



CORPORATE SOCIAL RESPONSIBILITY

ANNUAL CSR-REPORT FROM HSH NORDBANK 2017



HSH NORDBANK GROUP AT A GLANCE

INCOME STATEMENT

(€ m)	2017	2016
Net income before restructuring and privatisation	- 238	445
Net income before taxes	- 453	121
Group net result	- 528	69

BALANCE SHEET

(€ bn)	31.12.2017	31.12.2016
Equity	4.4	5.0
Total assets	70.4	84.4
Business volume	78.6	93.2

CAPITAL RATIOS¹⁾ & LEVERAGE RATIO

(%)	31.12.2017	31.12.2016
CET1 ratio	18.5	14.1
Tier 1 capital ratio	23.5	18.7
Regulatory capital ratio	30.6	24.8
Leverage ratio	7.7	6.9

EMPLOYEES

(computed on a full-time equivalent basis)

	31.12.2017	31.12.2016
Total	1,926	2,164
Germany	1,838	2,068
Abroad	88	96

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities ²⁾	Public sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3 RWP ⁴⁾	Aa1 stable	Aa2 R RWP ⁴⁾	Aa3 R RWP ⁴⁾	Baa2 RWP ⁴⁾
Fitch	BBB- RWN ⁵⁾	AAA stable	-	-	-

¹⁾ Same period: calculation taking fully into account the balance sheet carrying amounts as at the reporting date all else being equal

²⁾ Same period: regulatory report under CRR (only partially taking into account the balance sheet carrying amounts as at the reporting date)

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

⁴⁾ Rating watch positive (under watch for possible rating upgrade).

⁵⁾ Rating watch negative (under watch for possible rating downgrade).

Numbers presented throughout this report may not add up precisely to the totals shown and percentages may not precisely reflect the absolute figures due to rounding.

IMUG ("INSTITUTE FOR MARKET, ENVIRONMENT AND SOCIETY") SUSTAINABILITY RATING

	Sustainability rating	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
2017	CCC	BBB	B	CCC
2016	CC	A	B	CC

Note:

Numbers presented throughout this report may not add up precisely to the totals shown and percentages may not precisely reflect the absolute figures due to rounding.

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NOTE:

This **Corporate Social Responsibility 2017** of the HSH Nordbank Group ("CSR" Report) is compiled in accordance with requirements set forth in Sections 315b, 315c in conjunction with 289b to 289e of the German Commercial Code (Handelsgesetzbuch, HGB) and is therefore our combined separate non-financial report. The reporting is based on the criteria set forth in the German Sustainability Code (Section 289b HGB).

The CSR Report is a component of our corporate reporting and supplements information disclosed by HSH Nordbank in its Annual Report and remuneration report.

<https://hsh-nordbank.com/en/Investoren/konzernberichterstattung/konzernberichterstattung/>

FOREWORD

Dear Readers,

HSH Nordbank has undergone extensive change over the past few years. With the upcoming privatisation in 2018, which was imposed by the European Commission as part of the state aid proceedings, the transformation will proceed at an increased pace. Sustainable management will play an even greater role for us in the future than in the past.

In order to manage on a sustainable basis, it is important to analyse one's own actions in a clear and critical manner and to draw the right conclusions from this. Specifically, this means for us: After having to sustain massive losses in the past primarily as result of loans granted in the shipping industry in the period between 2003 and 2009, we have fundamentally revised our entire business strategy. We have significantly tightened our lending standards and realigned the structures throughout the Bank so that the mistakes of the past cannot be repeated now and in the future. At the same time, we have, for example, further expanded our financing of renewable energies where we are already one of the pioneers in Germany and thereby make a contribution to an environmentally compatible energy supply. We also finance modern, environmentally conscious projects in the real estate sector.

We believe sustainability means conserving all resources. This starts with a company car policy that stipulates that vehicles with the lowest possible fuel consumption be used, through the replacement of our lighting system, printers and a large part of the IT landscape, thereby saving a lot of energy, and finally ending with products produced domestically, mainly regionally, being primarily used in our staff restaurant. And, of course, we pay particular attention to the health of our colleagues, who are under particular pressure especially in times of radical change – it goes without saying that appropriate health management is therefore important to us.

The phase of restructuring and substantial downsizing HSH Nordbank within a rapidly changing and highly competitive banking landscape with new technologies and changes in consumer behaviour was for us associated with drastic cutbacks and a painful reduction in staff. Despite these adversities we have always maintained our social commitment. As a company, we would like to give something back to the society, which allows us to operate. This applies to the social as well as the cultural sector. For example, the HSH Nordbank Run contributes to enabling children and young people from socially disadvantaged families to participate in their sport at clubs. With our involvement in the Elbphilharmonie Foundation we support culture and affordable access to it, the same applies to our involvement in the Schleswig-Holstein Music Festival.



Stefan Ermisch, Chairman HSH Nordbank

Sustainable management means looking for new ways that contribute towards dealing with resources even more carefully and respectfully – at all levels. Lateral thinking and being uncomfortable are important elements in this. We encourage and require this. Only those who are open to new ideas can shape the future in a meaningful way – this is exactly our goal.

Yours sincerely

Stefan Ermisch

Chairman

HSH NORDBANK – WHO WE ARE

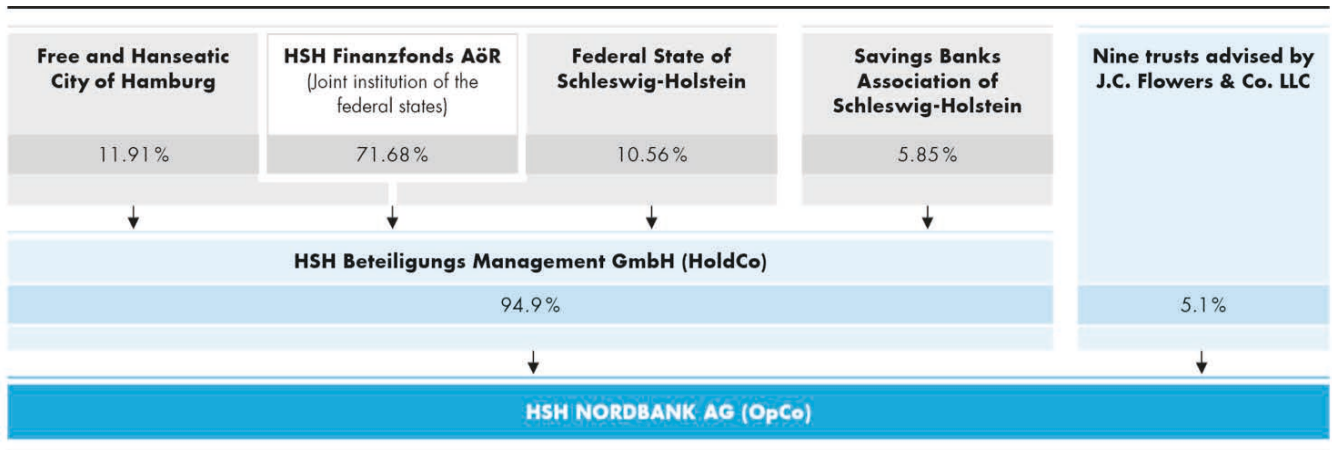
HSH Nordbank AG was established in June 2003 by the merger of Hamburgische Landesbank – Girozentrale – with Landesbank Schleswig-Holstein Girozentrale (LB Kiel) and is managed in the legal form of a German public limited company. The headquarters of the Bank are located in Hamburg and Kiel. HSH Facility Management GmbH also belongs to the Group. As a full service provider of facility management services, it works exclusively for the HSH Group.

HSH Nordbank is one of the leading banking partners for upper medium-sized enterprises in the core region of Northern Germany.

HSH Nordbank is also active throughout Germany primarily in the corporate and real estate client business.

The focus of the project financing business in the Corporate Clients division (Energy & Utilities and Logistics & Infrastructure business areas) is also on the rest of Europe. The Bank conducts business with shipping clients throughout the world. Based on classical loan financing, HSH Nordbank offers a wide range of tailor-made products and individual financing solutions to corporate clients, wealthy private clients, savings banks and institutional clients.

OUR CURRENT OWNERSHIP STRUCTURE



SALE OF HSH NORDBANK AG ON 28 FEBRUARY 2018

The federal state owners Hamburg and Schleswig-Holstein, as well as the minority owner Sparkassen- und Giroverband für Schleswig-Holstein, sold their stake of 94.9 % in HSH Nordbank AG, which was held indirectly via HSH Beteiligungs Management GmbH, in full to several investors on 28 February 2018 (signing). The buyers are funds of Cerberus European Investments LLC, J.C. Flowers & Co. LLC, GoldenTree Asset Management L.P., Centaurus Capital LP and BAWAG P.S.K. AG which are independent of each other. With the sale of HSH Nordbank AG, the federal state owners will meet the central commitment set out in the formal decision of 2 May 2016 in the EU state aid proceedings on the replenishment of the second loss guarantee issued by the federal states at that time in a timely manner, thus laying the foundation for the first successful privatisation of a Landesbank in Germany.

The closing of the share purchase agreement is subject to various conditions, in particular parliamentary approval in Hamburg and Schleswig-Holstein, the viability review on the future bank conducted by the European Commission, the approval of the banking supervisory authorities (ECB, BaFin and CSSF in Luxembourg), the approval of the competent antitrust/competition authorities and confirmation of the successful extension of HSH Nordbank AG's full membership of the guarantee scheme of the German Savings Banks Finance Group (SFG) for three further years after the conclusion of the share purchase agreement (closing) at least until the end of 2021. The closing of the privatisation process (share purchase agreement) is scheduled for the end of the second or for the third quarter of the current financial year (see also our 2017 Group Management Report in this regard).

In its realignment the Bank is focussing on expanding existing customer relationships and business areas in a bank free of EU restrictions. In so doing, the regional business model is being further developed and the existing sector focus strengthened, especially in the area of medium-sized clients. At the same time, complexity is being significantly reduced based on a risk-optimised organisational struc-

ture free of legacy assets and the guarantee structure, and improvements in the business and operating models are being achieved as a result.

THE FUTURE OWNERS ARE AMONG THE MOST EXPERIENCED FINANCIAL INVESTORS IN THE BANKING SECTOR IN THE WORLD

Funds initiated by Cerberus Capital Management, L.P.¹⁾			Funds initiated by J.C. Flowers & Co. LLC	Funds initiated by GoldenTree Asset Management LP	Funds initiated by Centaurus Capital LP	BAWAG P.S.K. Bank für Arbeit und Wirtschaft und Österreichische Postsparkasse Aktiengesellschaft
Promontoria Holding 221 B.V.	Promontoria Holding 231 B.V.	Promontoria Holding 233 B.V.	JCF IV Neptun Holdings S.à r.l.	GoldenTree Asset Management Lux S.à r.l.	Chi Centauri LLC	
17.0%	13.5%	12.0%				
42.5%			35.0%	12.5%	7.5%	2.5%

¹⁾ Change of allocation of shares within the Cerberus initiated funds possible.

OUR CORE BUSINESS AREAS

HSH Nordbank's business activities are split between the Core Bank and Non-Core Bank along its value structures.

The sustainable, strategic business areas are combined in the Core Bank. These include the Corporate Clients, Real Estate, Shipping and Treasury & Markets segments.

The Non-Core Bank includes the non-strategic and predominantly impaired legacy portfolios that originate from the years prior to 2009. Under the privatisation process the Bank will be relieved of virtually all impaired legacy loans and the Non-Core Bank will be dissolved in the future.

We refer to HSH Nordbank's detailed 2017 Group Management Report, especially the "Basis of the Group" section with regard to details on business activities, our business model and further information on the EU proceedings as well as to our website, where our investor presentation on the 2017 annual financial statements is also published.

In accordance with Sections 315c (1) in conjunction with 289c (1) HGB we describe the business model of the HSH Nordbank Group on pages 2 et seq. of the Group Management Report. The description of the business model forms part of HSH Nordbank's non-financial report.

CORPORATE CLIENTS

We cover a very wide field in the Corporate Clients division. We have convincing sector, product and advisory expertise in our focus sectors of Energy & Infrastructure, Food & Trade, Industry & Services, Healthcare as well as Wealth Management, Structured Finance and Mergers & Acquisitions. We are an integrated corporate finance bank, which offers a full range of services in the fields of structured finance and leveraged buy outs through its positioning. Our target customers are primarily owner-managed enterprises and project development companies. We are not restricted geographically to our North German home market but also successfully conclude transactions throughout the entire Federal Republic of Germany.

Furthermore, we support German companies in their business activities abroad, where we are expanding into new markets such as Portugal and the Netherlands – this is key to further growth.

REAL ESTATE

As one of the leading providers of real estate financing in Germany we are traditionally very active in our home market. Here, we have an excellent market position and proven expertise that we have built up over many years. We support our clients across regions in the German metropolitan areas. In addition to our headquarters in Hamburg and Kiel we have offices and regional expertise in Berlin, Düsseldorf, Frankfurt, Stuttgart and Munich. Our solid client base includes renowned international investors, who we support in their projects in the sought-after German real estate market. When entering into new business it is important to us that we keep an eye on the risks involved. At the same time, we ensure that there is a balanced mix in the loan portfolio.

Overall, we are one of the leading banks for financing commercial real estate projects in Germany and are often involved in innovative projects – such as the large apartment house “Woodie” in Hamburg-Wilhelmsburg and flats for temporary living.

TREASURY & MARKETS

The Treasury & Markets division is a provider of efficient and innovative capital markets products for all client divisions. In essence, we help our clients to control risks that arise in the markets as a result of price fluctuations. On the other hand, we make sure that the Bank is supplied with sufficient liquidity.

Treasury & Markets is important to the Bank's success. It has been particularly successful in expanding the number of our domestic and international institutional investors, increasing underwriting and syndication activities and bringing a debt fund to the market. We have also found new ways to fund the Bank and opened up access to private clients. This is an important step, which we were able to take in cooperation with Deposit Solutions, a Fintech in Hamburg.

SHIPPING

HSH Nordbank traditionally had very close links to the domestic shipping industry and was for a while one of the largest providers of ship financing in the world. This gave rise to corresponding cluster risks and write-downs running into billions at the Bank, which, as we know, became an enormous financial burden in the shipping crisis that has persisted since 2008. We have been successful in the meantime in winding down these legacy assets to a considerable extent.

We have learnt from the mistakes of the past and drawn our conclusions. This means: Although we are still active in the shipping business, it is on a completely different basis than previously – with sharpened risk awareness and the focus on successful companies with a resilient business model. Our shipping loan volume was EUR 5.5 billion at the end of 2017. Instead of focusing as previously on mainly German clients and their container ships we are now working with international clients, who are involved in different segments.

Global trade is continuously growing, by an average of 4.7 percent per year over the last two decades. The international movement of goods is mostly by sea, as there are no alternatives to this on the horizon.

“INTRODUCE CHILDREN AND YOUNG PEOPLE TO MUSIC”

The Elbphilharmonie has become the new landmark of Hamburg in record time. Tickets for the concerts and performances are difficult to obtain. **Dominik Winterling, general manager of the Elbphilharmonie Foundation**, explains why the building is nevertheless there for every-one and why it is important to promote culture. HSH Nordbank is one of the founding members of the Foundation and is still supporting it.

The visitor interest in the Elbphilharmonie is enormous. Did you anticipate such a great success?

Dominik Winterling: Since I saw the building for the first time, it was clear to me that it would be a success – but I did not anticipate the impact that we are experiencing.

Do you have an explanation for this?

Dominik Winterling: There are several reasons: Firstly, the attractiveness of the building, the new Hamburg landmark. People who previously visited the Michel now also come to the Elbphilharmonie. Secondly, a very attractive range of cultural events is offered in a unique concert hall with spectacular acoustics. That is attractive, because music is perceived in a completely different way. The Elbphilharmonie is a total experience, which touches all the senses.

The Elbphilharmonie wants to be a house for everyone – is it succeeding in view of the fact that it is very difficult to obtain tickets?

Dominik Winterling: Definitely! There is nothing we can do about the actual restriction on capacity. For example, the large hall has 2,100 seats, we can offer tickets for these – unfortunately no more than that. The question is this: Who has access to these tickets? We have chosen a democratic process for this: In some cases, we hold a draw for the right to purchase tickets. Everyone has the opportunity to obtain tickets. It is pure matter of chance. The other component is: There are special offers for groups, where it is presumed that, for financial reasons, they do not have immediate access to the Elbphilharmonie. We also have a wide selection of offers for schools. Our aim is to introduce children and young people to music. There is even a hotline for this, via which teachers can book a workshop for their class for a small amount of money.

How important is it to make music accessible to everyone?

Dominik Winterling: Classical music is an important part of our spiritual and cultural heritage. We would be making a big mistake by not maintaining this. As music encourages the best sides of human beings. This begins with creative thinking and ends with the question of how we deal with each other. Music is also a source of inspiration from which people first become creatively active.

What role does the Elbphilharmonie Foundation play?

Dominik Winterling: The artistic director, who recommends selected projects to the foundation for funding, is responsible for the programme. The Foundation's Management Board then decides on which projects are to be funded. We are only able to generously support the



Dominik Winterling, general manager of the Elbphilharmonie Foundation

mostly very expensive projects through the outstanding commitment of our donors and benefactors. And, of course, always with the aim of thereby keeping the ticket prices affordable for everyone.

How many projects does the Foundation support per year?

Dominik Winterling: That depends on the size of the individual projects. There will probably be about ten in the next season, each of which we will support with amounts in the five to six figure range.

Are you obtaining further new donors and benefactors?

Dominik Winterling: Of course, this is one of the key tasks of the Foundation's daily work. The great public interest, which the Elbphilharmonie has attracted since its opening, but also the good network, which has been built up over the twelve years since the setting up of the Foundation, is helping us to do this.

WHAT SUSTAINABILITY MEANS TO US

HSH Nordbank has focussed over the past few years on the vital restructuring process and realignment of its business activities. This has been of paramount importance, especially for its owners, employees and investors as well as its clients and other business partners. As a result of its hitherto very satisfactory performance the Bank has created a good basis for the privatisation imposed by the EU Commission. In all our business activities we always bear in mind the importance of ecological and social sustainability. This is a key element of our Code of Conduct.

Since the privatisation process is now on the finishing straight, the Bank can increasingly focus on other strategic aspects in the future. The business model will be further sharpened and the strategic objectives expanded to include new perspectives. Relevant sustainability aspects can represent an important addition to these. In this context, an extended systematic analysis of the sustainability criteria relevant for the Bank with regard to the environment, society and good governance (ESG = Environment Social Governance) and, over the course of time, integration of this knowledge into future corporate strategies and objectives can create significant added value over the long term.

We have based our reporting under Section 289b HGB on the German Sustainability Code (Deutscher Nachhaltigkeitskodex, DNK). In this report, we address the issues, which, in our view, are important for understanding the impact of HSH Nordbank's activities on the aspects to be considered at a minimum under Section 289c HGB.

Under Sections 315c in conjunction with 289c (3) numbers 3 and 4 HGB HSH Nordbank is required to disclose all known material risks related to its own business activities, its business relationships and its products and services, if it is highly likely that these have or will have a severe negative impact on non-financial aspects. No such risks were identified based on our risk controlling, in particular for operational risks and reputation risk.

OUR MAIN BUSINESS ACTIVITIES

HSH Nordbank is a financing specialist for enterprises and is one of the most important employers and companies in North Germany. In addition to our activities as a financing specialist, our business operations may have implications for non-financial aspects, such as the environment, society and employees.

However, HSH Nordbank's main business activities are the granting of loans, taking of deposits and providing other typical financial services.

HSH Nordbank's vision is to be the Bank for medium-sized entrepreneurs from within the metropolitan area of Hamburg. A focussed and entrepreneurial approach, which creates value added for clients, shareholders as well as the Bank and its employees, is at the heart of our self-image and identity. In our business activities we ensure that we act in a sustainable manner both economically and from a sustainability standpoint.

A few examples from our core business areas are shown below.

FOCUS: RENEWABLE ENERGIES

We are one of the top 5 providers of finance in the renewable energy sector in Europe. We are therefore in the first rank in this sector. We are active in project business throughout Europe in the "Wind Onshore", "Wind Offshore", "Solar" and "Hydropower" asset classes. We have been financing wind and solar projects for 25 years and are therefore one of the pioneers in the sector. This is precisely why our clients – these are manufacturers, project developers, investors and suppliers – can benefit from our recognised know-how in the market and considerable experience.

Our existing loan portfolio currently has a loan volume of around five billion euros and includes about 240 projects. The wind energy and photovoltaic projects financed by us in 2017 alone can reduce CO₂ emissions by an annual amount of 1 million tonnes and are thereby making a positive contribution to the success of the energy turnaround in Europe and to climate protection.

Besides long-term project financing we also offer our clients working capital lines, liquidity management and various risk management products. We assist them in the import and export business and offer them services in connection with the purchase and sale of projects and shares. We periodically document our expertise in this sector in various publications – for example, we have currently published a study on the topic of the “Corporate Power Purchase Agreement (PPA)” (April 2018) and will present our eleventh wind study on the prospects of the wind energy markets in Europe during the Hamburg Wind Energy trade fair.

FOCUS: INFRASTRUCTURE & LOGISTICS

We consider infrastructure as the basis for the economic development and the backbone of a country. HSH has been successfully operating in this sector throughout Europe for over 20 years. A focal point is railway financing, which accounts for 50 percent of the infrastructure assets financed, in the freight as well as locomotive and local rail passenger transport sectors as an environmentally-friendly means of transport.

Our clients in the port and the logistics sector continually invest in environmentally-friendly and efficiency-enhancing transport systems. New investment fields have also come into focus over recent years. These include the increase in efficient power supply and generation installations. Over the last three years the Bank was very well positioned with regard to the expansion of modern telecommunications such as data centres and fibre optic networks and is thereby supporting the transformation into a modern telecommunications society especially throughout the country. We recently published a very well-received study on the broadband market in this regard. As a long-term important and stable sector, infrastructure as an asset class is reporting increased demand both on the equity capital and debt side.

FOCUS: REAL ESTATE

The “Woodie” residential project is an exceptional real estate project that has in the meantime received several awards for its architectural and design qualities – especially with regard to sustainability. Soon academics will be able to take up residence at this apartment house for students, which is almost completely made of wood.

In addition to 1st place last year in the Hamburg Housing Competition the apartment house modularly constructed in wood also received 1st prize in the Real Estate Manager Awards in Cologne. The innovative Woodie project was financed by HSH Nordbank, which has excellent expertise in this special type of housing. See also our brief study on temporary living and other interesting information on the project supported by us on our Website.

FOCUS: PHILANTHROPY & FOUNDATIONS

From decades of working in the non-profit sector our philanthropy and foundation team has acquired professional expertise that goes far beyond the usual banking services and enables comprehensive advisory services to be offered. For example, for the setting up of foundations and fundraising.

Our extensive networking with the foundation scene, e.g. through regular events with highly topical subjects, helps us to advise private clients, who want to make a contribution to society. Furthermore, we assist testators who want to support a charitable organisation or form a new organisation.

We bring together representatives of the foundation scene and companies, which want to make a contribution to society via sponsoring (see also our interview regarding the donor breakfast as part of our reporting on the stakeholder dialogue).

VIA® STIFTUNGSFONDS UI

The VIA® Stiftungsfonds UI actively managed by HSH Nordbank’s experienced portfolio managers is among the four best foundation funds. This was the result of an analysis of 42 funds carried out by the “Private Wealth” trade magazine in 2016. The mixed mutual fund reflects the investment objectives of foundations broken down by capital preservation, solid returns and six-monthly distributions with due regard for strict sustainable and ethical criteria.

FOCUS: SHIPPING

We will continue to remain active in shipping, because we are convinced that, looking ahead, the shipping industry is still attractive. The sector is currently undergoing not only significant consolidation, which results in new and stronger entities, but charter rates and ship values have again stabilised following one of the most severe crises. The market now offers good opportunities to invest with a sharpened risk perspective.

In our involvement we bear in mind sustainability aspects by, e.g.,

- supporting the renewal of the global trading fleet through the financing of modern ships that are eco-efficient;
- in principle not financing ships that are older than 18 years in order to accelerate the renewal of the global trading fleet;
- supporting the conversion of ships that result in an improvement in the economic availability; these are as a rule measures to improve energy efficiency (“retrofitting”) or measures that already anticipate future environmental requirements (e.g. ballast water treatment system, scrubbers);
- ensuring and also requiring in our “General Terms and Conditions for Ship Financing” that sufficient insurance cover is arranged for the objects financed;
- by requiring in our “General Terms and Conditions for Ship Financing” that our clients “(...) at all times comply with or meet all legal regulations applicable to the ship and borrower, particularly environmental requirements and the provisions under SOLAS including the ISM and ISPS code and STCW 95 and obtain, maintain and extend all approvals, licenses, consents and permits, which are required or desirable for the proper and trouble-free operation of the ship (...)”.

For further information on our business model see also: the “HSH Nordbank – who we are” section, our 2017 Group Management Report and our website.

SUSTAINABILITY STRATEGY & OBJECTIVES

The core guidelines for how we behave are set out in our **Code of Conduct**. The Code of Conduct applies to all employees of HSH Nordbank and companies affiliated with the HSH Nordbank Group. The objective of the Code of Conduct is to create a reliable framework for the responsible behaviour of all employees, which not only complies with the legal requirements but also ethical and social standards.

“In all our business activities we remain constantly aware of the significance of environmental and community sustainability. We regard the assumption of social responsibility as an integral component of our actions and as an investment in the community and, thus, at the same time, in our own future as well. Bearing this in mind, we support, inter alia, sporting and cultural activities.” (Section 2 of the Code of Conduct, see HSH Nordbank’s website)

We have integrated **strategic approaches and objectives under sustainability aspects** as defined in Section 289c HGB into the various components of our strategy architecture.

STRATEGY ARCHITECTURE



We have defined our strategies based on our **mission statement**, in which objectives, strategy, purpose and values are combined into a meaningful set of guidelines (corporate values: relationship strength, performance and decision-making ability).

The **Strategic Risk Framework**, which as a framework document describes the Bank’s risk management system, is the basis for our risk culture. It defines the strategic focus for financial and non-financial risks.

The **reputation risk strategy**, which is implemented by the **guideline on how to handle reputation risk** (“Reputation Risk Guideline”), is a key sub-strategy with respect to the aspects to be considered under Section 289c HGB. The Reputation Risk Guideline is based on the ten principles of the Global Compact of the United Nations (UN Global Compact) and includes aspects such as environmental issues, employee concerns, social concerns, respect for human rights and combating corruption and bribery.

STRATEGIC RISK FRAMEWORK

The continuous development of our risk culture is a primary objective, as it has to be regarded as a key success factor for the implementation of the risk strategy principles. Maintaining and increasing the risk awareness of all employees is a prerequisite for efficient risk management. Accordingly, the transparency, accountability and clarity of the principles are key requirements for achieving this objective. Furthermore, open communication and knowing how to deal with mistakes appropriately are the basis for an ongoing improvement process.

Compliance with the requirements set out in the Strategic Risk Framework, particularly with regard to risk limits and risk guidelines, are enshrined as a financial objective in the Overall Bank’s objectives. Compliance with the requirements is ensured in a cascading manner via the goal-setting process and annual performance review from top management down to the employee level. The linking of this to the remuneration process ensures compliance with the SRF.

The core element of strategic risk management is also sensitive, forward-looking management of new business opportunities with the objective of the long-term optimisation of earnings and avoidance of risk concentrations that could threaten the Bank’s existence. In addition to the explicit setting of limits for and monitoring of individual risks, the purpose of the risk strategy approach adopted is to limit concentrations in specific segments or risk factors that pose a risk to the Bank’s continued existence. In addition, the objective is to ensure sufficient liquidity and thereby the Group’s solvency at all times through a balanced and closely monitored refinancing structure in combination with appropriate limits.

Which risks may significantly impair the Bank’s net assets (including capital adequacy), earnings or the liquidity position is reviewed as part of the annual risk inventory. An inventory of the business environment is initially taken for this purpose. Underlying conditions, relevant divisions, balance sheet and P&L line items, products and external service providers are also taken into consideration.

By formulating a maximum risk appetite and a consistent and lean limit framework derived from this an efficient and transparent risk management system for the risk types is ensured, enabling an integrated approach to be adopted by enshrining the Strategic Risk Framework in the strategy, planning, reporting, management and remuneration process.

Non-financial risks

The non-financial risk types (risk of losses arising from inadequate internal procedures, controls and the Bank’s operating activities amongst other things) include in particular operational risk, which also includes legal and compliance risks, and reputation risk. Climate risks are becoming increasingly significant both from a non-financial and financial perspective. In addition to possible environmental damage, they could potentially also have an adverse impact on the value of loan collateral (floods, soil erosion) as a result of climate change.

The objective of operational and reputation risk management is to prevent unexpected losses as far as possible, continually improve the Bank’s products and services and protect the Bank’s reputation.

Whilst the Bank by itself has hardly any influence on the change in value of an asset but can maintain a capital or liquidity buffer for this, non-financial risks can be influenced by the Bank itself primarily through stringent management, adequate staffing and resources and a risk appetite derived from the risk culture. In general, the aim of the operational risk management is to ensure that losses are avoided by means of, for example, qualitative behavioural guidelines and internal organisational standards for controls, contingency plans and security standards.

The Group Risk Management and Compliance divisions have joint responsibility as specific functions under MaRisk for the governance of non-financial risks.

REPUTATION RISK STRATEGY

Reputation risk is vitally important for the Bank. A reputation risk strategy, which is reviewed annually and approved by the Management Board, has been established for several years. Reputation is significantly influenced by the so-called ESG criteria (Environment Social Governance).

Reputation risk is defined as the risk that a financial loss is incurred, e.g. in the form of reduced earnings or a loss, due to a negative perception of the Bank through a relevant stakeholder. The objective of reputation risk management is to exclude or prevent such as a matter of principle and maintain and strengthen the trust in the Bank for all stakeholder groups on a sustained basis.

The **relevant stakeholder groups** are clients, creditors, the supervisory authorities, owners, guarantors and HSH Nordbank's employees as well as the public, rating agencies and media representatives.

The stakeholders were defined with the departments concerned upon the implementation of the reputation risk management process. As part of the annual review of the overall process a survey, amongst other things, is conducted in all divisions with the objective of recording any changes regarding expectations or requirements of the relevant stakeholder.

HSH Nordbank manages reputation risk primarily by preventive measures via the review of business partners and specific transactions, on the one hand, and via behavioural guidelines and process-related rules, on the other, in order to prevent the occurrence of reputational damage as far as possible. By establishing guidelines in the guideline on how to handle reputation risk (Reputation Risk Guideline) all units of the Bank are supported in identifying reputation risk, so that they can differentiate between harmless, harmful and unintended or prohibited transactions.

The guidelines for business relationships and transactions are oriented towards the requirements in the Bank's environment and takes into account the **10 principles of the UN Global Compact** including the following aspects:

- Human rights
- Labour standards
- Environmental protection
- Corruption
- Criminal/illegal activities
- Violent groups
- Arms and weapons industry
- Speculation on the agricultural commodities/ food markets
- Tax compliance

Exclusion criteria and requirements, which are to be complied with by the initiating units within the know-your-customer process, have been defined for these aspects.

KNOW-YOUR-CUSTOMER PROCESS

The Bank has a know-your-customer process in place in order to comply with the Money Laundering Act and Banking Act. The initiating units confirm that the review has been carried out in accordance with the reputation risk strategy/ Reputation Risk Guideline. There are exclusion criteria and requirements for these aspects together with a uniform framework for assessing identified reputation risks in the form of the so-called RepRisk-Matrix. The structure of the RepRisk-Matrix takes into account that reputation risks can have a different impact depending on the stakeholder concerned.

CONTROLLING OF REPUTATION RISK

The objective of reputation risk management is to exclude or prevent such as a matter of principle and maintain and strengthen the trust in the Bank for all stakeholder groups on a sustained basis.

The Group Risk Management (GRM) business unit use different tools for controlling reputation risk. Firstly, there are clear instructions and regulations for the Bank as to how the determination is to be made and, where necessary, how the required coordination is ensured in the Bank in cases of doubt.

Secondly, reputation risk is assessed annually by means of two different surveys. In one survey, the internal units responsible for the different stakeholder groups are requested to provide their assessment of the expectations of the respective group as well as a current evaluation. The other survey is aimed bank-wide at obtaining an overall impression of the Bank's reputation and any potential for improvement by each of the division heads.

In addition, Group Risk Management periodically collects individual reputation-relevant indicators based on the SREP Guidelines.

Two internal committees of the Bank, the OpRisk Steering Committee, which at the same time is the decision-making body for the incurring of reputation risk, and the Overall Bank Management Committee review the quarterly report on reputation risk.

The proactive media and publicity work carried out by the Communications division completes the set of tools used to manage reputation risk. Its task and aim is to present matters concerning the Bank in a pre-emptive, fast and truthful manner to the public.

RISK INVENTORY FOR OPERATIONAL RISK

The risk inventory for operational risk is carried out at least once a year in order to identify changes in the risk profile and take corrective or preventive measures in the event of unfavourable developments. The objective of the risk inventory is the identification in particular of those risks that have not yet resulted in a loss in the past and insofar could not be identified by the loss event database. Reasons for this can be new or changed business areas, systems, processes, products or external requirements. The risk inventory is used to communicate risks and their change in order to promote risk awareness and effectively limit the loss potential. The risk inventory is carried out throughout the Bank as a self-assessment process. In addition to a structured self-assessment scenario it includes a scenario analysis for the material risk scenarios of the respective division.

LENDING STANDARDS

In conjunction with HSH Nordbank's risk strategy and business strategy our lending standards provide a binding and comprehensive framework for all parties involved, within which the lending business may be conducted. Business approaches not entirely covered by these three elements of the overall bank strategy are to be classified as "not in conformity with the strategy" and are in principle not pursued. This also includes reputation risk.

Using a traffic light logic, the lending standards define which types of loans are preferred, which are critical but can be justified as manageable and which attributes a transaction may not have under any circumstances. They thus also provide sales with reliable guidelines for meetings with clients.

Furthermore, each transaction must go through a normal, unbiased credit process (including analysis, rating, credit application, decision), in which the credit standards are to be reviewed in connection with other decision-relevant criteria.

The lending standards are reviewed twice a year taking account of current strategy, market and risk developments.

See our 2017 Group Management Report for further information of our risk management.

“DONOR BREAKFASTS ARE A VALUABLE ASSET FOR FOUNDATIONS”

Why the donor breakfasts of HSH Nordbank enrich their work, explains **Dr. Regina Back**, executive board member of the Claussen-Simon Foundation.

What is the objective of the Claussen-Simon Foundation and how do you implement this with your team?

Dr. Regina Back: The Foundation operates in the areas of science & university, education & school and art & culture. Accordingly, our programmes are also split into three funding areas. The funding is directed at gifted young people and is given primarily by the awarding of scholarships. We award scholarships to students who are studying in the upper school, study and doctoral scholarships, later also post-doctoral scholarships in the academic sector but also work scholarships for artists and, lastly, we also fund endowment professorships as well as school and university projects.

How much funding do you have available?

Dr. Regina Back: Our annual budget, which we can disburse for the foundation's objectives, is between five and six million euros.

What made you take part in the donor breakfast?

Dr. Regina Back: I have been an executive of this foundation for just under three years and an executive board member for a year. In this initial period the topic of networking is naturally very important. These meetings are wonderful for getting to know managers of other foundations, gathering experience and exchanging information.

What have you taken away from these network meetings?

Dr. Regina Back: I attended the last two donor breakfasts. The first presentation that I heard was given by Professor Manuela Rousseau, head of CSR management at Beiersdorf. I wanted to get to know her as there is some shared history between Beiersdorf and the Claussen-Simon Foundation. I was also interested in learning how a company operates its funding programme in contrast to a foundation. I was favourably struck by the content of the presentation given by Laia Abellán Ponce de León, Head of Strategy at DDB, the international agency, at the second event on the topic of storytelling. A foundation ultimately needs a good website, must present it well in order to reach potential applicants.

In your opinion, what impetus can service providers in the financial sector give to foundations?

Dr. Regina Back: A relationship of trust with the clients is extremely important especially when it comes to finance. The basis is finding common topics, which create such a relationship of trust, so that one can also talk about money. Our foundation is one of the larger ones here in Hamburg and is represented by a family office. However, this



Dr. Regina Back, executive board member of the Claussen-Simon Foundation

basis of trust is important and crucial for smaller foundations that talk directly with banks. What foundations do – namely to give away money – is based on trust in the recipients. One has some confidence in the recipients of the funding to do some good, they are being entrusted with financial resources. Giving money or investing it well always involves trust, which one must build up or maintain.

What impetus do you want for your foundation work?

Dr. Regina Back: I would be pleased if the donor breakfasts are continued and this ongoing contact is maintained. They are a valuable asset for and enrich the participating foundations, if only to develop new ideas or, for example, to also initiate cooperations between sponsoring and operational foundations. It is actually not that easy to find suitable partners when one is looking for or needs them in a city such as Hamburg, where there are some 1,400 foundations.

HOW WE MANAGE SUSTAINABILITY ASPECTS

At HSH Nordbank, the Overall Management Board is responsible for the topic of sustainability as defined in Section 289b of the German Commercial Code (Handelsgesetzbuch, HGB).

The responsibilities are organised on a decentralised and topical basis through the integration of our sustainability strategy and objectives into our strategy architecture. The same applies to the monitoring and analysis of sustainability issues, for which the Compliance, Group Risk Management, Bank Management and Human Resources divisions in particular as well as HSH Facility Management GmbH are responsible.

Sustainable corporate management is more than simply complying with laws. HSH has voluntarily recognised the German Corporate Governance Code (GCGC) since 2005. This requires the Management Board and Supervisory Board to report annually in the Annual Report on the corporate governance of the Bank. Under Section 161 of the German Stock Corporation Act (Aktiengesetz) the Management Board and Supervisory Board of a listed company have to declare annually that the GCGC recommendations have been or will be complied with and which recommendations have not or will not be applied. HSH Nordbank as a non-listed company has voluntarily issued this Declaration of Conformity since 2005. See also our 2017 Annual Report and website.

CONSISTENT IN DEALING WITH RULES AND STANDARDS

The trust of its clients and employees as well as its public perception is vital for HSH Nordbank. A necessary condition for achieving this objective is that all employees conduct themselves at all times in accordance with the law and rules. A compliance culture applied throughout the bank is essential to strengthen compliance with the law and rules at HSH Nordbank.

CODE OF CONDUCT

Our **Code of Conduct** is the central framework for this. It focuses on essential rules and consolidates these into a form that can be understood by all employees. The key internal policies and guidelines are also referenced in the Code of Conduct.

The Code of Conduct is available on the Intranet for all employees. Besides the classical compliance rules regarding, inter alia, the prevention of money laundering, sanctions and terrorism as well as the prevention of other criminal activities or capital market compliance it contains requirements that govern conduct in the areas of taxes, finance, risk management, data protection and communications. It also contains standards of behaviour that must be complied with in the daily interaction with colleagues, in dealing with clients and to fulfil HSH Nordbank's social responsibility. We have also published the Code of Conduct on our website.

COMPLIANCE

The **compliance strategy** is the responsibility of the Compliance division, which has to monitor the overall compliance of the Bank and its employees in accordance with MaRisk AT 4.4.2. This is done, inter alia, via a central legal monitoring function and central units, which are part of the Compliance division, for the internal control system and the Bank's outsourcing management.

As part of the central legal monitoring, the corporate compliance function identifies in full the rules and regulations material for HSH Nordbank and assigns them a clear responsibility at the division level. All new and amended rules and regulations including the responsibility for them are entered into the system on a weekly basis and communicated to all divisions in the Bank. The corporate compliance function uses the **Legal Monitoring Committee** chaired by it to ensure close communication regarding rules and regulations and that an appropriate solution is arrived at in case of escalation.

The Bank does not tolerate any illegal activities, and any such misconduct is sanctioned accordingly in a resolute manner. Units have been set up within the Bank for the reporting of violations. In addition, HSH Nordbank has an external **whistleblowing office**, to which suspicions can also be reported on an anonymous basis. The whistleblowing office is staffed by external ombudsmen from an international auditing firm, who can be contacted directly by all employees at Head Office, the branches and representative offices as well as by external third parties.

HSH Nordbank has implemented, inter alia, rules on benefits (**benefits policy**), secondary employment and mandates (**conflict of interest policy**) and has binding rules and procedures in place for clarifying suspected cases relating to other criminal activities (**anti-fraud policy**). Furthermore, issues relating to dealing in capital market products are monitored (**prohibition of market manipulation, insider instruction, director dealings and prohibition of trading**).

There is an **Investigation Committee**, which has bank-wide responsibility, for clarifying material suspected cases.

Insofar as prevention is concerned, the Bank has transaction monitoring systems in place (**prevention of money laundering and financing of terrorism as well as compliance with financial sanctions and embargo rules**). The Compliance division also conducts on-line and face-to-face training sessions for informing staff – in particular with regard to the topics of other criminal activities and corruption – with a high acceptance level (98 % completion rate in 2017 without need for escalation).

TAX QUESTIONS AND ISSUES

The guideline regarding involving/informing our Legal & Taxes division in tax questions and issues (“Involvement Guideline”), which is part of our written rules of procedure, ensures that the Legal & Taxes division is involved in all tax-relevant transactions of the Bank on a targeted and risk-commensurate basis.

We have combined the Involvement Guideline with an IT-supported and standardised advisory procedure in order to consistently implement the objectives stated in the Code of Conduct for ensuring tax compliance, which is an innovation in the German banking sector.

DATA PROTECTION

Responsibility for data protection at HSH Nordbank AG rests with the Overall Management Board, which has established a data protection organisation at the Bank to implement and ensure the legal data protection regulations. An important element of this data protection organisation is the appointment of an internal data protection officer.

HSH Nordbank’s Data Protection Officer (DPO) may exercise his duties as he sees fit and reports directly to the Management Board.

His remit is to work towards ensuring that data protection requirements, in future primarily those set forth in the European General Data Protection Regulation (GDPR) and the new German Federal Data Protection Act (Bundesdatenschutzgesetz, BDSG) as well as other regulations on data protection are complied with. He identifies any potential weaknesses, acts in an advisory capacity and develops change and improvement options jointly with the competent units in the company.

In particular, he has to monitor the proper application of data processing programs, by means of which personal data is to be processed, and, for this purpose, be informed by the departments in a timely manner of projects for the automated processing of personal data.

He also has to use appropriate measures to familiarise persons active in the processing of personal data with the legal regulations relevant for data protection and the Bank’s internal guidelines that define these legal regulations in concrete terms (e.g. the Bank’s operating instructions or works agreements with data protection implications) as well as other data protection requirements. He provides general training for employees immediately after taking up their duties for the Bank, inter alia, with the aid of educational software and also conducts face-to-face training sessions on special data protection topics as required.

The data protection officer is obliged to keep confidential the identity of the party concerned by the processing of personal data (“the party concerned”) and circumstances that allow conclusions to be drawn regarding the party concerned.

The Bank’s data protection officer is available as a contact person for employees to answer any data protection related questions.

INFORMATION SECURITY

At HSH Nordbank, the protection of information provided by clients and business partners as well as the Bank's own data is a key element of the business policy. It therefore has the objective of protecting information against internal and external threats, supporting the continuation of business operations and minimising any losses arising from errors in handling information to a great extent.

Information security organisation

HSH Nordbank has set up an organisation to achieve this objective, which focuses on legal and regulatory requirements as well as ISO 27001 (international standard for information security management). An Information Security Officer was appointed for this purpose, who reports directly to the Chief Operating Officer (COO) in order to safeguard the independence of this function in accordance with the regulatory requirements. The Information Security Office regularly reports to management, at least on a quarterly basis, on the status of information security.

Information security management system (ISMS)

ISMS is a key element of HSH Nordbank's information security organisation. Basic requirements for information security, which cover parts of the Minimum Requirements for Risk Management (MaRisk), banking supervisory requirements for IT (BAIT) and ISO27001, are defined, inter alia, in information security guidelines, which form part of the written rules of procedure. Risk-oriented information security assessments are also carried out to determine whether these requirements are properly defined and implemented effectively. Deficiencies identified are assessed and appropriate rectification measures agreed with the divisions responsible.

Raising the awareness of employees

Another important task of information security is raising the awareness of employees of the risks arising from cyber attacks and infringements of the protection objectives. In addition to ongoing communication on the Intranet MyPort and in the STARK employee magazine regarding existing threat scenarios two live-hacking events were held at the Bank at the beginning of May 2018 to demonstrate in particular the possible consequences of careless and trusting behaviour. An on-line training session on information security is also being implemented in 2018.

PRODUCTS

The Bank has adopted a guideline for transactions in new products and new markets, which forms part of its written rules of procedure. The objective of this guideline is to define the regulations and requirements for the life cycle of a product from the perspective of NPNM activities and determine the relevant responsibilities. This guideline also governs the regular review of all products.

PURCHASING PRINCIPLES & SUPPLIER CODE

HSH Nordbank annually purchases services from various external service providers and producers in the value of over EUR 200 million.

The purchase of these services is governed by the "Purchasing Principles", which form part of our written rules of procedure (schriftlich fixierte Ordnung, sfO). HSH Nordbank's bases these principles on best practice approaches and also on numerous recommendations of the German Association for Materials Management and Purchasing (Bundesverband für Materialwirtschaft und Einkauf, BME).

By clearly specifying processes, tendering rules and responsibilities the Purchasing Principles form an effective working basis and create transparency and accountability for all purchase transactions. They therefore support the objective of the economic purchase of all required goods and services at optimal terms and conditions and operational implementation of internal and external compliance requirements, in particular for the purposes of preventing reputational damage and financial loss as well as fraud risks. In particular, conscious resource management and observance of as well as compliance with legal requirements and obligations make a valuable contribution to sustainability at HSH Nordbank.

As part of requirements planning, the purchase requisition, service definition and tendering procedure conformity with HSH Nordbank's systems and regulations is to be reviewed for all purchase transactions.

The following among other things is to be taken into account in this review:

- Compatibility with legal, regulatory, ethical and ecological requirements and obligations
- Product and service standards
- Banking rules regarding environmental protection and occupational safety

Existing laws, regulations and rules as well as internal organisational instructions must also be complied with by all employees involved in the purchasing process.

The principle of sustainability applies to purchasing through the Code of Conduct. Above all, this means that certain requirements regarding environmental sustainability are met in the purchasing process, e.g. for ecological product features (requirements under ISO 14001, current EU emission standards).

HSH Nordbank's purchasing department excludes suppliers, which refuse to accept the Supplier Code without a plausible explanation, from further tendering processes. A repeated violation of the Supplier Code may also result in the termination of the business relationship. Purchasing together with the ordering division makes the decision regarding this.

In addition, our suppliers are constantly compared to sanction and embargo lists, so that it is ensured for each order that only approved suppliers are appointed and HSH Nordbank only enters into transactions with suppliers with integrity.

Purchasing also ensures by means of a regular and systematic supplier assessment process that any anomalies in the supplier quality are identified in good time and rectified via the implementation of the supplier development plans.

Purchasing is also responsible for measures to prevent fraud, for complying with embargo and financial sanction requirements as well as for preventing money laundering in connection with the contracts entered into with our service providers.

Purchasing carries out appropriate controls in the purchasing and tendering process with regard to compliance with tendering procedures, ensuring competition, preventing the awarding of contracts to related parties and other conflicts of interests.

Where suppliers are equally suitable, preference is generally given to regional service providers and producers. Besides supporting the local economy, this helps to avoid unnecessary travel and transport costs and the emissions resulting from this of pollutants and carbon dioxide.

DIALOGUE WITH OUR STAKEHOLDERS

We maintain an active dialogue with our stakeholders and respond to the various interest groups.

Our main stakeholder groups are our clients, creditors, the supervisory authorities, owners, guarantors and HSH Nordbank's employees as well as the public, rating agencies and media representatives (see also our reputation risk strategy).

CLIENTS

As a Bank for Entrepreneurs our clients are the focus of our actions. We engage in regular dialogue with our clients as part of the customer relationship process, client events, trade fairs, forums amongst other things. For example, we have a stand at the Hamburg Wind Energy trade fair and Expo Real (Munich) and we have also initiated the health strategy day (Hamburg, March 2018).

We regularly invite our clients to events in our offices in the format of an "interest rate breakfast" or "interest rate" dialogue. Furthermore, we hold a "donor breakfast" event, which is organised by our Wealth Management division (see interview).

ADVISORY BOARD

The Bank has a client advisory board, which usually meets twice a year with the Management Board for an exchange of experiences. This board may be composed of clients but also representatives from other areas of society, e.g. culture, the church, sport, science and politics. We refer to our website for the current composition of the board.

CENTRALISED COMPLAINT MANAGEMENT

HSH Nordbank has a centralised complaint management function in place, which must ensure above all that complaints are processed in a certain way in accordance with the statutory requirements. In all other cases, the client decides whether its criticism is to be clarified bilaterally with the client relationship manager outside the centralised complaint management or whether it consciously wishes to involve centralised complaint management as a neutral body. Based on the Bank's mission statement and business model, the task and objective of CCM is among other things to

- establish and be responsible for a process, under which it is ensured that complaints are clearly and unambiguously identified and are systematically processed and documented in accordance with the law (particularly Section 33 (1) sentence 2, number 4 of the German Securities Trading Act (Wertpapierhandelsgesetz)).
- be perceived and used as a neutral and independent body for client criticism
- further strengthen client loyalty
- use the complaints as an information source for possible optimisation potential.

INDUSTRY STUDIES

We also periodically publish industry studies, which are available on our website, for example the industry studies “Fibre optics – expansion and financing” (March 2018) or “Position of e-health” (September 2017).

UP NORD

Another initiative of HSH Nordbank, through which we maintain a dialogue with our stakeholders is the “Unternehmerpositionen Nord” (UP Nord) platform, which can also be called up on our website. A further pillar of UP Nord are our events, which are held periodically and in which we discuss a broad spectrum of topics (see also the “How we engage in society”).

OWNERS/SHAREHOLDERS

The Bank is a German public limited company and, as such, liable to its shareholders. The principal owner of HSH Nordbank AG at the end of 2017 is HSH Beteiligungs Management GmbH with a shareholding of 94.9 %. Private investors advised by J.C. Flowers & Co. LLC also have a shareholding of 5.1 %. The Free and Hanseatic City of Hamburg and the federal state of Schleswig-Holstein indirectly hold a combined shareholding of 89.35 % via HSH Beteiligungs Management GmbH and 5.5 % is held by the Savings Bank Association (Sparkassen- und Giroverband) for Schleswig-Holstein (cf. Section “HSH Nordbank at a glance”).

28 February 2018, the federal states of Hamburg and Schleswig-Holstein agreed the sale of HSH Nordbank with four US financial investors Cerberus Capital Management, J.C. Flowers, GoldenTree Asset Management, Centaurus Capital and BAWAG, an Austrian bank. The closing, under which the change in owners is to be concluded, is planned for the second or third quarter of 2018. This will be the first privatisation of a Landesbank in Germany. This represents a massive opportunity for us - and the start of an enormous transformation process that will take several years. Our future owners are some of the most experienced financial investors in the banking sector and are involved in the Netherlands in the case of NIBC and Austria in the case of BAWAG. Both companies have actively reported on their corporate social responsibility activities and have had experience in sustainability aspects over a period of years.

POLITICS

HSH Nordbank has public-sector majority shareholders and key stakeholders are therefore also the parliament of Schleswig-Holstein and the citizens of the Free and Hanseatic City of Hamburg. HSH Nordbank has been subject to a high degree of political scrutiny for many years. HSH Nordbank maintains a dialogue with these via contributions to answers for minor written inquiries and participation in the respective investment committees of the Parliaments.

EMPLOYEES

HSH Nordbank is a major employer in the North of Germany and, as such, acts responsibly towards its employees.

MEMBERSHIPS IN ASSOCIATIONS

HSH Nordbank is a member of the German Savings Bank Association (Deutscher Sparkassen- und Giroverband, DSGV), which is linked to membership in the guarantee fund of the Savings Bank Finance Group.

HSH Nordbank is also a member of the VÖB (German Association of Public Sector Banks e.V.). As a member of the VÖB, we have the opportunity of participating in consultation procedures as part of the legislative/guideline process.

RATING AGENCIES

Dialogue with the rating agencies, Moody's und Fitch, is crucial for HSH Nordbank, especially during its privatisation process. The Bank has established the “Rating” unit in the Bank Management division for this dialogue, which maintains constant contact with the analysts of the rating agencies.

Sustainability rating

HSH Nordbank's sustainability performance is assessed by agencies that issue sustainability ratings. We are in a dialogue with the sustainability ratings agencies, imug and oekom, in particular. We have been able to again improve the sustainability rating issued by imug compared to the previous year. The current rating results are listed in the overview of our key figures and shown, inter alia, in our investor presentation on HSH Nordbank's website.

BANKING SUPERVISION

The Bank is in constant contact with national and international supervisory authorities, particularly the European Central Bank (ECB), German Federal Financial Supervisory Authority (BaFin) and Bundesbank, but also with the supervisory authorities of our international branches. Within the Bank Management division there is the Regulatory Affairs unit that acts the Bank's central key account vis-à-vis the supervisory authority and is responsible for a sustained exchange with this stakeholder.

MEDIA/ PUBLIC

The Communications division is responsible for the Bank's external communications with the media and public and ensures the necessary transparency. The media and public relations work is founded on experience and a strong network, which consists of a wide range of contacts to journalists and decision-makers in the media industry.

Public value: HSH Nordbank's contribution to the common good

In view of the ongoing privatisation process the Bank had a study conducted regarding its public value, its contribution to the common good. It put the following questions to selected representatives of its stakeholders/ stakeholder groups.

What is the social value added by HSH Nordbank? What makes it valuable in the eyes of the environment and region?

The question of public value was the focus of a project carried out by HHL Leipzig Graduate School of Management together with the agency red onion during 2017.

With the aid of a specific interview technique over 30 experts from all sections of society (science and economy, politics and associations, press and media, cooperation partners, arts, culture, social services and education) were also surveyed in addition to employees.

As a result, a public value model has been developed, with which four public value areas of activity were identified:

- Field of activity: regionality in action
- Field of activity: useful products
- Field of activity: good banking
- Field of activity: reputable bank

In each field of activity HSH Nordbank is highly valued by the persons surveyed, which, however, also underlines which challenges the organisation is facing. The findings of the study are incorporated in the strategic positioning work of the new bank.

“USE ENERGY SPARINGLY”

Large office spaces, which have to be lighted and heated, thousands of computers, hundreds of printers – a good energy management is important for companies. This is what must be borne in mind, according to the Chief Operating Officer of HSH Nordbank, Dr. Hans-Jürgen Niehaus, and according to Michael Hanke, one of the two managing directors of HSH Facility Management GmbH.

Has our view regarding the issue of sustainability changed over the past years?

Dr. Hans-Jürgen Niehaus: The Bank has been addressing this issue in a very conscious manner for many years – sustainability is very important to us. As sustainability generally fulfils both economic and ecological requirements.

Michael Hanke: For example, it is important to us to use energy as sparingly as possible. Since the end of 2016 we have had the Bank's energy management certified under ISO 50001. This means we have our own internal energy manager at the Bank. Maintenance, servicing, energy supply – we capture all this in annual plans, in which we also define how we can become even better in the future. We achieve the biggest savings in electricity consumption.

What are the options for this?

Michael Hanke: We have completely converted large parts of our lighting systems to LED technology, including motion sensors, so that lights are only on if they are being used. This applies not only to offices but also outside areas and garages. This has resulted in a saving of 135,000 kilowatt hours, which represents a reduction of 18.7%.

Does good energy management above all mean as little energy consumption as possible?

Michael Hanke: As little consumption as possible is ultimately the result of good energy management. However, one must realise one thing: one usually must first invest in order to save energy.

Dr. Hans-Jürgen Niehaus: A good example of this is IT, which consumes a great deal of energy in a bank. Our new IT technology is now significantly more energy-efficient than the old one was. We have also replaced and reduced printers, that has also had a significant impact. It is important to always keep pace with latest technological developments.

To what extent do structural conditions restrict the options for increasing energy efficiency?

Michael Hanke: They play an important role. Our Head Office in Hamburg was built in 1972. Although it was renovated in 1993, the options remain limited. For example, it is difficult to intensively use renewable energies in already existing buildings. The building restrictions are too great. At present, this means that we have to optimally use the existing buildings.

Is there a conflict between comfort and energy efficiency?

Michael Hanke: Of course, if colleagues want to sit at their workstations in a shirt or blouse, it must be correspondingly warm – that increases



Dr. Hans-Jürgen Niehaus (left) COO of HSH Nordbank, Michael Hanke, managing director of HSH Facility Management GmbH

energy consumption. We try to find a compromise, namely in the range of tenths of a degree. The comfortable temperature is about 23 degrees Celsius and 50 percent humidity measured at a height of 2.10 metres. The lower the room temperature is in Winter or the higher the room temperature is in Summer, the lower the energy consumption is.

Most people keep their homes colder.

Michael Hanke: That is the point – at home one can get a blanket, in the office the feeling is quickly there: I'm cold, turn up the heating.

How important is it to make colleagues aware of the issue?

Dr. Hans-Jürgen Niehaus: That plays a major role. It is important to create an understanding of an efficient use of resources. By the way, this applies to business as well as private life.

WHAT WE DO TO PROTECT THE ENVIRONMENT

Within the HSH Nordbank Group, **HSH Facility Management GmbH** and its subsidiary, **HSH Gastro + Event GmbH**, deals with corporate environmental protection.

HSH Facility Management GmbH is an exclusive service provider for HSH Nordbank's secondary processes. It has the functions of property management, energy management and real estate security.

It is the responsible operator of HSH Nordbank AG's properties, including its technical installations, and ensures the occupational safety and operating reliability of HSH Nordbank AG at domestic locations.

It performs selected banking functions such as cost type management for land and buildings as well as for various operating expenses. The actual banking functions also include the safe custody of documents as well as archiving of files, strategic building management and occupancy planning.

Since 2016 HSH Facility Management GmbH has been responsible for energy management at HSH Nordbank AG and is certified under the international quality management standard DIN EN ISO 50001.

The FM group ensures trouble-free operations and optimises processes by constantly reviewing its use of internal and external resources. It is certified under DIN EN ISO 9001:2015.

ENVIRONMENT

Using resources sparingly and keeping the ecological footprint as small as possible is an important task in managing sustainability at HSH Nordbank AG.

It is important to HSH Nordbank AG to make its employees aware of the impact of their day-to-day work on the environment and ensure transparency regarding the management of sustainability aspects.

This not only has a positive environmental impact, but economic benefits may also arise as a result. Sustainability management measures caused costs for electricity and heat in particular to decrease.

The intentionally strong commitment in the areas of water, heat, CO₂, mobility and emissions serve not only to protect the environment but also contributes to the credibility of HSH Nordbank on the national and international markets.

ENERGY POLICY SUCCESSES 2008 – 2016

Reduction in energy costs

€1.3 mn
p.a.

Reduction in CO₂ emissions

4,200t CO₂
p.a.

Reduction in energy requirements

7.4 GWh
p.a.

Energy efficiency measures

- Modernisation of lighting, switching to LED technology in offices, corridors and outdoor areas and use of motion detectors
- Replacement of IT hardware and passive network components as part of MORE IT
- Energy-efficiency alterations to building automation and control system
- Replacement of circulator pumps and heat exchangers
- Modernisation measures in the kitchens and canteens and replacement of catering facilities
- Centralisation of data centres

BUILDING PORTFOLIO

The FM has the operational and operator responsibility for a net floor space (NFS) of currently 130,000 m² (of which 92 percent is directly or indirectly owned by HSH Nordbank) in Germany. It is also responsible for the strategic real estate management of an additional NFS of 10,000 m² at the locations of Luxembourg, New York, Singapore, Hong Kong and Athens.

It also manages over 12,000 m² of office space and approx. 50 retail premises at the Hamburg and Kiel locations.

ENERGY CONSUMPTION

Overall, commercial buildings in Germany account for a high proportion of the energy consumption. Energy efficiency is improving due to the energy-oriented refurbishment of the building portfolio and continual tightening of HSH Nordbank's energy standards and thereby contributing its share to the national and international climate policy.

HSH Nordbank AG has already defined and implemented various measures via the integrated and certified energy management system, which resulted and will result in a significant reduction in energy consumption. In so doing, attention was paid to the reduction in electricity, heat and CO₂ emissions.

ELECTRICITY

When defining the energy management measures a particular focus was on reducing electricity consumption, as HSH Facility Management GmbH has localised the greatest impact on the environment in this area and, as a result, achieved the highest savings. Potential savings have been identified and realised through various actions such as the "More IT" project (replacement of hardware and active IT components).

A further example of the commitment to energy saving measures and therefore to environmental protection is the equipping of the whole of HSH Nordbank with energy-efficient lighting using LED technology in the offices, corridors and outdoor areas. Motion and daylight sensors, which guarantee an optimised operating time and very low electricity consumption, are integrated into the work station LED lights. This had a potential savings of electricity of over 135,000 kWh.

This resulted in a reduction in HSH Nordbank's electricity consumption of 18.7 percent compared to the previous year (2015: 14.4 GWh | 2016: 11.7 GWh). The figures for 2017 are not yet available as at the reporting date, because the full bill for 2017 has not yet been received. The energy suppliers have to submit their bills until the end of 2018.

CO₂e from building operations (values 2016)

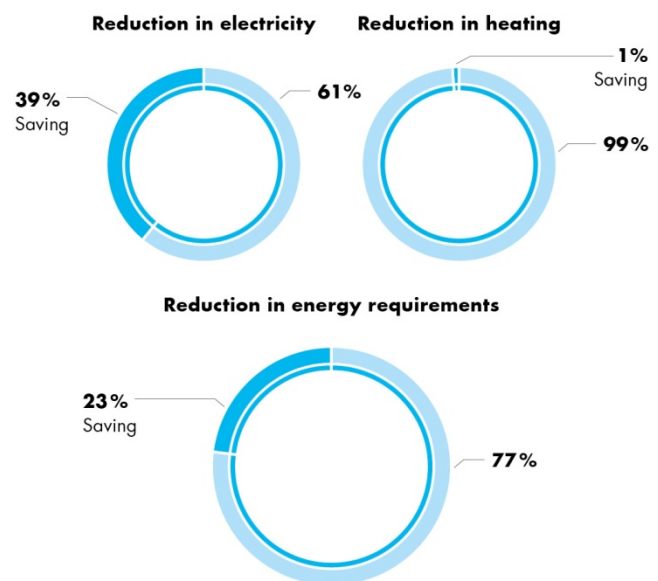
	absolute	Adjusted ¹⁾
CO ₂ e in t	10.013	9.561

¹⁾ Only own-use real estate

HEATING

The reduction in heat energy consumption is rather low in the order of priorities at HSH Nordbank according to the objectives set for the energy management system. This is due on the one hand to higher investment cost and the degree of complexity in, for example, implementing structural measures in the existing buildings and on the other to the small proportion of costs (approx. 30 %) and lower proportion of pollutants (29.9 %) compared to other energy media. This is mainly attributable to the decentralised generation of heat (almost 100 % of the properties are connected to the district heating system in Hamburg and Kiel). Energy savings measures were taken in the area of heating, particularly as regards the replacement of heat exchangers and pumps and insulation of pipes). Systemic adjustments were also made (including adjustments to the reference periods), which also contributed to a reduction in energy consumption. Around 24 % in absolute terms could be saved in the amount of heating used, but, adjusted for the existing properties used by HSH Nordbank, the saving is only 1 % (2008–2016). Further potential is to be leveraged in this area in the future. Further savings can already be expected as a result of the measures started in 2017 such as the energy-based renovation of the facades of a building in Kiel.

REDUCTION IN ENERGY CONSUMPTION FROM 2008 – 2016¹⁾



¹⁾ Based on adjusted energy consumption, i.e. excluding buildings that have been let out/sublet/sold.

REDUCTION IN CO2

HSH Nordbank AG has been able to reduce CO₂ emissions by 800 tonnes in the financial year by implementing energy savings measures (total for 2008-2016: 4,200 tonnes p.a.).

Further reductions in CO₂ could be achieved in logistics area amongst others. This is exemplified by the "Go Green" certificate for the reduction in CO₂ and local emissions, such as fine dust and nitrogen oxides, in transport and logistics.

As part of the electricity supply re-tendering process for changing the electricity supplier HSH Nordbank AG's Management Board decided, against the backdrop of sustainability, to switch to green electricity and entered into new contracts from 2018.

In defining the objectives (2017 et seqq.) for the energy management system measures focussing on pumps, motors, insulation of facades, replacement of heat exchangers and isolation of large installations linked across buildings to reduce transmission losses will result in a further sustainable reduction in climate-damaging CO₂ emissions.

HSH Nordbank AG also supports, inter alia, projects for the expansion of renewable energies. It is therefore not only contributing to increasing efficiency but attempting to tackle climate change and the impact of the scarcity of resources.

CO₂ emissions especially in the area of business travel are separately addressed in the mobility section.

MOBILITY

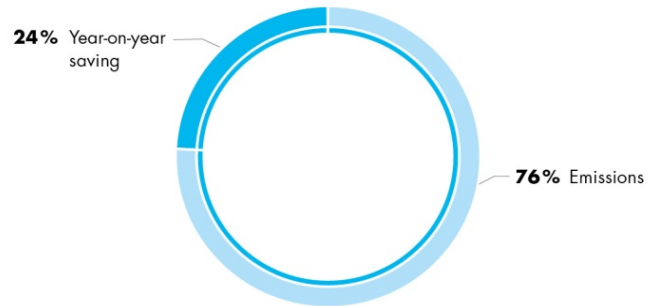
Business trips of employees cause a large proportion of HSH Nordbank's emissions. We encourage our employees, especially with regard to trips not relating to clients, to review possible alternatives to a car. The cost of a rail card is borne by HSH Nordbank under certain conditions. This not only reduces travel cost but emission levels at the same time.

The kilometres travelled on business trips have decreased from 5,371,888 (2015) to 4,330,521 kilometres. This represented a decrease of 19.3 percent in kilometres travelled.

This has an impact on emission levels. In 2016, these amounted to 657.293,72 (kg/CO₂e) measured in GHGP standards. This is equivalent to a reduction of 24 percent compared to the previous year.

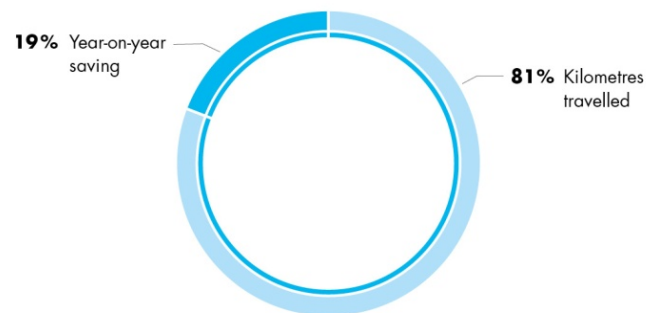
	Miles	DEFRA(kg CO ₂ e)	GHGP(kg CO ₂ e)
2017	2.232.045	564.884	566.950

CO₂ EMISSIONS DUE TO BUSINESS TRIPS IN 2016



Since 2013 all rail corporate clients, as well as HSH Nordbank employees, have been using the long-distance trains of Deutsche Bahn (DB) that run with 100 percent green electricity.

KILOMETRES TRAVELLED DUE TO BUSINESS TRIPS IN 2016



The technical infrastructure for video and telephone conferences has been continuously upgraded over the years and is available at any time. This also reduces CO₂ emissions in addition to travel times.

All vehicles in the HSH Nordbank Group's fleet meet the latest Euro-norms, and the use of electromobility is also currently being tested with one vehicle. Ecological requirements such as CO₂ efficiency class A and limit on the engine capacity of less than or equal to 2 litres are firmly established in the car policy with regard to company vehicles for persons entitled to use company cars.

Subsidy for the use of public transport

All employees of HSH Nordbank and its subsidiaries receive a monthly travel expense subsidy for travelling to their place of work in the gross amount of € 15.34. The prerequisite for this is the submission of proof of purchase of an annual season ticket from a provider of public transport (e.g. HVV, KVG, Deutsche Bahn). In Hamburg, the subsidy entitles employees to participate in HVV's season ticket scheme for major clients. This offer is currently taken up by 1,063 employees. We continue to focus on railways as the choice of the means of transport for business trips. For example, there is a cooperation agreement in place with Deutsche Bahn for this purpose.

WATER USAGE

Drinking water for the HSH Nordbank Group is purchased mainly from regional suppliers.

Fresh water used in 2015 and 2016 to operate the Bank was almost constant at 32.500 m³. Total usage was 37.000 m³, of which approx. 4.500 m³ was used for operating the "PERLE HAMBURG" shopping passage with the focus on restaurants and cafés.

Water usage appears to be marginal based on usage per capita; however, short-term measures have been specified to reduce the usage of fresh water. In 2018, waterless urinals will be gradually installed in the main locations of Hamburg and Kiel in order to be able to reduce usage on a sustained basis.

PAPER CONSUMPTION

HSH Nordbank was able to significantly reduce paper consumption by 44 percent in the years 2015-2017. Almost all forms of paper used are wood-free and thereby make a significant contribution to the conservation of resources.

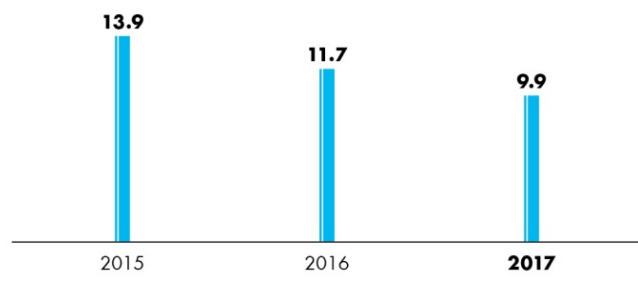
Consumption is being steadily reduced by the use of copier centres and a printing shop instead of printers at individual workstations.

The goal of reducing paper usage to the 2015 level was achieved. The reduction in paper size and types of paper used also contributed amongst other things to the decrease in paper consumption (mis-prints were avoided). As part of the decrease in paper volume the consumption of toners was also reduced in addition to a reduction of colour printers.

Further reductions are also expected in the future as a result of the ongoing digitisation process in the company.

PAPER CONSUMPTION OF HSH NORDBANK

(in millions of sheets per year)



WASTE AND WASTE WATER

HSH Nordbank's waste volume at both its main locations in Kiel and Hamburg was steadily reduced in 2015, 2016 and 2017. In 2015, HSH Nordbank had to dispose of a waste volume of 374 tonnes, which was reduced to 228 tonnes in 2016. HSH Nordbank was again able to optimise the waste volume to 210 tonnes in 2017.

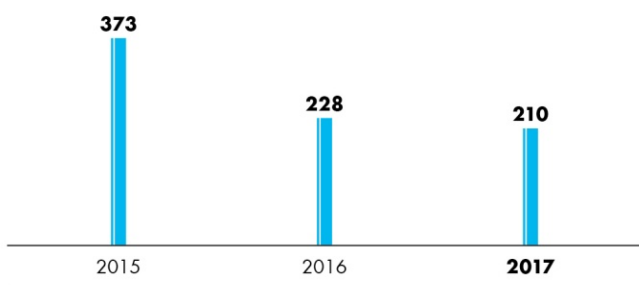
The largest waste component at HSH Nordbank is the disposal of paper (see Paper consumption). As a financial institution dealing with sensitive data, we are required to destroy this data in accordance with the German Federal Data Protection Act.

HSH Nordbank tries to get every employee to separate waste. Waste paper and other waste can be separated at each workstation. Biodegradable waste and packaging can be disposed of at central sites. Organic waste from the restaurants is delivered to biogas plants and used to generate energy.

Hazardous waste is taken away and disposed of by waste disposal companies using methods prescribed by law.

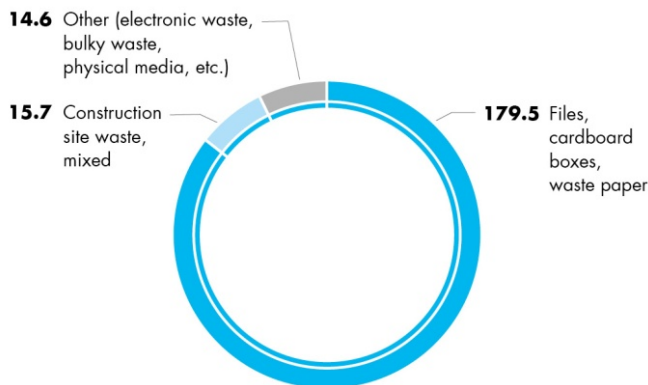
WASTE QUANTITIES OF HSH NORDBANK

(in t per year)



WASTE QUANTITIES BY WASTE TYPE IN 2016

(in t)



PURCHASING IN ENERGY MANAGEMENT

HSH Nordbank also takes account of energy efficiency when procuring new products and services (see also the “How we manage sustainability aspects” section).

Not only the cost alone but also the subsequent costs for energy consumption during the expected period of use are included when comparing possible variants. This results not only in cost savings for HSH Nordbank but also reduces energy consumption at the same time.

We expect active support from our suppliers with regard to a possible optimisation of our energy consumption and energy efficiency.

This approach is also spelt out once more in HSH Nordbank’s Supplier Code:

“In addition to our high quality standards environmental protection is an integral part of the corporate policy. That is why HSH Nordbank has drawn up a Supplier Code.”

In this Supplier Code we require active support from our suppliers with regard to a possible optimisation of our energy consumption and energy efficiency.

SUSTAINABILITY BY COST TYPE MANAGEMENT

Since 2009 a steady decline in the cost level with high savings has been achieved by HSH Facility Management GmbH assuming responsibility for and management of cost types for land and buildings including depreciation and various operating expenses. These measures are not only sustainably counteracting the squandering of money but also the waste of resources.

The services and tools include:

- Cost and budget planning as well as cost management for land and buildings (including rents, operating and maintenance costs) and for the BGA, catering, vehicle, other operating services and postage/shipment cost types
- Drawing up of measures and business plans for reducing costs with the objective of reducing the “cost/income ratio” to below 50 % by 2018 and fully exploiting the savings potential in operating operating expenses
- Calculations of building life cycles and drawing up of benchmarks/key figures for comparison with market competitors
- Development of FM standards (e.g.: size of and equipment for the work space for workstations) for HSH Nordbank AG
- Drawing up of management reports (cost and product transparency)

SPACE MANAGEMENT IN THE CONTEXT OF SUSTAINABILITY

HSH Nordbank AG (HSH Nordbank) provides employees at HSH Nordbank Head Offices and domestic representative offices as well as advisers, auditors and external staff with office space and workstations, which comply with the statutory regulations and occupational safety criteria.

HSH Facility Management GmbH (HSH FM) ensures compliance with the statutory requirements and guidelines. HSH FM is also responsible for planning office space and its equipment on a cost-optimised basis and adapted to the needs of the departments.

The definition of office space standards in addition to the equipment guidelines such as the standard furnishing concept forms the framework for a cost-conscious and efficient planning of office space.

The aim is to use space resources as effectively and efficiently as possible taking account of the statutory and health requirements, social acceptability and Overall Bank objectives. The approved and qualified space required is provided in accordance with the overall concept and periodisation:

- Optimised use of the available space taking account of statutory, health and social acceptance requirements
- Use of vacant space owned by the Group, avoidance of leasing
- Use of vacant space in leased space, if terminations are not possible or uneconomic
- Expansion and leasing for additionally determined space requirements that cannot be compensated after review of further optimisation of workstations and space.

EMPLOYEE CATERING AND EVENT MANAGEMENT

Gastro + Event GmbH of the FM Group is responsible for the catering in the staff restaurants and cafeterias at the Kiel and Hamburg locations as well the HSH-owned bistro in the Kiel Schlossgarten. It is involved in organising events and looks after the Bank's guests in the various facilities of the Bank (conference centre, guest lounges, function rooms) at both locations. Both internal and external seminars are also organised and managed.

Gastro + Event GmbH has been a member of DIG (German Institute for Community Catering) since 2008. Our activities are also based on the DIG guidelines.

- We check the regional origin of the products that we use.
- We encourage vitality and offer indulgence.
- We live and breathe quality, this begins with procurement and the further processing.
- We add value, as we maintain the ability of our guests to perform and foster communication through our range of services.
- We value our employees, we encourage and challenge them.
- We take responsibility by consciously choosing products and suppliers.

The occupational health management measures are supported by targeted actions (e.g. benefit, Brigitte diet and keep fit in the Winter) in the canteens at the Kiel and Hamburg locations.

“IT IS IMPORTANT THAT PEOPLE TREAT EACH OTHER WELL”

Cirsten Klein, Diplom-Sozialpädagogin (qualified social education worker) is one of three external specialists in workplace counselling at HSH Nordbank, who is available five days a week for employees. In the interview she commented on the current developments and issues that employees have on their mind. The number of counselling sessions has increased in the past year to 703 compared to the previous year (639). The private environment, work and illness theme areas were the reasons – one third in each case – for the counselling.

Which changes do you perceive compared to the previous year?

Cirsten Klein: Work counselling has been designed for some considerable time as counselling for employees and managers. In the current times of radical change managers come to highly value the service offered in order to use this as support for the team for the corresponding questions. In talks with us they rearrange their situation, reflect on their role. It has already proved itself, to have a three to four hour workshop with the whole team organised. The group can meanwhile concentrate together on its resources, look at what is going smoothly. This exchange often releases a lot of good.

What type of workshops do you offer?

Cirsten Klein: We structure each one individually and base it on the needs of the respective group. In 2017, we offered a total of 32 events, which included 11 seminars on the topics of resilience, stress management, mindfulness, self-management, leadership in challenging times, mental illnesses of employees and team-oriented workshops for dealing with peak loads. And we offered five workshops, in which teams themselves developed solutions on the topics of the future and pressure at work. 135 employees in total took part in these formats.

Have the counselling themes changed?

Cirsten Klein: Private sphere themes such as the double burden of caring for older family members in addition to the job taking even greater precedence.

Employees' concerns raised in counselling sessions on working conditions relate to adjusting to new structures, processes and areas of responsibility. The quantitative workload, change in or elimination of contact persons and expertise as well as the change in managers are regarded as burden. We also registered a significant increase in discussions regarding the topics of change and loss of job.

What recommendations would you give to management?

Cirsten Klein: Managers should very consciously take care of their employees. Proper communication plays a very decisive role in this. It is important that people treat each other well. Management should therefore think of the health of employees as an objective and act accordingly. This makes a company productive. Health and well-being are after all not a luxury.

What effect is digitisation having on employees?

Cirsten Klein: Digitisation will of course be – in addition to the concentration of jobs and making jobs more flexible – a defining future



*Cirsten Klein, Diplom-Sozialpädagogin,
specialists in workplace counselling at HSH Nordbank*

topic for companies and their employees. In 2018, the Bank is focusing on digital transformation as a major project, which will also pose further challenges for the employees apart from technical and structural requirements. Executive management and managers are encouraged to make use of the benefits of digitisation and increase productivity and competitiveness.

At the same time, the world of work requires new structures and the further development of management behaviour. The key word is Management 4.0 – Digital Leadership. Managers are required who operate on a long leash, delegate, communicate sense and encourage self-responsibility. They are to form personal relationships in a multi-modal and multi-medial manner and manage employees and teams on a decentralised basis with flexible working hours.

HOW WE SAFEGUARD THE INTERESTS OF OUR EMPLOYEES

THE HUMAN RESOURCE STRATEGY OF HSH NORDBANK

The human resource strategy supports the overall bank strategy and provides the framework for operational human resource functions. It attaches great importance to ensuring that quantitative and qualitative staffing levels are in place and to managing and avoiding related personnel risks. This goes hand in hand with the ability to attract and retain motivated and committed employees.

The Human Resources division is responsible for its governance function, especially in managing personnel expenses and implementing, complying with and enhancing the legal and regulatory principles and guidelines, for example in respect of the German Ordinance on the Remuneration of Financial Institutions (InstitutsVergV). Modern and reliable operating processes form the basis for all topics relating to human resource functions.

See our 2017 Group Management Report for further information.

EMPLOYEE RIGHTS AND EQUAL TREATMENT

Co-determination in the workplace and equal treatment have a long tradition in our Bank, which is also valid today and actively practised.

CO-DETERMINATION

We encourage and require co-determination. We actively involve employee representatives at HSH Nordbank and respect the rights of trade unions.

The work of employee representatives includes the democratic scrutiny as to whether laws, regulations, works agreements and collective bargaining agreements are complied with and makes a positive contribution to peaceful co-existence in the workplace. It encourages, amongst other things, the enforcement of actual equal opportunities between women and men, the promotion of health and safety at work and combating of arbitrary unequal treatment within the company. Our various works agreements represent important rights of employees, especially for social matters, which bind the company, the employee representatives and employer.

The Verdi trade union is represented by two members on HSH Nordbank's Supervisory Board, which is composed of 16 members (of which eight from the employee side).

Safeguarding of employee interests by HSH Nordbank's works council

There are also employee representatives at FM Holding GmbH and in Luxembourg in addition to the Bank's work councils in Hamburg and Kiel. Against this backdrop a Group works council and a European

works council were established. The works councils in Hamburg and Kiel send members to the central works council. The works council elections, which are to be held regularly every four years, take place in 2018. Voter turnout in the last elections was between 65 % and 70 %.

The Works Constitution Act (Betriebsverfassungsgesetz) forms the basis for the work of the works council. In addition, there are various labour laws, which have an influence on the co-determination of the representation of interests. The collective bargaining agreements for the private banking industry also apply.

The works councils safeguard the interests of the workforce in a number of different ways. These include the following points:

1. The works councils monitor whether laws, regulations, collective bargaining agreements and works agreements are implemented and complied with. In this context, individual works agreements with the employer are revised where appropriate. For example, the central works agreements regarding remuneration systems and data protection may be affected by this.
2. The works councils exercise their right of co-determination for, inter alia, recruitment, changes in employment contracts, changes in salaries, organisation of working time including overtime and terminations. Requests of the human resources may be refused under certain circumstances in this regard - especially against the backdrop of the agreed and implemented headcount reduction programme.
3. Restructuring measures and headcount reduction objectives planned by the Management Board are negotiated and co-determined as part of negotiations on a reconciliation of interests and social plan. This was last the case in 2016 (cf. 2016 Group Management Report).
4. The works councils assist colleagues upon request in severance talks initiated by the employer, in interviews and job interviews. Colleagues are also supported in the employee appraisal process that is conducted annually, if they so wish.
5. The works councils are committed to compliance with environmental protection and occupational safety regulations, accident prevention and promotion of health in the workplace. The works council participates in committee and board meetings in order to initiate or to implement and monitor these and other topics. These are, for example, meetings of the Occupational Safety Committee or the Health Steering Committee.
6. The works councils in collaboration with the youth and trainee representative advises the Human Resources division on questions relating to vocational training and education. The works council also co-determines the selection of participants in support programmes.

7. Furthermore, the works councils are available at any time for individual talks or counselling sessions with colleagues.

As a rule, the works council hold weekly meetings and advise or decide on the above-mentioned topics.

Meetings are periodically held with the Human Resources division to prepare for and follow up these topics. In addition, the chairmen of the work councils periodically hold meetings with Management Board members or general managers of individual companies.

The works councils endeavour to resolve disagreements and conflicts within the Bank. If this is unsuccessful, clarification is sought before the labour court or through conciliation.

The work councils have a variety of networks in place, primarily with the Verdi trade union responsible for the Bank, but also with work councils of other banks.

The work councils regularly disclose information on their activities, decisions and work. This is done as a rule by monthly publications on its own pages on the Bank's Intranet, and two to three works meetings at individual locations or companies. There are also further publications issued such as "Aktuelle Stunde", "Cafeteria Talk" or "After-work".

The work councils are provided with appropriate offices with the necessary equipment to implement all tasks and execute all duties. The administration offices in both the major locations in Hamburg and Kiel are staffed by assistants.

There is also a representative for employees with disabilities in both Kiel and Hamburg. Both form the central representation for employees with disabilities. The respective representative for employees with disabilities attends meetings of the work councils or central work council and also has his own agenda item in the meetings.

The representative offices for employees with disabilities advise colleagues with regard to applications for disability and equality treatment regarding disability. They advise on the design of workplace for severely disabled persons. They also attend meetings of the Occupational Safety Committee.

EQUAL TREATMENT

Equal treatment has a long tradition in our Bank. The federal state equal treatment acts no longer applied to us following the merger of the two predecessor institutions in 2003. The then Management Board members and works councils voluntarily ensured that the issue of equal treatment was permanently anchored within the framework of a central works agreement, which still applies to our Bank today. Points from the respective federal state acts on equal treatment of the federal states of Hamburg and Schleswig-Holstein were incorporated into this agreement. However, the stakeholders went far beyond this

by very generously establishing, for example, the staff function of equal opportunities officers: there is a full-time equal opportunities officer, who is released from normal duties, and a part-time one in each of the locations in Kiel and Hamburg. The equal opportunities officers were given extensive rights and act independently.

Every four years we draw up with a bank-wide working group an equal opportunity promotion plan, which ensures that women and men are supported moving toward equal treatment at work with appropriate measures. For this purpose extensive gender-specific figures, data and facts are reviewed and gender-specific disparities investigated. The current promotion plan applies until 2020. An important point is that, for example, this issue is actively supported by the Chairman of the Management Board. It is also laid down that we continue to actively support women and men in all issues relating to the reconciliation of work and family life and also buy in external know-how for this. Female talents at all age levels are actively promoted when filling positions and when considering candidates for target group programmes of personnel development. Increases in working hours of women working part-time are given priority when jobs are re-advertised. We are also a member of "Gender Dax", the gender and diversity project for highly qualified women initiated by Helmut-Schmidt University, Hamburg.

Our equal opportunities officers annually prepare comprehensive equal treatment statistics, which are updated quarterly, discussed with the Chairman of the Management Board and made available on the Intranet to all managers and employees. Our equal opportunities officers have also annually prepared a so-called "remuneration comparison" since 2010 – inspired by the nationwide "Equal Pay Day" –, which compares the salaries/wages of men and women by division depending on job family, career level and work duties, the aim of which is to ensure that women and men receive the same pay for the same work. The results of the analysis are submitted to the relevant division management and responsible work councils for acknowledgement and further processing.

As a result of the financial crisis in 2008 the issue of equal treatment faces significant challenges caused by the extensive restructuring and related reduction in headcount. We take account of this by raising the issue with the Chairman of the Management Board and anchoring the promotion of women in the objectives of the Overall Bank.

"It is the task of every woman and every man to ensure through their conduct, communication behaviour and commitment that equality of opportunity finds its way into our conscious and unconscious actions and is instilled as something self-evident. This applies especially to the Management Board, managers and members of the employee representation bodies and is reflected in the human resources policy put into practice and the many different decisions to be made on a daily basis."

(Excerpt from the central works agreement on equal treatment).

SELECTED KEY FIGURES REGARDING EQUAL TREATMENT

Figures as a %	31.12.2017
Percentage of women in the workforce	42.9%
Women on the Bank's Supervisory Board*	31.3%
Percentage of women managers across all levels	22.0%
Percentage of women in top specialist functions	35.4%
Remuneration structure - women's share	
Tariff salaries	68.2%
Non-tariff salaries	31.8%
Use of paternity leave in the Bank by fathers	42.0%
Part-time working ratio at the bank	26.5%

* 37.5% up to 14. November 2017

EQUAL OPPORTUNITY STATISTICS AS AT 31.12.2017 ¹⁾²⁾

	Women		Men	Total	Women	
	Number	Ratio			Ratio	Ratio
Direct reporting managers	3	17	20	15%	85%	
Department heads	11	48	59	19%	81%	
Total	14	65	79	18%	82%	

¹⁾ Head Office excluding employees exempted from normal duties

²⁾ See also our 2017 Group Management Report

TRAINING AND QUALIFICATIONS

Our employees are decisive for the success of our company. The advancement of our junior staff is just as important to us as the continuous development of our employees and managers.

PERSONNEL DEVELOPMENT

We support the professional as well as the personal development of our employees in order to promote life-long learning. We offer a multi-faceted internal and external continuing education and qualification programme for this, which is revised each year in line with needs and current topics. Our seminar programme is broken down into specialist, work-oriented, development and health topics. The employee discusses with the relevant manager which seminars are to be attended during the year.

Our promotion and career opportunities across divisions contribute towards agility within the company. The first round of our "STEPS" mentoring programme was started in 2017 to support this. Under the one-year programme an experienced division or department is assigned to new employees. The aim is to make their start at the Bank easier, to exchange ideas, receive feedback and to open the mentor network to new employees. Our managers also have an important position in our company. They are expected together with their team to face the challenges of the future. In addition to individual management development, such as coaching, our "management workshops" are an important tool for this. The "management workshop" was successfully launched in 2016. It is held several times during the year and increases the active exchange of ideas between the executive management and management levels. In addition to this, we implemented the "Führen mit Zukunft" programme in 2016 and 2017, in which selected managers at the team or department head level are prepared for the next level.

TRAINEE DEVELOPMENT

Trainee development is an important topic for us and enables us to counteract demographic trends and the increasing average age of the Bank's employees. We place great value on top quality training in order to enable young professionals to get a good start to their career from the outset.

We offer young people various entry opportunities. In addition to our commercial vocational training for office management and the combined courses of study for Bachelor of Arts/Science in Business Management /Business Administration and Bachelor of Science in Business Information Systems, we offer internships for students and university graduates as well as an individual 24 month trainee programme in different divisions.

Our bachelor degree students may also complete a bank officer or computer science training course in addition to their combined courses of study. In selecting our trainees and sandwich students we ensure that there is a fair balance between women and men. The ratio is currently 50/50.

Our trainee concept comprises:

- intensive support during the entire study and training period
- active contribution from the trainees during the course of their training

- participation in technical and personal development seminars
- working in a team and project-related tasks.

Everyone who completes their training or combined course of study with a mark of “very good” or “good” receives from us an offer for an unlimited period of time to fill an open vacancy. 11 out of the 12 trainees and sandwich students accepted this offer in 2017.

We annually offer an internship to around 50 undergraduates and students to enable them to get to know the Bank.

In 2017, a Syrian refugee completed an internship with us. He was so successful that we then integrated him into the commercial office management training course. This year again we made it possible for another refugee to take up a six-month internship as a way of entry into the German labour market.

Our two-year training programme is characterised by:

- extensive on-the-job training
- individual support from a mentor
- needs-based further development
- networking

For several years we have been recognised by Absolventa GmbH as a “provider of high quality career-promoting and fair trainee programmes”.

In April 2018, we also received the award for “Germany’s best training organisation in 2018” following a study conducted by Faktenkontor on behalf of “Focus” and “Focus Money”.

15 trainees are currently going through the programme; they started in the Autumn of 2016 or 2017. 11 new trainees will start in the Autumn of 2018.

HEALTH AND LIFE-BALANCE

We offer our employees different opportunities to improve their own health or life-balance. We support them with a wide and individual range of services. Support aligned to the various life phases is important to us, and we therefore regularly adapt our programme and supporting range of services to fit the needs of our employees.

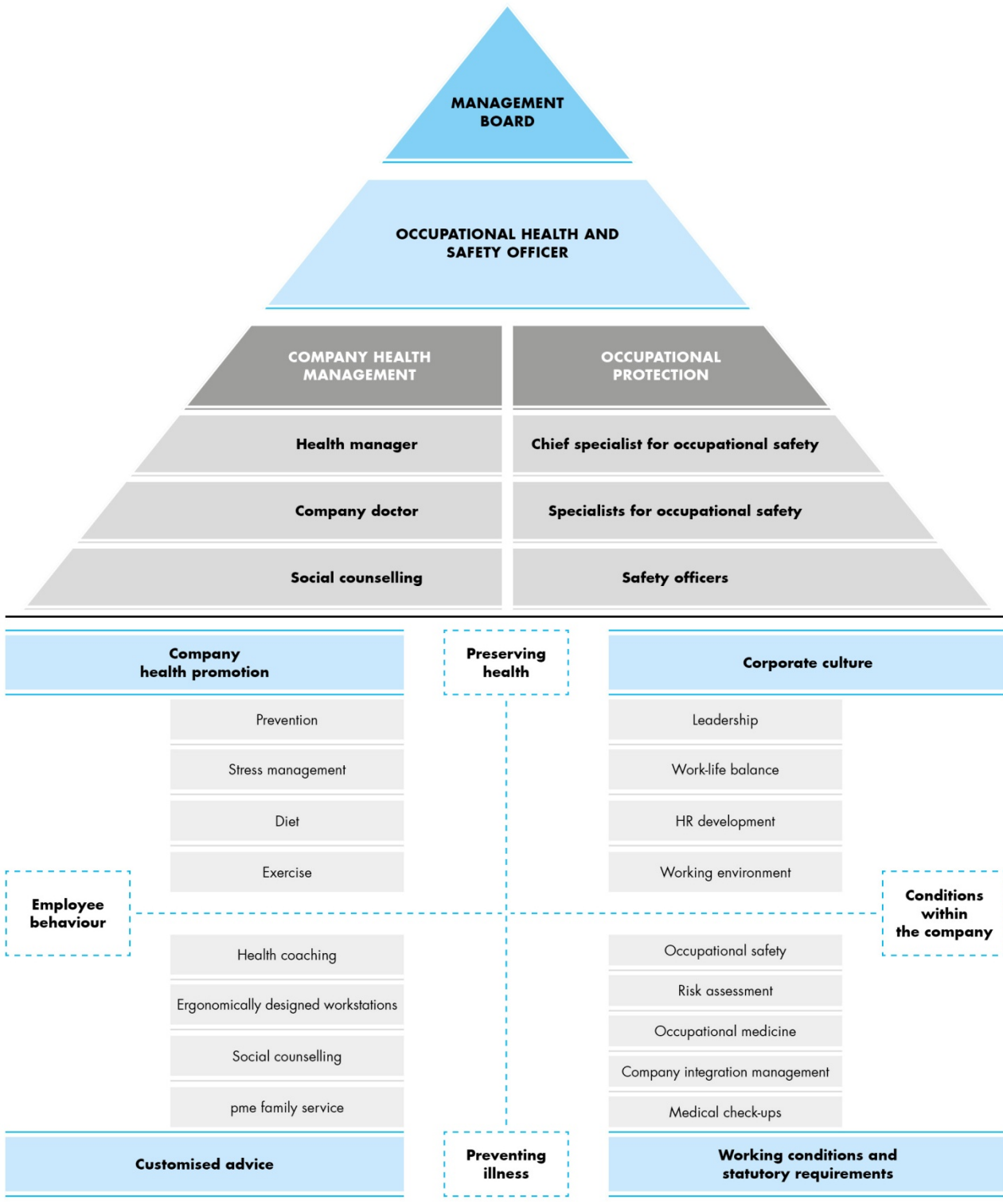
PROMOTION OF HEALTH

It is the task of HSH Nordbank’s corporate health management (CHM) to promote the health and well-being of the employees in the workplace and thereby maintain or increase motivation and performance. Organisationally, all health activities are managed by the Occupational Safety and Health Protection Officer (located in HSH Facility Management GmbH) and healthcare manager (Human Resources division). The “Health Steering Committee” comprised of various division heads and the works council member is an important driver of the strategy for and direction of our activities.

Our themes are on the one hand behavioural prevention: Individual counselling sessions from health coaching to ergonomic advice are accompanied by a comprehensive range of seminars on corporate health management addressing topics such as stress management, nutritional advice, conflict management and special seminars for managers. On the other, we provide behavioural prevention measures: action regarding the corporate culture addressing topics such as work-life balance and a comprehensive personnel development programme as well as the extensive occupational safety activities addressing such topics as risk assessments, inspections but also occupational medicine and operational integration management. In procedural terms, corporate health management also includes the careful analysis of quantitative key figures and evaluation of our multi-faceted measures in addition to providing information and counselling sessions.

As part of the so-called “health days” we address different health topics and provide various services for this. In 2017, we addressed the topic of preventing colds and strengthening the immune system under the title “Fit through the Winter” and gave practical tips.

OUR STRUCTURE IN OCCUPATIONAL SAFETY AND HEALTH PROTECTION:



COMPANY DOCTOR

As the primary contact person, the company doctor advises and supports all employees in questions regarding occupational and social medicine needs whilst maintaining strict doctor-patient confidentiality. In addition to classical occupational health topics (such as reintegration after a prolonged illness) the competence spectrum also includes all topics relating to situational and behavioural prevention, travel medicine and inoculations for business trips, ergonomic advice and medical advice regarding inspections. In close cooperation with social counselling and our corporate health management the company doctor makes an important contribution to the health of all employees.

SOCIAL COUNSELLING

Our social counselling is staffed by a full-time position and a regular contact person at the main locations in Hamburg and Kiel, respectively. Employees can get professional help here on the issues of stress, conflicts and difficult situations in the workplace but also on the issues of mental illness, addictions and personal matters. Social counselling also offers psychological emergency help – also for relatives. Referrals are also made to external counselling centres, hospitals or psychotherapists on a case-by-case basis.

The statistics show that one third of the issues in 2017 related to conflicts in the workplace, a further third to problems arising from the private environment, other issues were mental problems or long-term or chronic illnesses.

Social counselling is used by our staff as well as managers; this remains high and shows the trust placed in social counselling.

In addition to individual counselling sessions social counselling offers staff and managers seminars on health topics, which are also well attended.

OCCUPATIONAL SAFETY

HSH Nordbank meets the statutory requirements and technical safety standards regarding occupational safety and health protection at all German locations. A comprehensive, complete understanding of safety and health on the part of all employees is our guiding principle for an up-to-date “preventive occupational safety” system.

In order to be able to implement this, specialists employed by HSH Facility Management GmbH (in short: FM) for occupational safety advice and support our managers and staff in all questions, so that they can work (and act) in a safe, ergonomic manner in accordance with health legislation.

In 2017, occupational safety inspections of workstations were carried out in 17 divisions of the Bank and our managers were advised with regard to their responsibility for occupational safety. The occupational safety specialists also gave ergonomic advice to 450 employees directly at the workstation in order to prevent ergonomic injuries. The work accident rate was 2.8 % in the reporting year, the ratio of reportable accidents was 2.5 %.

For this significant contribution to employee health we, HSH Nordbank, received an award in 2010 and 2016 from the Hamburg Office for Occupational Safety for our exemplary occupational safety system. The certificate is valid for 6 years in each case. In 2017, the occupational safety department of FM was successfully certified under DIN ISO 9001:2015.

RECONCILING WORK AND FAMILY LIFE

We consider a good balance between work and family life to be essential in order to remain healthy and effective in the workplace. Support in the phase of life involving the caring for children has been a matter of course at HSH Nordbank for a long time. The support of employees, who look after relatives who require care, is becoming increasingly important due to the ageing population.

Caring for relatives

The reconciliation between work and family life will increase in relevance over the coming years as a result of the demographic changes. The average age of our employees is currently 45.9 years (as at 31.12.2017)

We support our employees with different offers. In addition to a regular series of presentations on aspects of care such as dementia but also nursing insurance benefits or residential formats in old age, there are two “care pilots” in the company, who act as the first contact point and can give practical tips and guidance regarding external referrals.

Furthermore, we have an external service provider “pme Familienservice”, which advises our employees nationwide in all questions regarding care needs and supports them personally. The information package is rounded off by a comprehensive Intranet website, which simplifies the initial orientation and prepares useful information in a well-structured manner.

Over and above the statutory regulations regarding care time and family care time we determined that, in practice, individual solutions for family carers are often a great help. The option is therefore provided for occasional working at home or teleworking or structuring the working time, which is also for a fixed term, so flexibly that work and care can be reconciled in the best possible way.

All about the child: Child care and other services

The reliable and competent care of children is crucial for working parents in structuring work and family life to the satisfaction of everyone.

We provide free of charge emergency childcare at the Hamburg and Kiel locations – but also for employees in our branches in Germany –, if the regular childcare service is not available. In addition, we also subsidise various holiday programmes for nursery school children and schoolchildren, in particular also for teenagers. The external service provider “pme Familienservice” also offers counselling and placement services regarding childcare.

In order to simplify the return to work following a leave of absence we offer various measures for maintaining contact during paternity leave – also during the care period. Our Equal Treatment Officer keeps the employees informed about current news and, for example, job adverts via a weekly e-mail.

Since 2007 we have been awarded the seal of a family-friendly company under the “audit of work and family” carried out by the non-profit Hertie foundation. The seal has been displayed until now and is to continue to be displayed.

FLEXIBLE ORGANISATION OF WORKING TIME

A family-friendly human resources policy requires working times to be organised flexibly. Here, we offer a great deal of flexibility with regard to working times, work locations and the organisation of work and have set this out in writing in “flexible working times” central works agreement.

Part-time working models

As part of paternity leave employees may work part-time for between 15 and 30 hours, which may be individually allocated in consultation with management. Excluding paternity leave the Act on Part-Time Work and Fixed-Term Employment (Teilzeit- und Befristungsgesetz) governs the claims of employees; even here, we endeavour to create the greatest flexibility possible regarding the allocation of working time. Part-time employees may also be given priority if they wish to increase their working times.

Teleworking

We differentiate between occasional work at home and alternating teleworking.

“Occasional work at home” is a very flexible and non-bureaucratic option for working from home. Only the agreement of the direct manager is required for this.

Since 2007 there has been a voluntary central works agreement regarding alternating teleworking in place at the Bank. In this context, alternating means that one working day must be spent in the Bank, so that the exchange of information between manager and employee, between colleagues is ensured.

There are currently still only a few teleworking contracts at the Bank for those who want to primarily work from home, as occasional work at home is predominantly used.

EMPLOYEE REMUNERATION

We report on the remuneration of our employees as well that of the Management Board and Supervisory Board in our 2017 Group Management Report and Notes to the 2017 Group financial statements. We also refer in this regard to the separate **Remuneration Report** required under InstVergV, which is published on HSH Nordbank’s website. Information on HSH Nordbank’s **Remuneration Officer** and **Remuneration Control Committee** can also be found there.

SELECTED KEY PERSONNEL FIGURES

PART-TIME WORKING MODEL ALLOCATION 2017

Number of employees	Male			Female			Male & female			Proportion of women
	PT (m)	FT (m)	Total (m)	PT (f)	FT (f)	Total (f)	PT*	Full-time	Total	
Head Office	131	950	1,081	461	350	811	592	1,300	1,892	42.90%
ALS / branches	3	23	26	3	16	19	6	39	45	42.20%
Consolidated subsidiaries	23	151	174	90	43	133	113	194	307	43.30%
Group (consolidated)	157	1,124	1,281	554	409	963	711	1,533	2,244	42.90%

*PT includes, inter alia, employees on parental leave and employees with long-term illnesses

PART-TIME WORKING MODEL ALLOCATION 2016

Number of employees	Male			Female			Male & female			Proportion of women
	PT*	FT (m)	Total (m)	PT*	FT (f)	Total (f)	PT*	Full-time	Total	
Head Office	159	1,071	1,230	547	389	936	706	1,460	2,166	43.20%
ALS / branches	3	26	29	3	15	18	6	41	47	38.30%
Consolidated subsidiaries	30	161	191	105	52	157	135	213	348	45.10%
Group (consolidated)	192	1,258	1,450	655	456	1,111	847	1,714	2,561	43.40%

*PT includes, inter alia, employees on parental leave and employees with long-term illnesses

FULL-TIME EMPLOYEES & SELECTED KEY EMPLOYEE RATIOS AND FIGURES¹⁾

	31.12.2017	31.12.2016
Full-time equivalents (FTE) in the Group²⁾	1,926	2,164
of which: Women	719	820
Men	1,207	1,344
Employees in Germany	1,838	2,068
Employees abroad	88	96
Total number of employees in the Group³⁾	2,295	2,613
Employee key ratios and figures		
Part-time employment ratio (%)	26.7	27.2
Average age ⁴⁾ in years	45.9	45.3
Average length of employment in years	14.5	13.7

1) See also our annual report 2017

2) Total number of employees excluding trainees, temporary staff and interns (previous year adjusted).

3) Headcount (previous year's number adjusted).

4) Only headquarters, excluding branches and subsidiaries.

WITH SPORTS STRENGTHENED FOR THE START OF SCHOOL AND THE LATER LIFE

The large gymnasium of T.H. Eilbeck looks like a huge adventure playground. The trainer, Christine Rahmelow, has put together a lot of different gym equipment in an imaginative way and created such different courses for children from the age of three to six years. Upside down gym benches are leant against high vault boxes, there are large soft mats in front of them, colourful mats bundled together form a tunnel to crawl through at another spot, there is a trampoline at the back of the gym. Just under 20 children have come today to the children's gymnastic club.

Justus balances with closed eyes on the narrow side of the bench, the trainer is standing very close to him without holding him. At the top, the five-year old sees what a steep climb he has just done. He is visibly proud and beams. Emma waits impatiently below on the bench, she may only start if there is nobody on the bench. She is clearly younger than Justus and therefore climbs to the top with open eyes.

On many days there are up to 50 children who run around, climb in the gym here and romp around according to fixed rules. There is no shoving, no pushing in. "The children are very good at respecting these and also help each other out", says the trainer, Christine Rahmelow. It is particularly important to her to strengthen the motor skills and also the self-confidence of the children at the same time. She therefore quite deliberately does not place any mats near the high vaulting boxes to cushion any falls. "After all, children should learn that they must concentrate when they climb over the boxes", she says.

T.H. Eilbeck is one of the first clubs to sign the framework agreement for „Kids in die Clubs“ and thereby accepted monthly subscriptions of ten euros, although these are much higher in other parts of the club. Around 10,000 children from low-income families in Hamburg receive the opportunity of training in a sports club and thereby experience a sense of community. HSH Nordbank supports the largest corporate run in North Germany, the HSH Nordbank Run, as the name-giver, sponsor and running team. The Bank has been a constant partner of the charity run since 2004. The total amount donated in 2017 came to EUR 155,000, which is used for the „Kids in die Clubs“ initiative of the "Kinder helfen Kindern" organisation of the Hamburger Abendblatt. In each year six euros for each person taking part in the run and a further ten euros per team go from the entry fee into the donation pot, true to the motto of the corporate run: "Run and Help".

Eight percent of around 1,300 children at T.H.Eilbeck – the sports club has just under 3,000 members in total – are members of the club through "Kids in die Clubs". „We see our task as teaching motor skills to children. There are still too many first-year pupils who cannot run backwards without falling over“, says Udo Hein, general manager of the club. Besides the sheer fun of exercise, which the children visibly have at children's gymnastics in the gymnasium, they also additionally acquire a lot of social skills. „It is always nice to see how children change. At the beginning, they are cautious and hesitant. After four



weeks they relax and become increasingly self-confident and also a bit cheeky. That delights me every time“ says Christine Rahmelow, who has trained and motivated children at T.H. for more than twenty years.

HOW WE ENGAGE IN SOCIETY

Based on the firm conviction that success should not only be measured by economic indicators, we fulfil our social responsibility in Hamburg and Schleswig-Holstein. To bring people together and promote cultural as well as social activities - that is our tradition. With the Kieler Woche, Schleswig-Holstein Music Festival, Elbphilharmonie Hamburg Foundation and HSH Nordbank Run we have been promoting important events for the North for many years. At the same time, we support the Herz As initiatives in Hamburg and the Hempels club in Kiel, both of which support the homeless and socially disadvantaged. Since 2015 we have also been involved together with the Hamburg regional association of the German Child Protection Agency in integrating refugee families. We do all this, because we consider it right, because it is part of our remit as a company. And because we enjoy doing it.

You can learn more about our sponsoring and the HSH Nordbank Art Foundation on our website.

SPORT

SHS NORDBANK RUN

We support the largest corporate run in North Germany. As name-giver, sponsor and running team. Since 2004 we have been the constant partner of the Hamburg charity run and, since then, have raised EUR 1.5 million in donations for the "Kids in die Clubs" initiative through the HSH Nordbank Run. We have enabled over 100,000 children and young people to take part in sports in clubs.

KIELER WOCHE

We are the premium partner of the largest sailing event in the world: the Kieler Woche. We have been a sponsor of the Kieler Woche since 2003 and thereby support one of the most important sporting events as "Partner of the Region". Together with the Kieler Woche we have been running the "Kids in die Clubs" charity action since 2011. Since 2011 an amount of EUR 150,000 has been raised via this, which helps children and young people to play sports.

KIDS IN DIE CLUBS E.V.

For several years we have been supporting the "Kids in die Clubs" initiative, which enables around 9,000 children from low-income families to become a member of a sports club. There, they learn team spirit and increase their self-confidence.

SCIENCE & BUSINESS

Hamburg und Schleswig-Holstein are our home. A key focus of our business activities is here. And the focus of our sponsoring projects and initiatives is also here. We present a selection of them below.

URBAN PARTNERSHIP FORUM

Since 2015 the Hamburger Abendblatt and HSH Nordbank have invited three twin cities of Hamburg once a year to an exchange of information. Marseilles, Dar es Salaam and Léon were guests in 2017.

FUTURE CONFERENCE

Making the correct decisions for sustainable success in the future is also of vital importance for our work. And that is why we are involved as a partner of the Future Conference held by "brand eins" on the topic of "Adaptability - what we need to get moving. And to keep moving".

NEW YEAR RECEPTION OF BUNDESVERBAND ERNEUERBARE ENERGIEN E.V.

Around 1,500 representatives and experts from the industry sector met at the beginning of 2017 at a New Year reception given by the Federal Association of Renewable Energies (Bundesverband Erneuerbare Energien (BEE)). In addition to current topics of the industry sector they discussed the pressing challenges regarding the use of wind energy, new technologies in the area of renewable energies, the scepticism about the energy turnaround and tougher and faster competition.

UNTERNEHMERPOSITIONEN NORD

With our "Unternehmer Positionen Nord" (UPⁿ) initiative, we provide our medium-sized clients on www.unternehmerpositionen.de with a wide range of up-to-date information services - always with the clear focus on entrepreneurs and their view of things.

A further pillar of UP Nord are our events, which are held periodically and in which we discuss a broad spectrum of topics. For example, "Global climate protection - engine or killer of economies?" was the subject of a controversial discussion. Participants in the discussions are always experts with strong opinions from the fields of economics, politics and sociology. For example, we were able to welcome Prof. Dr. Gunter Dueck, the former IBM Chief Technologist and best-selling author, Regine Günther, Director General for Politics and Climate at WWF, Prof. Dr. (honorary) Peer Steinbrück, the Federal Minister of Finance and Prof. Dr. (honorary) Wolfgang Ischinger, chairman of the Munich security conference. The personal exchange between the guest speakers, other medium-sized enterprises and HSH Nordbank's top management is just as important to us as the strong contents of the presentations and discussions.

Detailed reports of these events can be found on www.unternehmerpositionen.de in the form of background information and expert interviews. UP Nord can also be followed on Twitter and Facebook - we have again significantly increased the reach of our contents via these channels.

CULTURE

ELBPILHARMONIE – “CLASSIC SPONSOR”

We are a founding member of the Elbphilharmonie foundation and have made a contribution to excellent concerts in Hamburg since 2005. We also support the Elbphilharmonie programme as a “classic sponsor”. As sponsor of the season opening we enabled the **Ensemble Resonanz** to stage classical musical at the Elbphilharmonie in a lively manner.

SCHLESWIG-HOLSTEIN MUSIC FESTIVAL

As one of the main sponsors of the Schleswig-Holstein Music Festival (SHMF) we support the programme diversity of the SHMF. Sponsoring also includes the Leonard Bernstein Award of EUR 10,000, which is awarded each year by the Savings Banks Finance Group in collaboration with the SHMF.

FOUNDATIONS

As part of our social engagement it is important to us to enable the general public in Hamburg and Schleswig-Holstein to also access classical music, visual arts and the important history of the shipping industry, especially for North Germany.

That is why HSH Nordbank always takes an active role in various foundations as a benefactor and in the committees of the foundations. The formation of, inter alia, the **Elbphilharmonie Foundation, HSH Nordbank Art Foundation, Maritime Research Foundation, Hamburg Maritime Foundation** and **International Maritime Museums Foundation, Hamburg** was therefore supported by the provision of foundation capital. The secondment of competent employees to foundation bodies means that the foundations acquire extensive know-how and reliable support from the Bank for achieving the goals of the foundations. With the Maritime Research Foundation the Bank is involved, for example, in the future of the Hamburg business location, especially for that of the port economic sector, which is important for the Hanseatic City.

Membership in numerous non-profit organisations supplements the Bank's social engagement. Membership in **Sparkassenstiftung für gesellschaftliche Kooperationen e.V.** should be mentioned here as an example.

HSH NORDBANK ART FOUNDATION

We promote contemporary visual arts and culture in Schleswig-Holstein through the independent art foundation with close links to business. The foundation enables a curator to develop and implement an arts programme in line with the foundation's purpose. The foundation's purpose is mainly realised through measures that promote talented young artists, it does not include the purchasing of works of art. At the suggestion of a trustee, Georg Fritzsch, Music Director at the Kiel Theatre, the “Marina” project was jointly implemented in 2016/2017 with the Theatre's voluntary staff and young members of all academies – an expressive joint project with a children's and youth choir, the ballet and orchestra academy.

MEMBERSHIP OF THE SPARKASSENSTIFTUNG FÜR INTERNATIONALE KOOPERATION E.V.

We support the Sparkassenstiftung für internationale Kooperation e.V. in their projects aimed at fighting poverty in developing and emerging countries. Under their mission statement “Think globally, act locally, cooperate internationally” the savings banks foundation passes on know-how from “200 years of savings banks” to selected partners in developing or emerging countries. It employs around 240 staff worldwide and is active in almost 50 countries in Africa, Asia, Latin America and also Eastern Europe. The goal is to build sustainable local structures – under local responsibility and adapted to the conditions prevailing there.

DONATIONS

HSH Nordbank has laid down donation principles for making donations, which are embedded in our written rules of procedure. Under these we do not make any donations to public authorities (e.g. public officials), political parties, individuals, voters' associations or subdivisions of the afore-mentioned.

HEMPELS E.V. / HERZAS

During the Winter months the Bank supported two soup kitchens, HerzAs in Hamburg and Hempels in Kiel, with donations of food and also staff. Many volunteers also showed great interest in continuing to help. In Hamburg as well as Kiel working groups have been formed who, together with Hempels and HerzAs plan and carry out actions.

“WE GIVE THE PERSONS AFFECTED THE POSSIBILITY, TO TAKE LIFE IN THEIR OWNS HANDS”

HSH Nordbank has supported the organisations, Hempels in Kiel and HerzAs in Hamburg, for many years. Why the commitment is important for helping homeless people, explains Lukas Lehmann, managing director of the street magazine HEMPELS.

Homelessness is now part of normal life in German cities. Many have become accustomed to seeing homeless people wrapped in blankets. How many people are currently living on the streets?

Lukas Lehmann: The number of homeless people has been increasing steadily for just under ten years. Based on estimates there are over one million people in Germany without a fixed abode, and the trend is upwards.

There are many offers of assistance in Germany. Why don't the homeless take up these offers?

Lukas Lehmann: Thanks to the horrendous numbers there are too few or not the right ones in Germany. The fact is: debts and divorces, mental problems or drug and alcohol addiction are frequent reasons why people become homeless. Many just throw in the towel under the weight of reminder letters and post from the authorities. Linked and flexible offers of assistance is needed.

To focus on the initiative of the people concerned, that is not enough then?

Lukas Lehmann: People who have slipped into homelessness are there for a reason. The offers provided by the state often only look at the problems. We must – in simple terms – take the offers to the people concerned and, at the same time, give them the opportunity to take charge of their own lives.

We have had a worsening housing market in urban areas for years. To what extent does this impact the situation?

Lukas Lehmann: We are seeing an increase in housing shortages in almost all large towns with more than 100,000 inhabitants. Most people threatened with homelessness realise too late that they will lose their home. Not opening letters, not taking charge of one's own life, ultimately results in eviction and life on the street. These people therefore become homeless and this happens often where rents are no longer affordable. A vicious circle.

How do you specifically try to break out of this vicious circle?

Lukas Lehmann: The HEMPELS Foundation has been formed under the umbrella of the Diakonie Foundation Schleswig-Holstein. We want to draw much more attention to the social deprivation and appreciate, show respect to and value people who live on the edge of society.

What does that mean in concrete terms?

Lukas Lehmann: We acquire living space to rent to people who have no chance in the current housing market. In my opinion, homelessness is the most extreme form of poverty and deprivation. To have a home is the fundamental prerequisite for a dignified, healthy and productive



Lukas Lehmann, managing director of street magazine HEMPELS

life. We are using the Foundation to achieve this.

You cannot now offer a new home to every homeless person. What initiatives are you setting up on top of this?

Lukas Lehmann: Associations such as HEMPELS e.V. were formed to offer homeless people an alternative to begging through the sale of street newspapers – and thus to give them their dignity back. Churches and voluntary organisations create low-threshold offers of assistance for the homeless in almost all towns: meeting places where they can shower in the morning or wash their clothes or receive a hot meal.

Homelessness is therefore only fought when it has already happened

Lukas Lehmann: Prevention is the best antidote: The fundamental causes of homelessness must be addressed. For example, can people who leave public institutions such as orphanages, hospitals or penal institutions, be helped with counselling and support so that they do not become homeless. Evictions can best be prevented by early action (which would be enabled by a reporting obligation), support services and financial assistance.

SUPPLEMENTARY INFORMATION

GERMAN SUSTAINABILITY CODE

This Corporate Social Responsibility Report 2017 is based on the criteria set out in the German Sustainability Code in accordance with Section 289d of the German Commercial Code (Handelsgesetzbuch, HGB). The German Sustainability Code (GSC) is an internationally applicable reporting standard for sustainability aspects. 20 criteria are defined for sustainability reporting in the GSC. The reporting standard for companies is that the information and data provided for the understanding of the the business developments, business results, company's situation and impact of the business activities on the relevant sustainability aspects is material.

In principle, the system of “comply or explain” stipulated by the legislator shall apply (Section 289b et seqq. HGB, in particular Section 289c (4) HGB), i.e. fulfilling the reporting aspects or declaration why these are no longer reported.

The aspects prescribed by the legislator for the non-financial declaration are:

- Environmental aspects
- Employee interests
- Social concerns
- Respect for human rights
- Combating bribery and corruption

The 20 criteria are used to fulfil the reporting requirements for these non-financial aspects. We refer you to the GCS website for further information on the German Sustainability Code.

In the following table we have indicatively assigned the criteria to the relevant individual sections:

GSC CRITERIA IN THE CSR REPORT (INDICATIVE)

Cons. no.	Criterion	Section name in report
0.	General	HSH Nordbank – Who we are
1.	Strategic analysis & measures	What sustainability means to us
2.	Materiality	What sustainability means to us
3.	Objectives	What sustainability means to us
4.	Depth of the value chain	How we manage sustainability aspects
5.	Responsibility	How we manage sustainability aspects
6.	Rules and processes	How we manage sustainability aspects
7.	Control	How we manage sustainability aspects
8.	Incentive systems	How we safeguard the interests of our employees
9.	Stakeholder engagement	How we manage sustainability aspects
10.	Innovation and product management	How we manage sustainability aspects
11.	Usage of natural resources	What we do to protect the environment
12.	Resource management	What we do to protect the environment
13.	Climate-relevant emissions	What we do to protect the environment
14.	Employment rights	How we safeguard the interests of our employees
15.	Equal opportunities	How we safeguard the interests of our employees
16.	Qualifications	How we safeguard the interests of our employees
17.	Human rights	What sustainability means to us; How we manage sustainability aspects
18.	Corporate citizenship	How we engage in society
19.	Political influence	How we manage sustainability aspects
20.	Conduct that complies with the law and policies	How we manage sustainability aspects

SELECTED CERTIFICATIONS & AWARDS OF HSH NORDBANK

OVERVIEW OF CERTIFICATIONS & AWARDS

Company	Award / certificate	Comments
HSH Nordbank AG:	DIN EN ISO 50001	Energy management system
HSH Care+Clean GmbH	DIN EN ISO 50001	Energy management system
HSH Gastro+Event GmbH	DIN EN ISO 50001	Energy management system
HSH Move+More GmbH	DIN EN ISO 50001	Energy management system
HSH Facility Management GmbH	DIN EN ISO 50001	Energy management system
HSH Facility Management GmbH	DIN EN ISO 9001:2015	Quality management system
HSH Care+Clean GmbH	DIN EN ISO 9001:2015	Quality management system
HSH Move+More GmbH	DIN EN ISO 9001:2015	Quality management system
HSH Nordbank AG:	Urkunde UmweltPartnerschaft Hamburg	Member through further voluntary environmental energy system ISO 50001
HSH Nordbank AG:	Occupational safety - recognition	Operation with exemplary occupational safety
HSH Nordbank AG:	Audit seal work and family life	Seal of the non-profit Hertie Foundation
HSH Nordbank AG:	"Provider of high quality career-promoting and fair trainee programmes"	Award from Absolventa GmbH
HSH Nordbank AG:	"Germany's best training organisation in 2018"	Award following a study conducted by Faktenkontor on behalf of "Focus" and "Focus Money" (04/2018)

Sustainability is part of everyday life for HSH Nordbank. This is confirmed among other things, by the certifications received by the Bank for its quality management system, energy management system, exemplary occupational safety and as one of "Germany's best training organisation in 2018".

USEFUL LINKS

- 2017 Group Management Report of HSH Nordbank
 - Status report
 - Corporate governance
- Investor presentation
- Remuneration report 2016
- Sponsoring
- Culture
- Science & Economy
- Corporate governance
- Art foundation
- Code of Conduct
- Unternehmer Positionen

AUDIT OF THE NON-FINANCIAL REPORT

Under Section 171 AktG the **Supervisory Board** has to audit the separate non-financial report (Section 289b of the German Commercial Code) and the separate Group non-financial report (Section 315b of the German Commercial Code).

The Supervisory Board has audited the Corporate Social Responsibility of HSH Nordbank, which is the combined separate non-financial report of HSH Nordbank in its meeting on 25 April 2018 and approved it for publication for the purposes of fulfilling the requirements for the non-financial report in accordance with Sections 315b, 315c in conjunction with 289b-e HGB.

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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.

The Corporate Social Responsibility Report 2017 of HSH Nordbank was published on 30.04.2018 and is available only for downloading on the Internet under www.hsh-nordbank.de.

This Corporate Social Responsibility Report 2017 of the HSH Nordbank Group ("CSR" report) was prepared in accordance with the requirements set forth in Sections 315b, 315c in conjunction with 289b bis 289e of the German Commercial Code (Handelsgesetzbuch, HGB) and is therefore our combined separate non-financial report.

The report on sustainability aspects is not exhaustive. Furthermore, we refer in this regard to our 2017 Annual Report and the current remuneration report.

This is an English translation of the original German report, in case of doubt the German version shall prevail.

SUBJECT TO FORWARD-LOOKING STATEMENTS

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

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. Actual events may therefore differ considerably from forward-looking statements previously made. In view of this, you should never rely in 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 report. Furthermore, we are not required to update the forward-looking statements following the publication of this information. In addition, information contained in this Annual Report does not represent any kind of offer for the acquisition or sale of any type of securities of HSH Nordbank AG.

