



STRONG FOR ENTREPRENEURS

FINANCIAL INFORMATION

as at 30 September 2013

KEY FIGURES

INCOME STATEMENT

(€ m)

	January – September 2013	January – September 2012
Net income before restructuring	165	283
Net income before taxes	–132	23
Group net result	–104	–41

BALANCE SHEET

(€ bn)

	30.09.2013	31.12.2012
Equity	5.2	5.3
Total assets	115.7	130.6
Business volume	123.6	138.5

CAPITAL RATIOS

(%)

	30.09.2013	31.12.2012
Tier 1 capital ratio ¹⁾	16.1	12.3
Core Tier 1 capital ratio ¹⁾	12.1	9.9
Regulatory capital ratio ¹⁾	25.2	19.1
Pro-forma leverage ratio ²⁾	4.7	5.1

EMPLOYEES

(computed on a full-time equivalent basis)

	30.09.2013	31.12.2012
Total	2,870	3,123
Germany	2,634	2,821
Abroad	236	302

LONG-TERM RATINGS

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

¹⁾ Including market risk positions; taking into account the interim financial statements as at 30 September 2013 and the adoption of the annual financial statements 2012 of HSH Nordbank AG.

²⁾ The leverage ratio is a key ratio that is not risk weighted and compares the Tier 1 capital to regulatory adjusted business volume. The leverage ratio is determined on a pro-forma basis taking the rules applicable as at 1 January 2014 into account.

³⁾ Liabilities covered by the guarantor liability (Gewährträgerhaftung).

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.

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Note:

This Financial Information as at 30 September 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 30 September 2013

INCOME STATEMENT

(€ m)

	January – September 2013	Following adjustment ¹⁾ January – September 2012	Change in %
Interest income	4,682	6,990	-33
Interest expense	-3,869	-6,199	-38
Net income from hybrid financial instruments	-106	317	>-100
Net interest income	707	1,108	-36
Net commission income	73	75	-3
Result from hedging	11	10	10
Net trading income	133	-339	>100
Net income from financial investments	247	175	41
Net income from financial investments accounted for under the equity method	-13	-12	-8
Total income	1,158	1,017	14
Loan loss provisions	-486	-458	6
Administrative expenses	-543	-558	-3
Other operating income	36	282	-87
Net income before restructuring	165	283	-42
Result from restructuring	-18	-29	38
Expenses for government guarantees	-279	-231	21
Net income before taxes	-132	23	>-100
Income taxes	28	-64	>-100
Group net result	-104	-41	>-100
Group net result attributable to non-controlling interests	-2	-1	-100
Group net result attributable to HSH Nordbank shareholders	-102	-40	>-100

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

BALANCE SHEET**ASSETS**

(€ m)

	30.09.2013	31.12.2012	Change in %
Cash reserve	7,877	6,745	17
Loans and advances to banks	5,130	8,353	-39
Loans and advances to customers	72,288	80,570	-10
Loan loss provisions	-3,448	-3,581	-4
Positive fair value of hedging derivatives	1,391	2,170	-36
Positive adjustment item from portfolio fair value hedges	163	403	-60
Trading assets	8,843	11,817	-25
Financial investments	20,514	22,067	-7
Financial investments accounted for under the equity method	9	-	-
Intangible assets	50	65	-23
Property, plant and equipment	193	260	-26
Investment property	71	39	82
Non-current assets held for sale and disposal groups	828	186	> 100
Current tax assets	54	105	-49
Deferred tax assets	1,393	1,267	10
Other assets	372	140	> 100
Total assets	115,728	130,606	-11

LIABILITIES

(€ m)

	30.09.2013	31.12.2012	Change in %
Liabilities to banks	20,277	29,934	-32
Liabilities to customers	43,290	41,308	5
Securitised liabilities	28,990	31,459	-8
Negative fair values of hedging derivatives	944	943	-
Negative adjustment item from portfolio fair value hedge	1,027	1,545	-34
Trading liabilities	7,827	11,450	-32
Provisions	1,514	1,664	-9
Liabilities relating to disposal groups	-	183	-100
Current tax liabilities	44	108	-59
Deferred tax liabilities	69	14	> 100
Other liabilities	1,194	1,335	-11
Subordinated capital	5,342	5,391	-1
Equity	5,210	5,272	-1
Share capital	3,018	3,018	-
Capital reserve	594	594	-
Retained earnings	1,758	1,876	-6
Revaluation reserve	7	-31	> -100
Currency conversion reserve	-60	-59	2
Other net income from financial investments accounted for under the equity method	3	-	-
Group net profit/loss	-102	-120	-15
Total before non-controlling interests	5,218	5,278	-1
Non-controlling interests	-8	-6	33
Total equity and liabilities	115,728	130,606	-11

BUSINESS DEVELOPMENTS

as at 30 September 2013

OVERVIEW OF BUSINESS PERFORMANCE

Positive developments in the core business overshadowed by loan loss provisions and guarantee fees

In the first nine months of 2013 we made major progress in **implementing our focussed business model**. Despite a difficult environment we were able to successfully increase our **new business** and thereby reinforce the solid positioning of our core business areas in the markets. At the same time the **legacy portfolios** in the Restructuring Unit were wound down at a faster pace, thereby noticeably further reducing the risk positions of HSH Nordbank and the proportion of the assets held by the Restructuring Unit to the total assets of the Bank. The **replenishment of the guarantee facility** by the main shareholders in the middle of the year resulted in a significant increase in the capital ratios, through which we have created a good basis for meeting the increasing regulatory challenges and at the same time improved our flexibility for the further restructuring of the Bank. At the same time this has resulted in the guarantee premiums increasing again.

The **EU Commission** provisionally approved the replenishment of the guarantee in June and initiated a formal review process, which can probably be concluded in 2014. Discussions with representatives of the EU Commission are being conducted in a constructive atmosphere.

Despite the noticeable progress made at the operating level, increased income and reduced administrative expenses, the Bank is reporting, as expected, a **net loss before taxes** for the nine months ending 30 September 2013. This amounted to € - 132 million compared to net income of € 23 million for the same period in the previous year, which was characterised by special effects (revaluation of hybrid instruments € + 439 million, repurchase of subordinated bonds € + 261 million). This loss is largely attributable to, firstly, the additional loan loss provision measures taken in respect of shipping loans and, secondly, the significantly higher guarantee expense for the replenished guarantee. The **Core Bank**, in which the strategic business areas are bundled, was once again able to generate a positive result with net income before taxes of € 139 million. Together with the also positive result for the third quarter, the Core Bank has now been profitable for five successive quarters. The **Restructuring Unit**, which is focussed on reducing the legacy assets, recorded a loss of € - 271 million. Net income of HSH Nordbank (excluding restructuring expenses and expenses for government guarantees) amounted to € 165 million compared to € 283 million in the previous year.

Total income increased to € 1,158 million in the first nine months compared to € 1,017 million in the previous year. Net interest income, after being adjusted for the net income from hybrid financial instruments (positive effect of € + 439 million arising on the revaluation of hybrid instruments), increased slightly, although interest income generated in previous periods was eliminated by the sharp reduction in interest-bearing balance sheet positions. The growth in new business together with improved margins and loan prolongations contributed to the increase in net interest income. Total income also clearly benefited in light of the easing of tensions in the capital markets from reversals of impairment losses and sales of debt instruments as well as lower negative valuation effects on EUR/USD basis swaps and disposals of individual equity holdings.

Our **new business** with customers was markedly higher in recent months against the general market trend of a restrained demand for loans and increased in the first three quarters to € 4.9 billion compared to € 4.5 billion in the same period in the previous year. The third quarter accounted for € 2.2 billion of this after € 1.6 billion in the second quarter and € 1.1 billion in the first quarter. Both the earnings situation and the risk profile of the Core Bank, especially in the corporates and real estate business, were further improved by the closing of high-value transactions with adequate margins. About 37 % of the total new business transacted in the first nine months related to our core region of North Germany, where HSH Nordbank acts as an important pillar for the supply of credit to the local economy. With regard to a regional and industrial diversification we concluded 45 % of the remainder of the new business with clients based in other German regions and 18 % with clients abroad.

In the first nine months of 2013 we have continued to increase the **loan loss provisions** according to plan. We have taken account of the deterioration in the credit quality of the shipping portfolio in particular by recognising additional loan loss provisions. In the first nine months these related mainly to the legacy portfolios, which are covered by the second loss guarantee issued by the federal states of Hamburg and Schleswig-Holstein. After taking the relief provided by the guarantee into account the Bank recorded loan loss provision expense of € - 486 million compared to € - 458 million in the first three quarters of the previous year. The high additions to the loan loss provisions for the legacy loans in the ship financing area are contributing to the continued high level of risk hedging of the problem portfolios.

In addition to the increase in income, the reduction in personnel and operating expenses had a positive impact on the earnings of the Bank. Despite burdening special effects **administrative expenses** were decreased further to € - 543 million (previous year: € - 558 million) through savings made in operating expenses and the continued reduction in headcount. The number of employees – calculated on an FTE basis – declined to 2,870. This represents a reduction of 253 compared to the 2012 year end.

On the other hand, the replenishment of the guarantee from € 7 billion to € 10 billion which took place in the middle of the year entails higher costs. This resulted in the third quarter in an additional **guarantee expense** for the Bank, which increased as a result by a total of € 48 million to € - 279 million for the first nine months. The previous year amount of € - 231 million includes fees of € - 18 million for guarantees of the Financial Market Stabilisation Fund (SoFFin), which phased out in the previous year. Starting from 2014, a review taking into account the progress made in reducing the high risk legacy portfolios will be carried out periodically in the future to determine to what extent the guarantee can be gradually reduced.

The Bank was able to slightly improve its **capital ratios** again in the third quarter at a high level. This was mainly attributable to the active reduction of high-risk loan portfolios. The capital ratios are also clearly benefiting from the replenishment of the guarantee implemented in the middle of the year, which resulted in a significant reduction in default risk and consequently in the risk assets. The claim of the guarantors relating to an additional premium for the guarantee, which is in accordance with the EU requirements, had an opposite effect on the ratios. The risk parameters in the Shipping division also continued to have a negative impact. The classical Tier 1 capital ratio improved from 12.3 % to 16.1 %. The core Tier 1 capital ratio increased to 12.1 %; it is therefore clearly above the banking supervision requirements as at 30 September. Furthermore, there is a **buffer** for the ratio of about 4.6 % resulting from the potential waiver of the claim of the guarantors relating to the additional premium, which is in accordance with the EU requirements. The claim would be deferred again in return for a debtor warrant if the payment of the additional premium were to result in the reduction of the core Tier 1 capital ratio to below 10 %. The de facto core Tier 1 capital ratio is thus 16.7 %, which is high compared to our peers.

With the sharply improved capital ratios we have created a good basis for meeting the coming regulatory challenges. In addition to the implementation of Basel III at the beginning of 2014, focus is being placed over the coming months on the “**comprehensive assessment**” of banks already started by the ECB in advance of the creation of a single supervisory mechanism in the eurozone, which represents a significant challenge for the banks concerned and will require a substantial use of resources. As announced, the purpose of the assessment that is to last until October 2014 is to create transparency in respect of the material risks and asset quality in the banking sector, to investigate the resilience of the institutions under a stress test and to identify on this basis any additional capital required by the banks assessed. As things stand at present, a core Tier 1 capital ratio of 8% will be required according to the Basel III transitional rules that come into force next year. From today’s perspective, the anticipated Basel III ratio of HSH Nordbank is significantly above the minimum threshold set by the supervisory authorities taking into account the changeover to determining capital in accordance with IFRS and the expected guarantee fee expense.

The substantial reduction in risk positions over recent months is reflected in the Bank’s **total assets** as at 30 September 2013. Compared to the 2012 year end, these decreased significantly by € 15 billion to € 116 billion.

In detail, the factors that influenced business performance are set out in the “Earnings Situation”, “Net Assets and Financial Position” and “Segment Results” chapters below.

EARNINGS SITUATION

Total income increased

The increase in total income for the first nine months to € 1,158 million compared to € 1,017 million in the previous year was attributable to the following factors:

Net interest income benefited from the growth in new business disbursed and the positive margin trend compared to the previous year. Adjusted for the net income from hybrid financial instruments (a revaluation of hybrid financial instruments had a positive effect of € 439 million in the previous year) net interest income increased slightly compared to the same period in the previous year. However, net interest income was adversely impacted by the accelerated reduction of high-risk legacy portfolios, whereby net interest income declined. Taking into account the net income from hybrid financial instruments net interest income in total amounted to € 707 million (previous year: € 1,108 million).

Net commission income of € 73 million was virtually unchanged from the previous year level of € 75 million. Whereas net commission income benefited from new business transactions, it was adversely impacted on the other hand by higher expenses for transactions executed on the capital markets.

Net trading income improved clearly to € 133 million (previous year: € - 339 million). The burden resulting from the measurement of interest rate/currency derivatives (EUR/USD basis swaps) used to refinance foreign currency transactions was eased, providing the strongest impact on increasing net trading income. Lower expenses were also recorded on the valuation of own liabilities measured at fair value. A further positive effect resulted from the reduction in counterparty risk in the derivatives area. High-risk securities positions also benefited noticeably from the improved environment in the financial markets. As at the reporting date, lower risk premiums were

accordingly accompanied by positive measurement effects, especially in our credit investment portfolio (CIP), which is managed by the Restructuring Unit. The effects in the CIP were reflected in both net trading income and net income from financial investments.

The Bank was able to increase **net income from financial investments** to € 247 million compared to € 175 million in the previous year. This mainly reflects the positive change in the fair value of debt instruments. Reversals of impairment losses in the CIP mainly due to the recovery of the US residential housing market had a significant influence. However, the positive income effect in the CIP was mainly diluted by the compensation effect of the second loss guarantee in the case of reversals of impairment losses on positions covered by the guarantee, which had been written down in previous periods (disclosure in loan loss provisions). In addition to realised and measurement results from securities positions disposals of individual equity holdings made a positive contribution to earnings, albeit to a lesser extent than in the previous year.

Total income from the CIP (allocated to the Restructuring Unit) amounted to € 138 million after taking the compensation effect into account.

The **other operating income** of € 36 million (previous year: € 282 million) is characterised by various one-off effects. A gain on the disposal of assets of a consolidated company, the sale of land and buildings as part of the balance sheet reduction process as well as reversals of provisions amongst other things had a positive impact. On the other hand, amortisation of the goodwill on a new company included in the scope of consolidation had a negative effect. The previous year income includes one-off income arising from the repurchase of publicly placed subordinated bonds (€ + 261 million).

Loan loss provisions influenced by the shipping industry crisis

We report an amount of € – 486 million in the **loan loss provisions** item for the first nine months of 2013, compared to € – 458 million for the same period in the previous year. The loan loss provisions continue to reflect the on-going crisis in the shipping sector and the associated deterioration in the relevant risk parameters in the shipping loan portfolio. We have taken account of the default risk in this area by recognising higher loan loss provisions for the legacy portfolios affected.

The higher loan loss provisions for shipping loans were offset by positive trends in other high-risk non-strategic portfolios as at the reporting date. For example, loan loss provision expense for international real estate and corporate loans in the Restructuring Unit was reduced compared to the previous year. This is attributable to the restructuring progress achieved and recovery trends in individual markets.

The loan loss provisions were reduced by € 82 million as a result of the foreign currency conversion. Recoveries on previously written-off and impaired receivables amounted to € 69 million.

LOAN LOSS PROVISIONS

(€ m)

	January – September 2013	January – September 2012
Result from changes in valuation allowances	-919	-946
Result from changes in provisions in the lending business	55	-12
Result from other changes in loan loss provisions	100	86
Result from changes in loan loss provisions before compensation	-764	-872
Compensation under the second loss guarantee	278	414
Total loan loss provisions	-486	-458

Valuation allowances relate primarily to **legacy portfolios**, which are covered by the **second loss guarantee** issued by the federal states of Hamburg and Schleswig-Holstein. The loan loss provisions recognised in the first nine months in the amount of € -764 million were therefore reduced by the guarantee. Loan loss provisions to be recognised on positions not covered by the guarantee are not compensated.

The **compensation effect** of the guarantee on the loan loss provisions was diminished by the additional premium payable for the reporting period (€ -160 million). The additional premium was imposed on the Bank by the EU Commission as part of the state aid proceedings concluded in 2011. The compensation was also reduced by € -71 million due to the reversal of impairment losses relating to hedged securities positions that were recognised in previous periods. Income resulting from the valuation of these securities is included under net income from financial investments and net trading income. After deducting these effects the guarantee effect is € 278 million (previous year: € 414 million), which resulted in the reduction in the loan loss provision expense to the disclosed amount of € -486 million as at the reporting date.

The compensation effect of the guarantee did not result in a **cash draw down** as at 30 September 2013. The agreed amount retained by the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 750 million as at the reporting date.

Administrative expenses reduced

Administrative expenses again benefited from the cost reductions achieved as part of the streamlining of the Bank's organisational structure. **Personnel expenses** decreased from € -275 million to € -247 million as a result of the ongoing reduction in headcount. Compared to the end of 2012, the number of employees within the Group declined by another 253 to 2,870 (computed on a full-time equivalent (FTE) basis). The reduction in **operating expenses** by € 4 million to € -231 million is reflected in lower building expenses and IT costs, amongst other things, which are offset by higher project and consultancy costs.

Depreciation of property, plant and equipment and amortisation of intangible assets increased to € -65 million (previous year: € -48 million). This includes unscheduled depreciation of € -35 million in consolidated companies.

We were able to further reduce **administrative expenses** (personnel and operating expenses including depreciation/amortisation) to € -543 million (previous year: € -558 million) despite unscheduled depreciation.

Administrative expenses include **costs** of € -13 million **incurred** on behalf of customers (e.g. legal opinions). These are offset by the corresponding reimbursements from customers that are recorded under other operating income. The contributions to the restructuring fund (**bank levy**), which are also recorded under administrative expenses, amounted to € -1 million for the first nine months.

The **result from restructuring** of € -18 million (previous year: € -29 million) includes costs for the implementation of various projects as part of our strategic realignment.

Guarantee expense increases as a result of the replenishment of the guarantee facility

Expenses for government guarantees increased by € 48 million to € - 279 million. The previous year amount of € - 231 million includes fees in the amount of € - 18 million relating to the SoFFin guarantees, which phased out in 2012. The reasons underlying the increase are the higher ongoing guarantee remuneration payable resulting from the replenishment of the guarantee facility from € 7 to € 10 billion and the portion of about € - 36 million of the special payment agreed for the guarantee increase attributable to the third quarter 2013. The special payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. The remaining special payment expense totalling about € - 239 million will be spread across the fourth quarter 2013 as well as the years 2014, 2015 and 2016 according to plan.

Net income before taxes

As a result of operating developments, the valuation effects as well as the restructuring and guarantee costs, a **net loss before taxes** of € - 132 million was recorded in the first nine months of 2013 compared to a net income before taxes of € 23 million in the same period of the previous year. Income taxes amounted to € 28 million as at 30 September 2013 (previous year: € - 64 million). This positive amount results from the recognition of deferred tax assets, which exceeded current income tax expenses as at the reporting date. This resulted in a Group net loss of € - 104 million (previous year: € - 41 million).

Expenses recorded to date for the second loss guarantee

Since April 2009 the Bank has recorded **premium expense** totalling approximately € 3,092 million in the income statement for the provision of the second loss guarantee, of which approximately € 1,588 million is attributable to the base and special premiums for previous periods. € 500 million is attributable to a one-off payment required by the EU Commission in 2011, which was re-injected into the Bank as part of a capital increase, and approximately € 1,004 million to base and additional premiums recognised in loan loss provisions. HSH Nordbank is thus making a substantial contribution to compensating its main shareholders, Hamburg and Schleswig-Holstein, for the aid provided by them.

NET ASSETS AND FINANCIAL POSITION

Total assets have decreased significantly

Total assets have decreased significantly to € 115,728 million as at 30 September 2013 as a result of the sharp reduction in risk positions (31 December 2012: € 130,606 million).

Lower loans and advances as well as trading assets in particular contributed to the reduction on the asset side.

Loans and advances to customers have decreased by some € 8 billion to € 72,288 million (31 December 2012: € 80,570 million). This was attributable to the continued reduction of the non-strategic lending business, which was only partly offset by the new business volume. **Loans and advances to banks** decreased primarily as a result of the reduction in hedged money market transactions to € 5,130 million (31 December 2012: € 8,353 million).

Trading assets decreased significantly to € 8,843 million (31 December 2012: € 11,817 million). Whereas interest-bearing securities held in the trading portfolio increased slightly, derivatives decreased significantly; this is attributable to portfolio changes and the trend in interest rates. **Total loan loss provisions** decreased slightly as at the reporting date 30 September 2013 to € - 3,448 million (31 December 2012: € - 3,581 million) after taking the deduction of the compensation item on the asset side into account. Excluding this effect, loan loss provisions would have increased slightly (€ - 5,694 million, 31 December 2012: € - 5,505 million).

Liabilities to customers increased to € 43,290 million due to higher demand deposits from customers (31 December 2012: € 41,308 million). **Liabilities to banks** decreased to € 20,277 million (31 December 2012: € 29,934 million). The main causes were a lower refinancing volume with central banks and fewer repo transactions. **Securitised liabilities** declined to € 28,990 million (31 December 2012: € 31,459 million), as the volume of new securitised liabilities was more than offset by maturities.

The slight reduction in **reported equity** to € 5,210 million (31 December 2012: € 5,272 million) is mainly attributable to the Group net loss of € – 102 million disclosed as at 30 September 2013.

The reduction in **business volume** to € 123,576 million compared to the previous year end (31 December 2012: € 138,515 million) is based on the reduction in key balance sheet line items and a slight decrease in off-balance sheet business.

Core Tier 1 capital ratio rises to 12.1%

REGULATORY CAPITAL RATIOS (TAKING INTO ACCOUNT THE INTERIM FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2013)

	30.09.2013	31.12.2012
Equity ratio (solvency coefficient)	27.6	20.1
Total ratio/Regulatory capital ratio	25.2	19.1
Tier 1 capital ratio	18.0	13.2
Tier 1 capital ratio including market risk positions	16.1	12.3
Core Tier 1 capital ratio including market risk positions (plus buffer from additional premium)	12.1 (+ 4.6%)	9.9

REGULATORY CAPITAL RATIOS (WITHOUT TAKING THE INTERIM FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2013 INTO ACCOUNT)¹⁾

	30.09.2013	31.12.2012
Equity ratio (solvency coefficient)	26.7	18.6
Total ratio/Regulatory capital ratio	24.5	17.8
Tier 1 capital ratio	17.5	12.2
Tier 1 capital ratio including market risk positions	15.6	11.4
Core Tier 1 capital ratio including market risk positions	11.7	8.8

REGULATORY CAPITAL (WITHOUT TAKING THE INTERIM FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2013 INTO ACCOUNT)¹⁾

	30.09.2013	31.12.2012
Regulatory capital pursuant to SolvV	9.1	10.8
of which: Tier 1 capital for solvency purposes	5.8	7.0
Total risk assets (including market risks and operational risk)	37.1	61.0
of which: Risk assets counterparty default risk	30.4	53.1

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

As at 30 September 2013 the reported capital ratios of HSH Nordbank are solid. The **core Tier 1 capital ratio** as at 30 September increased significantly to 12.1 % plus a buffer of 4.6 % resulting from the potential waiver of the claim of the guarantors in respect of the additional premium. The de facto core Tier 1 capital ratio is thus 16.7 %. The ratio is significantly above the banking supervisory minimum requirements and that of 9.9 % as at the 2012 year end. The other capital ratios also increased compared to the 2012 year end. The Tier 1 capital ratio (including market risk positions) was 16.1 % (31 December 2012: 12.3 %), the regulatory capital ratio reached 25.2 % (31 December 2012: 19.1 %). The figures incorporate the interim financial results as at 30 September 2013 and the adoption of the 2012 annual financial statements of HSH Nordbank AG.

Thanks to the relieving effect of the second loss guarantee on the risk assets we are well prepared for the **Basel III framework** valid from 2014 and are complying with the stricter requirements concerning capital ratios in good time. At the same time we have a sound basis for meeting further challenges.

The **capital ratios** of the Bank benefited from the replenishment of the guarantee facility in the middle of the year by the federal states of Hamburg and Schleswig-Holstein, which resulted in a clear decrease in the default risk determined on the amount of risk assets. The reduction in risk positions, where significant progress has been made in the year so far and which is reflected in the decrease in risk assets before taking the guarantee effect into account, also had a positive impact. The somewhat stronger euro against the US dollar compared to the 2012 year end (EUR/USD 1.35 as at 30 September 2013 vs. EUR/USD 1.32 as at 31 December 2012) had a slightly positive effect on the ratios.

The reinstatement of the **claim of the guarantors relating to the additional premium** for the guarantee in the middle of the year in accordance with the EU requirements had a negative effect on the ratio. This was reflected in a reduction of Tier 1 capital and regulatory capital in accordance with regulatory requirements. The risk parameters in the Shipping division also continued to have a negative impact.

Including the guarantee effect risk assets of the Bank decreased to € 37 billion (31 December 2012: € 61 billion). In this regard, the regulatory minimum risk weight of 20 % is applied to the senior tranche of the second loss guarantee. Arithmetically, the **risk weight** of the senior tranche is less than 1 % as at 30 September 2013 due to the guarantee increase (31 December 2012: 43 %). This creates an additional considerable stabilising buffer for the capital ratios, as an increase in the risk content in the portfolio hedged by the guarantee does not affect the capital ratios until the minimum threshold of 20 % is reached.

Funding during the third quarter

In the third quarter we successfully issued a mortgage bond in the amount of € 500 million with a term of five years on the capital markets as part of our issuing strategy. There was a wide demand for the issue among both domestic and foreign institutional investors and savings banks. In March we exploited the favourable market conditions and issued a public Pfandbrief in the amount of € 500 million on the capital markets. The Pfandbrief was increased to € 750 million in April due to the high demand.

The sale of bond products within the Savings Banks Association also remained a priority. At the same time the sale of products to other financial institutions and institutional investors and deposit business with corporate customers was driven forward. It is planned to focus over the coming months on asset-based issues using a newly-established funding platform, within the framework of which we want to execute a variety of transactions in the future on a flexible basis.

In addition to the ongoing issuing activities, a stable base of customer deposits has contributed to a sound liquidity position of HSH Nordbank as at the reporting date. Furthermore, the Bank holds adequate liquidity reserves in the form of highly liquid collateral eligible for refinancing at central banks and credit balances at central banks.

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, Spain, Slovenia and Cyprus – the EU Member State Hungary is being specially monitored.

The following table shows our exposure to the European countries mentioned as at 30 September 2013.

IFRS CARRYING AMOUNTS FOR SOVEREIGN EXPOSURE TO SELECTED EUROPEAN COUNTRIES

(€ m)

	Country		Banks		Corporates/Other		Total	
	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012	30.09.2013	31.12.2012
Greece	5	2	13	–	1,131	1,351	1,149	1,353
Ireland	–	–	47	156	242	319	289	475
Italy	591	602	143	125	695	737	1,429	1,464
Portugal	262	257	3	3	44	52	309	312
Spain	168	173	838	1,333	1,359	1,296	2,365	2,802
Slovenia	90	90	–	–	20	23	110	113
Hungary	37	35	4	5	81	82	122	122
Cyprus	–	–	–	–	1,598	1,469	1,598	1,469
Total	1,153	1,159	1,048	1,622	5,170	5,329	7,371	8,110

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY TO SEPTEMBER 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	535	287	-40	-98	684	532	-58	474
	2012	513	305	311	-471	658	650	-291	359
Loan loss provisions	2013	-180	-4	-1	30	-155	-571	240	-331
	2012	-268	-19	-11	82	-216	-580	338	-242
Net income before restructuring	2013	172	113	34	-83	236	-253	182	-71
	2012	70	99	616	-403	382	-146	47	-99

Core Bank on course

Our **core business** has performed well overall during the year to date. Net income before restructuring of the Core Bank amounted to € 236 million for the first nine months of 2013 compared to net income before restructuring of € 382 million for the same period in the previous year, which was positively impacted by a special item relating to hybrid financial instruments (including consolidation effects in each case). Even after deducting restructuring and guarantee costs of € 97 million the Core Bank was profitable with net income before taxes of € 139 million for the first nine months. The previous year result, which was positively impacted by the special effect relating to hybrid financial instruments, amounted to € 304 million.

Our **new lending business** with customers, which increased noticeably over the course of the year against the general market trend of restrained loan demand, contributed to this increase in net income. The volume of new commitments granted reached € 2.2 billion in the third quarter alone after € 1.6 billion in the second quarter and € 1.1 billion in the first three months of the current year. The new business volume for the entire nine month period amounted to € 4.9 billion compared to € 4.5 billion in the same period of the previous year. In addition, € 0.2 billion of the new business was syndicated to other banks.

The focus of our new business activities was placed on high-value commitments with a good risk profile. Despite the intense competition in the corporates and real estate business we were able to achieve margins that were risk commensurate and higher compared to the previous year. Overall, this performance highlights our good position in our target markets.

Furthermore, the increases in value realised on securities positions held centrally as well as the sales of individual equity holdings had a positive effect in the results of the Core Bank. On the other hand, a lower level of loans resulting from the transfer of individual portfolios to the Restructuring Unit, loan principal repayments as well as additional loan loss provisions, especially for existing shipping commitments, had an adverse impact.

Higher income in the Shipping, Project & Real Estate Clients segment

New business generated in previous quarters with adequate margins was reflected in increased **income** of the **Shipping, Project & Real Estate Clients segment**. Sales of two equity holdings in the Energy & Infrastructure division also had a positive impact. The reluctance of customers to enter into interest rate derivatives in the current low interest rate environment had a dampening effect on the

cross-selling business, whereas the Bank was able to increase income from loan fees. The positive effects were partially offset by higher loan principal repayments and the reclassification of interest-bearing loan portfolios from the Core Bank to the Restructuring Unit, particularly from the Shipping division, in the amount of € 0.7 billion in 2012 and € 0.4 billion in the second quarter of 2013. Total income of the Shipping, Project & Real Estate Clients segment increased to € 535 million compared to € 513 million in the same period of the previous year.

By focussing on high-value new commitments in future-oriented market areas we were also able to further improve the risk structure of the Core Bank portfolio. Nevertheless, we have recognised additional **loan loss provisions** for risks relating to shipping commitments, although lower additions than in the previous year were required for this. Net loan loss provisions did not have to be recognised for the core area of real estate clients, whereas additions increased for the Energy & Infrastructure division due to a problem individual commitment. The total loan loss provision expense for the Shipping, Project & Real Estate Clients segment decreased to € -180 million supported by an improved foreign exchange result (previous year: € -268 million).

As a result of the developments described above, total income of the **Shipping, Project & Real Estate Clients** segment increased to € 172 million compared to € 70 million in the same period of the previous year.

Business with corporates expanded

In the **Corporates & Markets segment** lending activities with corporates, wealth management on behalf of high net worth individuals as well as capital market activities and product sales ensured an overall positive trend in net income.

The **Corporates** division was able to increase its new business transacted compared to the previous year. Total income benefited from the increase in the new business disbursed in recent months, although the disbursement ratio was still below the previous year level. The existing business was adversely impacted by principal repayments, which caused the loan volume drawn down to fall slightly below the previous level. The loan loss provisions required for the division was low in the first nine months in light of the relatively stable development of the industry sectors focussed on.

Capital market activities including the management of the liquidity position and the interest-bearing securities portfolios as well as business transacted with savings banks and institutional clients was driven forward successfully. Subdued customer activity with regard to interest rate derivatives was noticeable in the sales of the capital markets based product range, which was attributable to the sustained low level of interest rates. On the other hand, loan fees and revenues from bond issues within the Savings Banks Association were increased.

In total, **net income of the Corporates & Markets segment** increased to € 113 million (previous year: € 99 million). The substantial reduction in **segment assets** to € 18 billion (31 December 2012: € 23 billion) is attributable, inter alia, to the fall in the market values of derivative financial instruments caused by interest rate movements.

Corporate Center segment

Net income for the **Corporate Center segment** amounted to € 34 million as at 30 September 2013. It was boosted by income on securities held in central portfolios. A revaluation of hybrid financial instruments and a repurchase of publicly placed subordinated loans have been reflected in the stronger positive results for the previous year (€ 616 million).

Net income for the Core Bank taking consolidation effects into account

The consolidation line item of the **Core Bank** includes inter alia reduced losses compared to the previous year on EUR/USD basis swaps as well as the positive hedging effect of the second loss guarantee. Core Bank net income before restructuring, including **consolidation effects**, reached € 236 million (previous year: € 382 million).

Reduction of risk well advanced in the Restructuring Unit

The winding down of non-strategic loan and capital markets transactions in the **Restructuring Unit** was successfully continued. Compared to the 2012 year end, **segment assets** (excluding consolidation items such as the compensation item from the second loss guarantee and the cash reserve) decreased significantly to € 41 billion by 30 September 2013 (31 December 2012: € 50 billion).

This reduction was particularly noticeable in the lending business of the Restructuring Unit, which amounted to € 25 billion at the end of the third quarter. The largest decreases were recorded in the International Real Estate, Aviation and Corporates portfolios. The Capital Markets portfolio volume fell to € 16 billion.

The difficult market situation in **Shipping** resulted in additional restructuring and workout cases in the shipping loan portfolio in the first nine months of 2013. Loan loss provisions were increased accordingly. The higher loan loss provisions for shipping loans were offset by positive trends in other high-risk non-strategic portfolios as at the reporting date. For example, the loan loss provision expense for international real estate and corporate loans decreased compared to the previous year. This is attributable to restructuring progress achieved and recovery trends in individual markets. In total, **loan loss provisions** for the Restructuring Unit segment amounted to € – 571 million compared to € – 580 million in the same period of the previous year.

We have further enhanced the winding down strategy for the Restructuring Unit. We aim to increasingly use alternative portfolio solutions with strategic partners to **further reduce the portfolio** and stabilise the problem shipping commitments. In a first step it is planned to transfer a pool of ten ships to a partner. This transaction partially removes HSH Nordbank as the lender and significantly reduces the Bank's loan volume. In view of increased investor interest we are planning further transactions of this type.

Total income for the segment decreased to € 532 million compared to € 650 million in the previous year as a result of the significant reduction in the portfolio. In addition, in the previous year higher income on the sale of equity holdings was recorded. On the other hand, the reversal of impairment losses in the capital market portfolios of the Restructuring Unit had a positive impact, as spreads on high risk securities declined significantly due to the improved financial market environment. The **credit investment portfolio (CIP)** primarily benefited from this trend.

The **segment result for the Restructuring Unit** decreased to € – 253 million (previous year: € – 146 million) due to reduced revenues.

Net income before restructuring for the Restructuring Unit, including the **consolidation effects**, amounted to € – 71 million (previous year: € – 99 million) mainly as a result of the significantly lower level of charges relating to EUR/USD basis swaps and the positive impact of the compensation effect of the second loss guarantee.

OUTLOOK

The forward-looking statements contained in this financial information are based on assumptions and conclusions deduced from 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.

Focus on core businesses and the increased reduction of risk

We will continue to consistently implement our **focussed business model** over the coming months in order to align the Bank in a highly competitive banking environment on a sustainable stable basis for the future. The essential foundations necessary to meet the **upcoming tasks and challenges** have been laid with the progress made in establishing the Core Bank in the target markets, the solid capital ratios achieved by the replenishment of the guarantee facility in the middle of the year and the significant reduction in the high-risk legacy portfolios.

Based on the benign performance of the Core Bank, which has been profitable since 2012, we will continue to concentrate on acquiring high-value **new business** in future-oriented market areas and selling our entire range of services over the coming months. The objective is to further improve the profitability and risk profile of the Core Bank.

In light of the strengthened capital ratios resulting from the guarantee increase that has been provisionally approved by the EU Commission, a good basis has been created for meeting the challenges resulting from the increasingly tight regulatory environment. In addition to the implementation of Basel III, the focus over the coming months will be on the **balance sheet and risk audit** of the banking sector already started by the ECB and the subsequent **stress test** conducted in connection with the setting up of a single banking supervisory authority in the eurozone. The assessment, that is to last until autumn 2014, represents a major challenge for the banks involved.

The provisional **approval of the guarantee increase** is valid until a final decision is issued by the EU Commission, which we expect at the earliest in 2014 following the conclusion of the formal investigation. In the opinion of the Federal Republic of Germany, the federal states of Hamburg and Schleswig-Holstein and HSH Nordbank the guarantee measure falls within the framework of the provision of the guarantee facility approved by the EU Commission in 2011. The EU Commission regards the replenishment as state aid, thereby requiring an assessment of the entire restructuring plan of the Bank. Initial discussions have already been held with representatives of the EU Commission. In our view, these have been constructive. We are confident that our business model will be confirmed as part of the final decision and we will be able to continue to successfully drive forward the restructuring of HSH Nordbank.

We are on the right track with the adjustment of the operating structures and processes. We were able to significantly decrease personnel and operating expenses over recent years through reducing headcount and making further cost savings. Additional **pressure** is being placed **on costs** by the constant increase in regulatory requirements and disclosure rules, which entail significant additional expense for the banks. Furthermore, the guarantee replenishment will mean scheduled higher guarantee expense for HSH Nordbank, which will be noticeably felt in the net income for financial year 2013. Against this backdrop, strict cost management remains one of our highest priorities.

In November we initiated additional measures in order to realise cost savings and efficiency gains. In this context, the focus is placed on **changes in the organisational structure** and **savings in operating costs**. Discussions have begun with the Group works council regarding the concrete implementation.

The Bank will continue to be adversely impacted by the **shipping** crisis. As the economic situation of many companies in this sector remains tense, we expect that additional loan loss provisions will be required for the Bank's shipping loan portfolio. We still do not expect a sustained recovery in the shipping industry before 2015.

The management and reduction of the legacy portfolios in the Restructuring Unit remains a key task in order to decrease the risk potential for the Bank and guarantors and reinforce the targeted expansion of the Core Bank. We are also concentrating on alternative portfolio solutions involving strategic partners for the purposes of **reducing risk** in the Shipping portfolios to a greater extent.

We will continue to constantly **focus** the Bank on future-oriented business fields. The successful increase in new business at the Core Bank with the focus on the home region of North Germany and the rest of Germany as well as the steady reduction in legacy assets substantiates together with the improved capital ratios the progress made in realigning HSH Nordbank. On this basis we will continue to forge ahead in order to be able to overcome the upcoming **challenges**, especially regarding the shipping crisis and the regulatory environment, and to successfully implement the planned business developments. Our expectations regarding the earnings performance of HSH Nordbank remain unchanged: We are assuming that a substantial loss will be incurred at the Group level for the year 2013 as a whole. Based on our current plan we expect to return to profitability in 2014.

Further details on our expectations, the going concern assumptions applied and the major risks HSH Nordbank is facing are set out in the Interim Report as of 30 June 2013 and in the 2012 Annual Report.

Potential tax risks mainly result from the fact that the binding interpretation of rules that are open to interpretation may only, in certain cases, be known after several years due to the long period of tax audits still pending. The tax audits have not yet been finalised for the years 2003 to 2012. The Bank is currently working on a number of tax issues that have arisen in these years. Although we are not aware of any effects on the financial position of the Bank based on the current findings these cannot be completely ruled out for the future until the investigations have been completed.

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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.

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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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