STRONG FOR ENTREPRENEURS

FINANCIAL INFORMATION

as at 31 March 2013

HSH NORDBANK

KEY FIGURES

INCOME STATEMENT
(€ m)

	January – March 2013	January – March 2012
Net income before restructuring	146	179
Net income before taxes	69	93
Group net income	73	124

BALANCE SHEET
(€ bn)

	31.03.2013	31.12.2012
Equity	5.4	5.3
Total assets	124.8	130.6
Business volume	132.5	138.5

CAPITAL RATIOS [1)]
(%)

Tier 1 capital ratio	12.6	12.3
Core Tier 1 capital ratio	10.0	9.9
Regulatory capital ratio	19.5	19.1

EMPLOYEES
(computed on full-time equivalent basis)

Total	2,991	3,123
Germany	2,719	2,821
Abroad	272	302

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities [2)]	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's [3)]	Baa 2	Aa 1	Aa 1	Aa 1	Baa 1
Fitch	A–	AAA	–	–	–

1) Including market risk positions; taking into account the result as at 31 March 2013 and the adoption of the financial statements 2012 of HSH Nordbank AG.
2) Obligations covered by "Gewährträgerhaftung" (guarantee obligation).
3) Moody's ratings under review for possible downgrade (except guaranteed liabilities).

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

CONTENTS

Note:
This financial information as at 31 March 2013 is released voluntarily and does not comply with all the accounting requirements applicable to interim reporting for capital market-oriented companies. Recognition and measurement rules were applied on the basis of the IFRS.

HSH NORDBANK AT A GLANCE
as at 31 March 2013

INCOME STATEMENT
(€ m)

	January – March 2013	Following adjustment [1] January – March 2012	Change in %
Interest income	1,519	2,615	–42
Interest expenses	–1,231	–2,307	–47
Net income from hybrid financial instruments	–28	–43	35
Net interest income	**260**	**265**	**–2**
Net commission income	32	24	33
Result from hedging	–5	–6	17
Net trading income	62	–203	> 100
Net income from financial investments	68	67	1
Net income from financial investments accounted for under the equity method	–	–10	100
Total income	**417**	**137**	**> 100**
Loan loss provisions	–133	–43	> 100
Administrative expenses	–172	–199	–14
Other operating income	34	284	–88
Net income before restructuring	**146**	**179**	**–18**
Result from restructuring	–7	–6	–17
Expenses for government guarantees	–70	–80	–13
Net income before taxes	**69**	**93**	**–26**
Income taxes	4	31	87
Group net income	**73**	**124**	**–41**
Group net income attributable to non-controlling interests	–1	–	–
Group net income attributable to HSH Nordbank shareholders	74	124	–40

[1] Explanatory comments are set out in the 2012 Consolidated Financial Statements (Note 3).

BALANCE SHEET

ASSETS
(€ m)

	31.03.2013	31.12.2012	Change in %
Cash reserve	5,469	6,745	–19
Loans and advances to banks	7,190	8,353	–14
Loans and advances to customers	79,068	80,570	–2
Loan loss provisions	–3,481	–3,581	–3
Positive fair value of hedging derivatives	1,737	2,170	–20
Positive adjustment item from portfolio fair value hedges	324	403	–20
Trading assets	10,617	11,817	–10
Financial investments	21,832	22,067	–1
Financial investments accounted for under the equity method	–	–	–
Intangible assets	61	65	–6
Property, plant and equipment	260	260	0
Investment property	35	39	–10
Non-current assets held for sale and disposal groups	224	186	20
Current tax assets	104	105	–1
Deferred tax assets	1,286	1,267	1
Other assets	121	140	–14
Total assets	**124,847**	**130,606**	**–4**

LIABILITIES
(€ m)

	31.03.2013	31.12.2012	Change in %
Liabilities to banks	25,121	29,934	–16
Liabilities to customers	42,866	41,308	4
Securitised liabilities	29,850	31,459	–5
Negative fair values of hedging derivatives	763	943	–19
Negative adjustment item from portfolio fair value hedge	1,328	1,545	–14
Trading liabilities	10,946	11,450	–4
Provisions	1,555	1,664	–7
Liabilities relating to disposal groups	188	183	3
Current tax liabilities	107	108	–1
Deferred tax liabilities	27	14	93
Other liabilities	1,302	1,335	–2
Subordinated capital	5,395	5,391	0
Equity	5,399	5,272	2
Share capital	3,018	3,018	0
Capital reserve	594	594	0
Retained earnings	1,753	1,876	–7
Revaluation reserve	11	–31	> –100
Currency conversion reserve	–44	–59	–25
Group net profit/loss	74	–120	>100
Total before non-controlling interests	5,406	5,278	2
Non-controlling interests	–7	–6	17
Total equity and liabilities	**124,847**	**130,606**	**–4**

BUSINESS DEVELOPMENTS
as at 31 March 2013

OVERVIEW OF BUSINESS PERFORMANCE

Positive start to the year for HSH Nordbank

In the first quarter of 2013, we successfully continued to drive forward the strategic realignment and internal **reorganisation** of HSH Nordbank. The cost basis was further aligned to the reduced size of the Bank and the winding down of the high risk legacy portfolios continued. At the same time we have strengthened our risk and earnings profile through the acquisition of high quality new business. The progress made in implementing our business model together with the realignment as a "Bank for Entrepreneurs" is becoming increasingly apparent.

Despite a continued high level of loan loss provisions we were able to generate **Group net income** of € 73 million. We disclosed net income of € 124 million for the same period in the previous year primarily as a result of a positive special item (repurchase of subordinated bonds: € + 261 million).

Total income of the Bank, which increased in the first quarter to € 417 million (previous year: € 137 million) had a significant impact on the positive quarterly results. This was mainly caused by the substantial improvement in net trading income primarily as a result of significantly lower charges incurred on interest rate/currency derivatives as well as appreciation and sales of securities. Net interest and commission income were in total slightly above the previous year level despite the steady reduction in total assets and the very low level of interest rates.

We continued to build up our **new business** with customers during the first quarter. The new business activities focused on the acquisition of attractive commitments, through which we have further improved the earnings and risk profile of the Core Bank portfolio. At the same time we were able to obtain higher interest margins in the market and also strengthen our customer base outside our core region of Northern Germany. The volume of new business transacted amounted to € 1.1 billion and is thus at virtually the same level as that of the same period in the previous year (€ 1.2 billion).

In the first quarter we have further increased the **loan loss provisions** as planned. As valuation allowances related primarily to legacy transactions covered by the second loss guarantee of the federal states of Hamburg and Schleswig-Holstein, it was possible to reduce parts of the loan loss provisions thanks to the effect of the guarantee. Nevertheless, the loan loss provisions disclosed after taking the guarantee effect into account increased according to plan to € – 133 million compared to € – 43 million in the same period in the previous year.

The main reason for the higher loan loss provision expense was the on-going tense situation in the international **shipping markets.** As the worldwide fleet capacity was still growing faster than the demand for transport, freight and charter rates as well as ship values remained at historically low levels. The situation of many companies in the sector deteriorated further as a result. In addition to the specific risks in the individual markets the general weak **economic environment** over the past months had an adverse impact. The eurozone recorded negative economic growth in the second half of 2012 as well as in the first quarter 2013. Even Germany was not completely immune to the weak environment as indicated, amongst other things, by the fall in the Ifo Business Climate index in March and April. The emerging economies such as China also lost momentum at the beginning of the year. The US economy has recovered somewhat more strongly following the sharp decline at the year end, although the on-going political debate about the containment of the budget deficit had a dampening effect. Against the backdrop of the above-described developments the EUR/US dollar exchange rate weakened somewhat.

Our cost reduction programme continued to show effect at the beginning of the year. **Administrative expenses** were further decreased to € 172 million through savings made in operating expenses and the reduction in headcount (previous year: € 199 million). The number of employees decreased to 2,991 – a reduction of 132 compared to the 2012 year end. The planned reduction in headcount by 2014 has already been contractually implemented for the most part.

The **core Tier 1 capital ratio** (excluding hybrid instruments) was 10.0 % as at 31 March 2013. This means that it is clearly above the regulatory minimum ratio required and slightly above the level at the 2012 year end (9.9 %). Whereas the reduction in risk positions had a positive effect, the risk parameters had an adverse impact on the capital ratio as a result of the tense situation in the shipping sector and the somewhat weaker euro against the US dollar.

Against the backdrop of the increased risk potential from the persistently difficult environment and the increase in the requirements of both the supervisory authorities and the capital markets we have instigated measures aimed at ensuring that appropriate capital ratios are maintained on a sustained basis. Priority was given in the first quarter to the targeted **replenishment of the second loss guarantee** to the original level of € 10 billion by the main shareholders of the Bank. The governments of Hamburg and Schleswig-Holstein gave their consent to this measure in March 2013 and have agreed with the EU Commission the further approach to be adopted with regard to the approval of the guarantee increase.

We are seeking to obtain **preliminary approval from the EU Commission** by the end of June after the regional parliaments have given their prior consent and the federal states have formally notified the EU Commission of the replenishment. The subsequent principal inquiry proceedings of the EU Commission are expected to continue into 2014.

The increased second loss guarantee and additional measures implemented to **improve the capital ratios** give us the flexibility in the current environment to expand the customer business as planned, to further strengthen the position of the Core Bank in the markets and to allow the Bank to adapt in good time to the increasing regulatory requirements (Basel III). We are also improving our risk profile by focusing on high quality new business as well as the targeted reduction of legacy portfolios.

The factors that influenced business performance in the first three months of the current year are set out in the “Earnings situation”, “Net assets and financial position” and “Segment results” chapters below.

EARNINGS SITUATION

Significant increase in total income in the first quarter

The individual income items were characterised by the following developments in the reporting year:

Net interest income amounted to € 260 million in the past quarter and was therefore slightly below the level in the same period in the previous year (€ 265 million), which was in line with our expectations. Net interest income benefited from risk commensurate interest margins obtained on new business and loan prolongations. However, the decrease in the interest-bearing loan volume particularly as a result of the on-going winding down of risk positions had an adverse impact at the Overall Bank level. The once again lower level of interest rates also had a negative impact on net interest income. **Net commission income** recorded a substantial increase to € 32 million compared to € 24 million in the same period in the previous year. Higher loan fees received on new business transacted in the customer departments contributed to the positive development.

Net trading income improved clearly to € 62 million compared to € – 203 million in the same period of the previous year. The burden resulting from the measurement of interest rate/currency derivatives (EUR/USD basis swaps) used to refinance foreign currency transactions was eased significantly. This had the most significant effect on increased income. Furthermore, declining risk premiums on high risk debt instruments held in the portfolio resulted in positive measurement effects at the end of the first quarter. This applied particularly to Southern European government and bank securities held by the Restructuring Unit.

Net income from financial investments increased slightly to € 68 million compared to € 67 million in the previous year. The positive movement in the value of debt instruments is reflected in the results for the first quarter 2013. Reversals of impairment losses in an ABS portfolio managed by the Restructuring Unit due to the recovery of the US residential housing market had a significant impact. In the previous year net income from financial investments had benefited primarily from sales of non-strategic investments.

Overall, for the first quarter of the year, total income amounted to € 417 million (previous year: € 137 million).

As at 31 March 2013 **other operating income** was € 34 million. This includes the contribution made by the sale of land and buildings according to plan as part of the reduction of total assets. The previous year income of € 284 million includes one-off income arising from the repurchase of publicly placed subordinated bonds (€ + 261 million).

Higher loan loss provisions reflect the weak market environment

The Bank reports a negative result of € – 133 million in the **loan loss provisions** item for the first three months of 2013, compared to € – 43 million for the same period in the previous year. This increase is mainly caused by the on-going crisis in the shipping sector and the associated deterioration in the risk parameters in this sector. Accordingly, the legacy commitments in the Bank's shipping portfolios account for the largest proportion of the higher need for impairment losses. The loan loss provisions in the legacy European real estate and corporates loan portfolios in the Restructuring Unit also had to be increased. Furthermore, the foreign currency translation of the loan loss provisions had a negative impact of € – 42 million. The loan loss provision expense was offset by payments received on previously written down/impaired receivables in the amount of € + 29 million.

In the first quarter 2013 the loan loss provisions of the Bank were again reduced by the **second loss guarantee** provided by the federal states of Hamburg and Schleswig-Holstein, as the impairment losses had to be recognised mainly in the legacy portfolios that are covered by the guarantee and are compensated by this on the balance sheet as scheduled. Overall, for the first quarter of the year, expenses for loan loss provisions were reduced by € 174 million (compensation item). The additional premium for the guarantee in the amount of € – 65 million, which had been imposed on the Bank by the EU Commission as part of the state aid proceedings concluded in 2011 is included in this amount.

The claim of the guarantors, Hamburg and Schleswig-Holstein, in respect of the additional premium that was deferred in previous periods in return for a debtor warrant **(capital protection clause)** was revived in part in the first quarter 2013 in accordance with the EU requirements regarding the core Tier 1 capital ratio. However, this did not have any material impact on earnings.

The hedging effect of the guarantee did not result in a **cash draw down** as at 31 March 2013. The amount retained by the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 513 million as at the end of the quarter (losses submitted for invoicing).

LOAN LOSS PROVISIONS
(€ m)

	January – March 2013	January – March 2012
– Expenses from allocations to loan loss provisions	623	554
+ Income from reversal of loan loss provisions	247	272
Subtotal	**–376**	**–282**
– Expenses from allocations to provisions in the lending business	116	24
+ Income from reversal of provisions in the lending business	203	55
Subtotal	**87**	**31**
– Direct write-downs	5	9
+ Payments received on loans and advances previously written down	29	31
Subtotal	**24**	**22**
+ Foreign currency income from loan loss provisions denominated in foreign currency	–42	55
Total before compensation	**–307**	**–174**
+ Compensation item	174	131
Total	**–133**	**–43**

Cost-cutting measures take effect

The consistent implementation of our programme for reducing the cost base continues to be effective. We were able to reduce **administrative expenses** (personnel and operating expenses including depreciation) by € 27 million to € – 172 million (previous year: € – 199 million). Personnel expenses decreased by € 10 million to € – 84 million. This is attributable to the further decrease in the number of employees as a result of the advanced stage of the headcount reduction process. Compared to the end of 2012, headcount within the Group declined by another 132 to 2,991 (computed on a full-time equivalent (FTE) basis). Savings made by the continuous reduction of the network of foreign branches and equity holdings are reflected amongst other things in the movement in operating expenses, which were reduced by € 11 million to € – 78 million.

Decrease in restructuring expenses

The **result from restructuring** of € – 7 million (previous year: € – 6 million) includes costs for the implementation of various projects as part of the on-going restructuring of HSH Nordbank.

Guarantee expense reduced in the first quarter

Expenses for government guarantees amounted to € – 70 million for the first three months and are solely attributable to the second loss guarantee provided by the federal states of Hamburg and Schleswig-Holstein. Additional expenses for guarantees issued by the Financial Market Stabilisation Fund (SoFFin) were recorded in the same quarter in the previous year (€ – 80 million). In July 2012, the Bank repaid its last SoFFin guaranteed bond of € 3 billion as scheduled, which means that no fees for SoFFin guarantees have to be paid since then.

Net income before taxes reaches € 69 million

In total, developments during the first three months of 2013 resulted in **net income before taxes** in the amount of € 69 million compared to € 93 million for the same period in the previous year. After taking into account income tax effects in the amount of € 4 million (previous year: € 31 million), a positive **Group net income** of € 73 million (previous year: € 124 million) remains.

Expenses for the second loss guarantee to date

Since April 2009 the Bank has recorded premium expense totalling more than € 2.8 billion for the provision of the second loss guarantee, of which approximately € 1.4 billion is attributable to the base premiums paid to the guarantors, approximately € 0.5 billion to an additional one-off payment made in 2011, which was re-injected into the Bank as part of a capital increase, and approximately € 0.9 billion to non-cash base and additional premiums recognised through profit or loss.

NET ASSETS AND FINANCIAL POSITION

Total assets decrease as a result of the further reduction in risk

The stepping up of the winding down of risk positions was also reflected in a further reduction of total assets to € 124,847 million (31 December 2012: € 130,606 million).

Loans and advances to customers declined slightly to € 79,068 million (31 December 2012: € 80,570 million). This was mainly attributable to the continued reduction of the non-strategic lending business, which was partly offset by the new business volume. **Loans and advances to banks** declined primarily as a result of a reduction in reverse repo transactions to € 7,190 million (31 December 2012: € 8,353 million). **Total loan loss provisions** decreased slightly to € – 3,481 million (31 December 2012: € – 3,581 million) after taking the deduction of the compensation item on the asset side into account. The **cash reserve** decreased by € 1,276 million to € 5,469 million compared to the end of the previous year. This is attributable inter alia to the termination of repurchase transactions as part of the management of the liquidity position.

Liabilities to customers increased to € 42,866 million due to higher demand and fixed-term deposits from customers (31 December 2012: € 41,308 million). In contrast, **liabilities to banks** declined as a result of the reduction in repo transactions to € 25,121 million (31 December 2012: € 29,934 million). **Securitised liabilities** reduced to € 29,850 million (31 December 2012: € 31,459 million), as the volumes of new securitised liabilities was more than offset by maturities. **Equity** increased to € 5,399 million (31 December 2012: € 5,272 million). This was attributable to the Group net income for the first quarter and the increase in the revaluation reserve caused by the positive changes in the value of financial instruments classified as AfS.

Compared to the end of the previous year the **business volume** decreased to € 132,463 million (31 December 2012: € 138,515 million). This is mainly attributable to the same effects that are also the reason behind the reduction in total assets.

Capital ratios stable as at 31 March 2013

REGULATORY CAPITAL RATIOS (TAKING INTO ACCOUNT THE INTERIM FINANCIAL RESULT AS AT 31 MARCH 2013 AND THE ADOPTION OF THE FINANCIAL STATEMENTS 2012 OF HSH NORDBANK AG)
(%)

	31.03.2013	31.12.2012
Equity ratio (solvency coefficient)	20.5	20.1
Total ratio / Regulatory capital ratio	19.5	19.1
Tier 1 capital ratio	13.5	13.2
Tier 1 capital ratio (including market risk positions)	12.6	12.3
Core Tier 1 capital ratio (including market risk positions)	10.0	9.9

REGULATORY CAPITAL RATIOS (WITHOUT TAKING THE INTERIM FINANCIAL RESULT AS AT 31 MARCH 2013 INTO ACCOUNT) [1)]
(%)

	31.03.2013	31.12.2012
Equity ratio (solvency coefficient)	19.0	18.6
Total ratio / Regulatory capital ratio	18.2	17.8
Tier 1 capital ratio	12.6	12.2
Tier 1 capital ratio (including market risk positions)	11.8	11.4
Core Tier 1 capital ratio (including market risk positions)	9.1	8.8

REGULATORY CAPITAL IN ACCORDANCE WITH KWG (GERMAN BANKING ACT) FOR SOLVENCY PURPOSES AND REGULATORY CAPITAL REQUIREMENTS PURSUANT TO THE GERMAN SOLVENCY REGULATION (SOLVV) (NOT TAKING THE INTERIM FINANCIAL RESULT AS AT 31 MARCH 2013 INTO ACCOUNT) [1)]
(€ bn)

	31.03.2013	31.12.2012
Regulatory capital pursuant to SolvV	10.9	10.8
of which: Tier 1 capital for solvency purposes	7.1	7.0
Total risk assets (including market risks and operational risk)	60.0	61.0
of which: Risk assets counterparty default risk	53.4	53.1

1) Report pursuant to the German Solvency Regulation (SolvV).

The **core Tier 1 capital ratio** increased to 10.0 % (31 December 2012: 9.9 %) and therefore remained significantly above the regulatory minimum ratio and above the ratio of at least 9 % stipulated by the European banking supervisor as part of a stress test carried out last year. The other capital ratios also increased at the end of the first quarter. The Tier 1 capital ratio, including market risk positions, was 12.6 % (31 December 2012: 12.3 %) and the regulatory capital ratio reached 19.5 % (31 December 2012: 19.1 %). The figures take into account the interim financial statements as at 31 March 2013 and the adoption of the financial statements 2012 of HSH Nordbank AG.

The capital ratios were bolstered amongst other things by the continuing reduction of high risk legacy portfolios. On the other hand, the risk parameters continued to be adversely impacted by the difficult environment in individual markets. The somewhat weaker euro to the US dollar compared to the 2012 year end also had a negative impact on the ratios.

Funding during the first quarter

We have also continued to implement our **diversified funding strategy** for the refinancing of our business. In the first quarter our market activities included the issuing of Pfandbriefe (covered bonds) on the capital markets, the conclusion of asset-based funding transactions and the sale of bond products within the customer business of the savings banks. We were also able to increase product sales outside the savings bank sector. In total, the volume of issues placed for the first quarter is above the Bank's target.

In March we exploited the favourable market conditions and issued a **public Pfandbrief** in the amount of € 500 million with a term of three years on the capital markets. The Pfandbrief was increased to € 750 million at the beginning of April. There was a wide demand for the Pfandbrief issue among both domestic and foreign institutional investors. We want to utilise the public capital markets again during the course of the year when market conditions are attractive. Two securities-based USD repo transactions with longer maturities contributed to the expansion of **asset-based funding.**

In addition to the successful issue activity, the Bank has a stable portfolio of **fixed-term and demand deposits** from corporate clients, banks and other institutional investors. It was possible to slightly extend the average term of the deposits in the first quarter.

We achieved a good figure at the quarter end for the minimum liquidity ratio, the so-called **liquidity coverage ratio (LCR),** which reflects the short-term liquidity profile of banks. At 178 % (preliminary) we were clearly above the figure of 100 that will be required in future under Basel III.

Exposure to selected European countries

Due to the deterioration in their fiscal and economic data, a number of European countries are subject to increased monitoring. In addition to the members of the eurozone – Portugal, Ireland, Italy, Greece and Spain – Cyprus is also being specially monitored for the first time as at the balance sheet date.

The exposure to Cyprus relates solely to corporate clients, primarily from the shipping sector. However, HSH Nordbank had no exposure to the State of Cyprus and Cypriot banks as at the reporting date.

The following table shows our exposure to the European countries mentioned as at 31 March 2013.

IFRS CARRYING AMOUNTS FOR SOVEREIGN EXPOSURE TO SELECTED EUROPEAN COUNTRIES
(€ m)

	Country		Banks		Corporates/Other		Total	
	31.03.2013	31.12.2012	**31.03.2013**	31.12.2012	**31.03.2013**	31.12.2012	**31.03.2013**	31.12.2012
Greece	3	2	–	–	1,381	1,351	1,384	1,353
Ireland	–	–	154	156	300	319	454	475
Italy	594	602	131	125	736	737	1,461	1,464
Portugal	261	257	3	3	51	52	315	312
Spain	169	173	1,272	1,333	1,241	1,296	2,682	2,802
Cyprus	–	–	–	–	1,600	1,468	1,600	1,468
Total	**1,027**	**1,034**	**1,560**	**1,617**	**5,309**	**5,223**	**7,896**	**7,874**

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO MARCH 2013

(€ m)

		Shipping, Project & Real Estate Clients	Corporates & Markets	Corporate Center	Consoli-dation Core Bank	Total Core Bank	Restruc-turing Unit	Consoli-dation Restruc-turing Unit	Total Restruc-turing Unit
Total income	**2013**	**167**	**95**	**5**	**2**	**269**	**165**	**–17**	**148**
	2012	172	104	–47	–133	96	248	–207	41
Loan loss provisions	**2013**	**–73**	**4**	**2**	**27**	**–40**	**–236**	**143**	**–93**
	2012	–11	–1	4	19	11	–163	109	–54
Net income before restructuring	**2013**	**37**	**42**	**33**	**27**	**139**	**–119**	**126**	**7**
	2012	108	44	225	–118	259	18	–98	–80

New segment structure

We **adjusted the segment structure in the Core Bank** as part of the reorganisation of the responsibilities of the Management Board. The new segment Shipping, Project & Real Estate Clients (former Corporate and Private Clients segment) includes the asset- and project-based business conducted with shipping clients, real estate clients and clients in the energy & infrastructure industry. In addition to the Products and Capital Markets product areas the new Corporates & Markets segment (formerly Products, Capital Markets and Corporate Center) also contains the Corporates and Private Banking customer departments, which were previously part of the Corporates and Private Clients segment. Furthermore, the new division, Savings Banks and Institutional Clients, will be assigned to this segment, in which we will continue to expand our business with these important customer groups.

The Corporate Center as a separate segment includes the corporate division and service departments as well as the positions of the Overall Bank including strategic investments. Results not allocated to divisions are still reported in the consolidation columns of the Core Bank and the Restructuring Unit.

The new segment structure takes effect as at 1 January 2013; the corresponding previous year figures were adjusted to the new structure to enhance comparability.

Core Bank generates profits

We are disclosing net income before restructuring of € 139 million for the **Core Bank** as at 31 March 2013 compared to net income of € 259 million for the same period in the previous year, which benefitted from the repurchase of subordinated bonds (including consolidation effects in each case). Higher loan loss provision expense had also to be recognised on shipping commitments in the first quarter 2013. Net income was positively affected by the new business concluded with customers in past quarters. The positive income effects generated by new business however, were offset by transfers of interest-bearing transactions from Shipping, Energy and Corporate Clients to the Restructuring Unit made as part of the streamlining of the Core Bank portfolios in 2012.

Our new business activities focused on high quality commitments, through which we have further improved the earnings and risk profile of the Core Bank portfolio. At the same time we were able to achieve risk commensurate margins in the market and acquire new customers outside our core region of Northern Germany. The volume of new business transacted in the first quarter 2013 amounted to € 1.1 billion, which was at virtually the same level as in the same period in the previous year (€ 1.2 billion). A restrained demand for loans was apparent against the backdrop of a weak economic environment and the good financial position of many corporate clients. We expect – in line with the trend in previous years – that new business will increase over the remaining course of the year. The results of the individual segments are explained below.

New business generated in previous quarters and the margin increases achieved had a positive impact on the income of the **Shipping, Project & Real Estate Clients segment.** Total income of € 167 million for the Shipping, Project & Real Estate Clients segment was slightly below the level of the same period in the previous year (€ 172 million).

The loan loss provisions of the Shipping, Project & Real Estate Clients segment was marked by the higher loan loss provision expense for existing shipping commitments, through which we took account of the continued extremely difficult situation in the shipping markets. As the worldwide transport capacity has continued to increase more strongly than the demand for transport by ship, the freight and charter rates as well as ship values also remained under pressure in the first quarter 2013 and at historically low levels. The situation of many companies in the sector deteriorated further as a result.

By contrast, loan loss provisions previously recognised for real estate clients in the Core Bank were released. The need for loan loss provisions in the area of Energy & Infrastructure was very low. Due to valuation allowances in the shipping portfolio loan loss provision expense in the Shipping, Project & Real Estate Clients segment increased to € – 73 million compared to € – 11 million in the same period in the previous year.

As a result of the higher loan loss provisions in Shipping net income of € 37 million for the Shipping, Project & Real Estate Clients segment was below the previous year amount (€ 108 million) despite almost stable revenues.

In the **Corporates & Markets segment** lending activities with corporates as well as capital market activities and product sales generated income € 95 million (previous year: € 104 million).

The Corporates division made a significant contribution to the Bank's new business through the risk commensurate margins obtained. The relatively robust developments in the industry sectors relevant for our corporates business allowed loan loss provisions in this segment to be reversed in the first quarter.

Income for the Capital Markets area including business conducted with savings banks and institutional clients was marked by the sale of the capital market-based product range, especially in the savings bank sector. At the same time restrained customer demand in the interest rate derivative business resulting from the very low level of interest rates was apparent. Especially, the management of the liquidity position and fixed-income securities portfolio had a positive effect in the capital markets business.

In total, net income for the Corporates & Markets segment amounted to € 42 million (previous year: € 44 million).

Net income for the **Corporate Center segment** amounted to € 33 million as at 31 March 2013. The repurchase of publicly placed subordinated bonds had a positive effect on the result of the previous year (€ 225 million) generating income of € 261 million.

Reduction of risk accelerated in the Restructuring Unit

We were able to continue to wind down non-strategic loan and capital markets transactions in the **Restructuring Unit.**

In order to further reduce the risk in the shipping portfolio HSH Nordbank together with the Navios Group, an international shipping enterprise, has developed an innovative financing approach. In a first planned transaction the shipping companies of the Navios Group take over a portfolio of ten ships amounting to a loan volume of about USD 300 million. In return, Navios pays approximately USD 130 million to HSH Nordbank and ensures the operating of the ships for at least six years. The remaining amount of about USD 170 million is converted into a subordinated loan in favour of HSH Nordbank, which is financed by the revenues generated by the ships over a period of ten years. This enables the Bank to participate in a recovery in the shipping markets and to be repaid the debt capital it originally provided. The Bank is currently preparing further transactions using this approach in order to markedly reduce the loan volume in the shipping portfolio.

Additional loan loss provisions had to be recognised for loans in the Restructuring Unit in the first quarter in view of the persistent difficult conditions in the shipping sector as well as other markets, such as the European real estate sector. Additions to loan loss provisions for the segment amounted in total to € – 236 million compared to € – 163 million in the same period of the previous year.

Total income for the segment decreased to € 165 million compared to € 248 million in the previous year. On the other hand, measurement effects had a positive impact on the capital markets portfolios in the Restructuring Unit, as spreads on high risk debt instruments declined significantly due to the improved market sentiment. European government and bank bonds in particular benefited from this trend. Total income for the Restructuring Unit amounted to € – 119 million (previous year: € 18 million).

Net income before restructuring for the Restructuring Unit, including positive consolidation effects in the first quarter, improved to € 7 million (previous year: € – 80 million) primarily as a result of the significantly lower level of charges relating to EUR/USD basis swaps and positive effects from the balance sheet hedging effect of the second loss guarantee.

OUTLOOK

The forward-looking statements contained in this financial information are based on assumptions and conclusions based on information currently available to us. The statements are based on a series of assumptions that relate to future events and are incorporated in our corporate plan. The occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are outside our control. Therefore actual results may differ materially from the following forward-looking statements. There is still significant uncertainty particularly in relation to the estimate of loan loss provisions over the long term.

Planned replenishment of the guarantee ensures appropriate capital ratios under Basel III

We will continue to consistently implement our **strategy programme** over the remaining course of the year and establish our business model in the markets. We will continue to press ahead, amongst other things, with the reduction of risk positions whilst minimising losses. In the area of new business we want to further improve our risk/earnings profile in the Core Bank by focusing on high quality commitments and boosting sales of our range of services. We aim to have our realignment programme completed by 2014 and the Bank organised on a sustainable competitive and profitable basis.

Nonetheless, we will also be faced with a challenging environment over the coming months. The persistent economic weakness is still likely to have a dampening effect on business performance. Furthermore, the situation in the shipping sector in particular is still extremely tense and it is not expected that there will be a noticeable market recovery over the remaining course of the year. We will therefore continue to concentrate on the management of the loan portfolios affected and additional measures in order to reduce the risk potential for the Bank and to ensure that appropriate capital ratios are maintained on a sustained basis. In this respect, the planned **replenishment of the guarantee** to the original amount of € 10 billion will prove to be especially effective in terms of ensuring the Bank as a going concern. The governments of Hamburg and Schleswig-Holstein gave their consent to this measure in March 2013 and have agreed with the EU Commission the further approach to be adopted with regard to the approval of the guarantee increase. We are seeking to obtain preliminary approval from the EU Commission by the end of June after the regional parliaments have given their consent and the EU Commission has been formally notified of the replenishment. The subsequent principal inquiry proceedings of the EU Commission are expected to continue into 2014.

The increase in the second loss guarantee and additional measures implemented to **improve the capital ratios** give us the flexibility in the current environment to further expand the customer business, to further strengthen the position of the Core Bank in the target markets and to allow the Bank to adapt in good time to the Basel III regulatory requirements. The rating agency **Moody's** has announced that it will review the most recently confirmed long-term rating of HSH Nordbank of Baa2 again after the guarantee increase has been implemented. Moody's is assuming that the rating of the Bank will still be in the investment grade area. The rating agency Fitch has confirmed the long-term rating of the Bank at A– with stable outlook. Nevertheless, the most recent assessments of the rating agencies confirm the challenges relating to a diversified strategy for long-term funding via the capital markets as well as the great importance of the support provided by the federal states and the necessity to implement effective measures to ensure appropriate capital ratios.

We are still assuming that a loss will be recorded at the Group level for the **full year** despite the Bank's positive Group results. The high level of loan loss provisions required for high risk legacy portfolios is the key driver behind this. The additional fee expense for the planned replenishment of the guarantee is also reflected in the results. We expect to be able to again disclose a profit from **2014,** which is likely to be driven not least by a reduction in the loan loss provision expense in expectation of slowly recovering markets and by the risk-conscious expansion of our new business.

Further details on our expectations for 2013 and 2014 as well as the going concern assumptions applied are set out in the Outlook section of our **2012 Group Management Report.**

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IMPRINT

Design and realisation
HGB Hamburger Geschäftsberichte
GmbH & Co. KG, Hamburg, Germany

Printed by
HSH Facility Management GmbH, Hamburg, Germany

Note
If at times only the masculine form is used for certain terms relating to groups of people, this is not meant in a gender-specific manner, but occurs exclusively for the sake of better readability.

This financial information was published on 7 June 2013 and is available for download at www.hsh-nordbank.com.

This is an English translation of the original German version of the financial information.

Forward-looking statements
This financial information includes certain forward-looking statements. These statements are based on our beliefs and assumptions as well as on conclusions drawn from information currently available to us from sources which we consider to be reliable. A forward-looking statement involves information that does not simply reflect historical facts, including information relating to possible or anticipated future growth and future economic development.

Such forward-looking statements are based on a number of assumptions concerning future events and are subject to uncertainties, risks, and other factors, many of which are beyond our control. Therefore actual events may differ considerably from those forecast in the forward-looking statements. In view of this, you are advised never to rely to an inappropriate degree on forward-looking statements. We cannot accept any liability for the accuracy or completeness of these statements or for the actual realisation of forecasts made in this financial information. Furthermore, we are not obliged to update the forward-looking statements following publication of this information. In addition, information contained in this financial information does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

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