EU-wide Stress Test Results.

HSH Nordbank was subject to the 2011 EU-wide stress test conducted by the European Banking Authority (EBA), in cooperation with the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) and Deutsche Bundesbank, the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB).

HSH Nordbank takes note of the announcements made today by the EBA, BaFin and Bundesbank on the EU-wide stress test and fully acknowledges the outcomes of this exercise.

The EU-wide stress test, carried out across 91 banks covering over 65% of the EU banking system total assets, seeks to assess the resilience of European banks to severe shocks and their specific solvency to hypothetical stress events under certain restrictive conditions.

The assumptions and methodology were established to assess banks’ capital adequacy against a 5% Core Tier 1 capital benchmark and are intended to re-store confidence in the resilience of the banks tested. The adverse stress test scenario was set by the ECB and covers a two-year time horizon (2011-2012). The stress test has been carried out using a static balance sheet assumption as at December 2010. The stress test does not take into account future business strategies and management actions and is not a forecast of HSH Nordbank’s profits.

As a result of the assumed shock in the adverse scenario of the EBA stress test, the consolidated Core Tier 1 capital ratio of HSH Nordbank in 2012 is calculated to be 5.5% compared to 10.7% as of end of 2010. HSH Nordbank thereby meets the capital benchmark set out for the purpose of the stress test.

Comment on the calculated result for HSH Nordbank:

The EBA stress test seeks to evaluate a large number of heterogeneous Banks in Europe using a uniform methodology. Naturally such an approach cannot possibly take into account the individual circumstances at the participating Banks.

In the case of HSH Nordbank, the calculated result ignores both the current and future restructuring and downsizing measures. The consolidation efforts running since 2009, which are targeted at reducing the balance sheet by more than 50%, are not taken into account. As at mid-year 2011, the total balance sheet is already substantially lower than the assumed static balance sheet as of 2010, as required by the EBA stress test methodology. HSH Nordbank has a contractual commitment with its public-sector shareholders (the City of Hamburg and the Federal State of Schleswig-Holstein) and the Financial Markets Stability Agency (FMSA) to reduce its balance sheet. In the event that HSH Nordbank implemented the EBA stress test assumptions these contractual obligations would be violated. This is particularly the case with regard to the assumptions of a constant balance sheet or roll-over of maturing assets. Hence, in the case of HSH Nordbank, the EBA stress test assumptions run counter to contractual obligations and thereby cause a substantial overstatement of the bank’s risk position.
Meanwhile, these measures are factored into an agreement as of July 12, 2011 between the Federal Minister of Finance Wolfgang Schäuble, the Minister-President of the State of Schleswig-Holstein, Peter-Harry Carstensen, and Hamburg’s Mayor Olaf Scholz, together with the European Commissioner for Economic and Monetary Affairs, Joaquin Almunia.

Taking these downsizing measures into account for the EBA Stress Test adverse scenario results in a Core Tier 1 capital ratio of 9.1 percent for the bank (see disclosure templates page 1). This ratio gives a much more accurate reflection of the risk bearing capacity of HSH Nordbank in a severe stress scenario.

In addition, we consider the exclusion of our hybrid tier-1 capital instruments of 1.84 billion euros from HSH Nordbank’s capital for the purpose of the EBA stress test calculation as inappropriate. The inclusion of these instruments in the bank’s capital raises the core tier-1 capital ratio to considerably more than 10 percent.

HSH Nordbank has calculated the low ratio of 5.5% solely for the purpose of complying with the uniform methodology of the EBA stress test for all participating banks. This ratio, however, for the reasons mentioned above, has no practical relevance.

Additional notes

The detailed results of the stress test under the baseline and adverse scenarios as well as information on HSH Nordbank’s credit exposures and exposures to central and local governments are provided in the accompanying disclosure tables based on the common format provided by the EBA.

The stress test was carried out based on the EBA common methodology and key common assumptions (e.g. constant balance sheet, uniform treatment of securitisation exposures) as published in the EBA Methodological note. Therefore, the information relative to the baseline scenarios is provided only for comparison purposes. Neither the baseline scenario nor the adverse scenario should in any way be construed as a bank’s forecast or directly compared to bank’s other published information.