the measures stipulated by the EU. Nevertheless, the Bank expects a positive result this year. We expect to see a gradual improvement in our results in the subsequent years. Following complete implementation of its transformation programme in 2014, HSH Nordbank will be firmly established on the market as a ‘bank for entrepreneurs’ and capable of generating a pre-tax return on equity of 10 percent on a sustained basis.

“HSH Nordbank’s prospects after its successful new start as a ‘bank for entrepreneurs’ will therefore be very good. Its new image draws a line under the past and reflects the fact that the Bank has embarked on its path toward the future. The Bank stands on solid financial foundations and commands an excellent market position, which we will further enhance in the years ahead based on our viable business model. Today more than ever, I am firmly convinced that we will be successful with the reorganisation of HSH Nordbank. Within a few

years we shall in this way become one of the top banks for medium-sized enterprises and their owners in Germany," Paul Lerbinger summarised.

Income statement (€ million)	**2011**	Following adjustment 2010	Change in %
Interest income	11,654	14,357	-19
Interest expenses	-10,335	-12,692	-19
Income from hybrid financial instruments	31	-163	> 100
Net interest income	**1,350**	**1,502**	**-10**
Net commission income	120	218	-45
Result from hedging	4	8	**-50**
Net trading income	-173	-156	-11
Net income from investments	90	215	-58
Net income from investments accounted for under the equity method	-61	4	>- 100
Total income	**1,330**	**1,791**	**-26**
Loan loss provisions	389	-317	>- 100
Administrative expenses	-837	-867	-3
Other operating income/loss	32	-6	> 100
Net income before restructuring	**914**	**601**	**52**
Restructuring result	-235	-9	>- 100
Expenses for government guarantees	-883	-519	70
Net income before tax	**-204**	**73**	**>- 100**
Income tax expenses / tax income	-59	31	>- 100
Group net income/loss	**-263**	**104**	**>- 100**
Group net income/loss attributable to non-controlling interests	-6	51	>- 100
Group income/loss attributable to HSH Nordbank shareholders	-257	53	>- 100

Other HSH Nordbank Group key figures	**31.12.2011**	**31.12.2010**
Total assets/liabilities (in € billion)	136	151
Tier 1 capital ratio* (%)	13.8	15.2
Equity capital ratio* (%)	21.3	22.7
Employees**	***3,684	3,388

* including market risk positions

** full-time employees (FTEs)

*** including 473 FTEs from 44 subsidiaries newly consolidated in 2011

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