

# FINANCIAL INFORMATION

AS AT 31 MARCH 2014

# KEY FIGURES

## INCOME STATEMENT

(€ m)

	January – March 2014	January – March 2013
Net income before restructuring	488	148
Net income before taxes	354	71
Group net result	213	74

## BALANCE SHEET

(€ bn)

	31.03.2014	31.12.2013
Equity	4.7	4.6
Total assets	108.7	109.1
Business volume	118.0	118.7

## CAPITAL RATIOS<sup>1)</sup>

(%)

	31.03.2014 (preliminary)	31.12.2013 (pro forma)
Common equity Tier 1 capital ratio	10.0 <sup>2)</sup>	10.0 <sup>2)</sup>
Tier 1 capital ratio	14.4	14.3
Regulatory capital ratio	19.6	19.7

## EMPLOYEES

(computed on full-time equivalent basis)

	31.03.2014	31.12.2013
Total	2,762	2,834
Germany	2,566	2,627
Abroad	196	207

## LONG-TERM RATINGS

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

<sup>1)</sup> According to the same period calculation under the CRR rules.

<sup>2)</sup> Additionally includes a buffer of 3.0 percentage points resulting from the effect of the guarantee structure.

<sup>3)</sup> Liabilities covered by guarantor's liability (Gewährträgerhaftung).

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



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Note:

This Financial Information as at 31 March 2014 is released voluntarily and does not comply with all the accounting requirements applicable to interim reporting for capital market-oriented companies. Recognition and measurement rules were applied on the basis of the IFRS.

## HSH NORDBANK AT A GLANCE

### AS AT 31 MARCH 2014

#### INCOME STATEMENT

(€ m)	January – March 2014	Following adjustment <sup>1)</sup> January – March 2013	Change in %
Interest income	1,316	1,521	-13
Interest expense	-1,122	-1,231	-9
Net income from hybrid financial instruments	-134	-28	>-100
<b>Net interest income</b>	<b>60</b>	<b>262</b>	<b>-77</b>
Net commission income	34	32	6
Result from hedging	-6	-5	-20
Net trading income	49	62	-21
Net income from financial investments	99	68	46
Net income from financial investments accounted for under the equity method	2	-	-
<b>Total income</b>	<b>238</b>	<b>419</b>	<b>-43</b>
Loan loss provisions	394	-133	>-100
Administrative expenses	-166	-172	-3
Other operating income	22	34	-35
<b>Net income before restructuring</b>	<b>488</b>	<b>148</b>	<b>&gt;100</b>
Result from restructuring	-5	-7	29
Expenses for government guarantees	-129	-70	84
<b>Net income before taxes</b>	<b>354</b>	<b>71</b>	<b>&gt;100</b>
Income tax expenses (-)/income (+)	-141	3	>100
<b>Group net result</b>	<b>213</b>	<b>74</b>	<b>&gt;100</b>
Group net result attributable to non-controlling interests	-	-1	100
Group net result attributable to HSH Nordbank shareholders	213	75	>100

<sup>1)</sup> Adjusted in accordance with IAS 8.41 et seqq.

**BALANCE SHEET**
**ASSETS**

(€ m)	31.03.2014	Following adjustment <sup>1)</sup> 31.12.2013	Change in %
Cash reserve	6,389	4,851	32
Loans and advances to banks	5,109	5,156	-1
Loans and advances to customers	67,816	69,118	-2
Loan loss provisions	-3,173	-3,804	-17
Positive fair value of hedging derivatives	1,205	1,287	-6
Positive adjustment item from portfolio fair value hedges	251	151	66
Trading assets	8,961	9,049	-1
Financial investments	20,271	21,255	-5
Financial investments accounted for under the equity method	-	-	-
Intangible assets	40	45	-11
Property, plant and equipment	207	215	-4
Investment property	67	68	-1
Non-current assets held for sale and disposal groups	37	25	48
Current tax assets	59	59	-
Deferred tax assets	1,129	1,222	-8
Other assets	312	364	-14
<b>Total assets</b>	<b>108,680</b>	<b>109,061</b>	<b>-</b>

**LIABILITIES**

(€ m)	31.03.2014	Following adjustment <sup>1)</sup> 31.12.2013	Change in %
Liabilities to banks	15,456	18,212	-15
Liabilities to customers	43,365	40,697	7
Securitised liabilities	27,632	28,561	-3
Negative fair values of hedging derivatives	833	934	-11
Negative adjustment item from portfolio fair value hedge	1,011	961	5
Trading liabilities	7,494	7,102	6
Provisions	1,368	1,360	1
Liabilities relating to disposal groups	27	-	-
Current tax liabilities	90	202	-55
Deferred tax liabilities	88	39	>100
Other liabilities	1,159	1,154	-
Subordinated capital	5,429	5,288	3
Equity	4,728	4,551	4
Share capital	3,018	3,018	-
Capital reserve	594	594	-
Retained earnings	924	1,787	-48
Revaluation reserve	48	27	78
Currency conversion reserve	-61	-64	-5
Other net income from financial investments accounted for under the equity method	1	3	-67
Other net income from non-current assets held for sale and disposal groups	3	3	-
Group net result	213	-804	>100
Total before non-controlling interests	4,740	4,564	4
Non-controlling interests	-12	-13	-8
<b>Total equity and liabilities</b>	<b>108,680</b>	<b>109,061</b>	<b>-</b>

<sup>1)</sup> Adjusted in accordance with IAS 8.41 et seqq.

## BUSINESS DEVELOPMENTS AS AT 31 MARCH 2014

### OVERVIEW OF BUSINESS PERFORMANCE

#### Good start to the year for HSH Nordbank

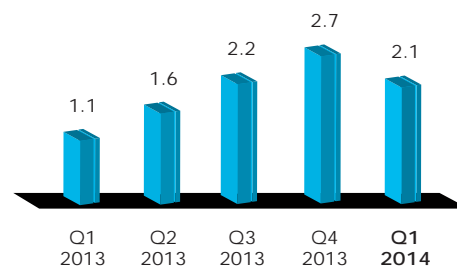
HSH Nordbank has had a good start to 2014 and reports positive net income before taxes of € 354 million for the first quarter. This represents an increase of € 283 million compared to net income before taxes in the same quarter of the previous year (€ 71 million). Operating successes in the Core Bank, the ongoing organisational restructuring and lower loan loss provision expense are evident in the positive trend. Net income benefited significantly from the capital protection clause, which – following high guarantee premium charges in the 2013 annual financial statements – resulted as expected in a reversal through profit or loss as at 31 March 2014. Net income after taxes (Group net profit) of HSH Nordbank improved to € 213 million as at 31 March 2014 (previous year: € 74 million).

The Core Bank generated net income before taxes of € 109 million (previous year: € 115 million), which was reduced by a technical special effect arising on the calculation of the net income from hybrid financial instruments, which will be fully offset by 2017. The Core Bank has therefore continued its sequence of positive quarterly results since the third quarter of 2012, which was only broken once in the fourth quarter of 2013 due to a significant increase in loan loss provisions for restructuring commitments in the Shipping division. The Restructuring Unit, the net income before taxes of which increased to € 245 million (previous year: € – 44 million), benefited strongly from the effect of the capital protection clause as well as additional reversals of impairment losses in the credit investment portfolio.

The dynamic growth in the previous year in new business transacted with customers was continued in the first quarter of 2014. New business volume almost doubled to € 2.1 billion compared to € 1.1 billion in the same quarter of the previous year. It is also pleasing that the disbursement ratio for new committed loans has significantly increased on an overall basis. Furthermore, the interest margins achieved remained at a high level despite increased competition in the German banking market. The expansion in new business was reflected in the increase in total assets of the Core Bank to € 71 billion

(31 December 2013: € 69 billion). With the continuing increase in high-margin new transactions we are creating the foundation for an increase in the profitability of the Core Bank over the coming quarters.

#### NEW BUSINESS OF THE CORE BANK (€ bn)



The Real Estate Clients division made the largest contribution to new business with a volume of € 1.2 billion. The leading position in the real estate markets held by HSH Nordbank throughout Germany for a long period of time was further strengthened as a result. A generally subdued market demand for credit was particularly evident in the Corporates division at the beginning of the year, although it is expected that business will pick up during the course of the year.

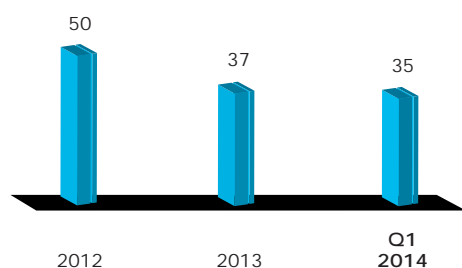
New business continued to be distributed evenly over the regions during the first quarter of 2014. About 37% of the new business was concluded with clients in our core region of Northern Germany. Transactions in other regions of Germany accounted for about another 43%. About 20% of the new business was generated abroad, of which the major part was attributable to the Shipping division and the remaining part to Energy & Infrastructure.

Overall, the new business figures confirm the strong roots of the Core Bank in its defined target markets. In view of the good start to the year and a full deal pipeline we assume we will also be able – as in 2013 – to further increase new business as planned during the course of 2014.

The legacy portfolios in the Restructuring Unit were further reduced. Following the significant portfolio reduction of € 13 billion in 2013 total assets of the Restructuring Unit (before consolidation) were reduced in the first quarter 2014 by a further € 2 billion to € 35 billion. Alternative portfolio solutions involving strategic investors are also being implemented for the purposes of increasing the reduction of high risk shipping portfolios. In the past year HSH Nordbank had already transferred several ship financings to an investor and thereby further reduced the loan volume in the Shipping division of the Restructuring Unit. A further approach adopted by HSH Nordbank is to actively support consolidation in the shipping industry and to thereby improve the Bank's risk position. A merger of several shipping lines was successfully undertaken in the first quarter with the participation of HSH Nordbank.

#### SEGMENT ASSETS OF RESTRUCTURING UNIT

(excl. consolidation effects, € bn)



Total income of HSH Nordbank of € 238 million (previous year: € 419 million) reflected a negative special effect arising on the calculation of net income from hybrid financial instruments. A planned adjustment to the effective interest rate applied to hybrid instruments adversely impacted net interest income by € – 102 million, which had to be taken into account in the Core Bank (Corporate Center segment). This additional expense will be gradually fully offset by 2017 by lower interest expense for the hybrid instruments. Furthermore, the sharp reduction in the non-strategic positions held in the Restructuring Unit (by about a quarter compared to the previous year) was evident in the first quarter 2014, which resulted in a significant but planned decrease in net interest income for the Restructuring Unit. Net trading income and net income from financial investments remained in total above the previous year level as a result of positive measurement effects and gains on the sale of securities. Overall, total income (adjusted for the described special effect) performed in line with the plan.

Loan loss provision expense decreased significantly in the first quarter of 2014 compared to the previous year following a substantial increase in the loan loss provision measures taken in 2013 to thereby account for the risks stemming from the severe shipping crisis. Loan loss provision expense decreased to € – 59 million compared to € – 307 million

in the same period of the previous year before taking into account the compensation effect of the second loss guarantee granted by the states of Hamburg and Schleswig-Holstein.

In addition, the capital protection clause had a positive and planned effect on the loan loss provision line item. This provided for a reversal through profit or loss in the first quarter of € 487 million of additional premiums for the guarantee, which previously had to be recognised as expense in the loan loss provisions in accordance with the requirements of the EU Commission. The basis for this is the deferral by the guarantors of their claim to the additional premium in order to ensure a common equity Tier I ratio of at least 10% against the backdrop of the first-time adoption of the more stringent requirements for calculating the capital ratios (conversion to Basel III and from HGB to IFRS for determining regulatory capital). In total, the compensation effect of the guarantee amounted to € 453 million taking this relieving effect into account. After compensation HSH Nordbank reported a positive loan loss provision amount of € 394 million (previous year: € – 133 million).

The further reduction in administrative expenses also had a positive effect on net income. These decreased to € – 166 million despite the substantially higher costs relating to additional regulatory requirements compared to the same period of the previous year (previous year: € – 172 million). This is attributable to lower personnel expenses resulting from the ongoing reduction in the number of employees, which was 2,762 as at 31 March 2014. This is a decrease of 72 compared to the 2013 year end. We expect that the measures taken in the fourth quarter 2013 and currently being implemented in order to generate additional savings and efficiency increases will have a further impact over the course of the year. One objective of the measures is to offset – to the extent possible – the substantial increase in costs relating to regulatory requirements.

In 2014 the Bank also has to bear higher expenses for government guarantees relating to the basic premium due to the replenishment of the second loss guarantee facility in the middle of 2013. They increased to € – 129 million compared to € – 70 million in the first quarter of the previous year and include a pro rata subsequent payment for the period of the reduced guarantee facility from 2011 to the middle of 2013.

The capital ratios of HSH Nordbank were at a solid level as at 31 March 2014 despite the first-time application since the beginning of 2014 of the more stringent requirements for the calculation of the capital ratios – conversion to Basel III and from HGB to IFRS for determining regulatory capital and RWA. Under the applicable Basel II transition rules the classical Tier 1 capital ratio was 14.4% at the quarter end. The common equity Tier 1 capital ratio amounted to 10.0% plus a buffer of 3.0 percentage points resulting from the effect of the guarantee structure.

In anticipation of the full introduction of the Basel III rules, which, according to current guidelines, are to be implemented by 2024, the common equity Tier 1 capital ratio of 10% (plus buffer of 1.7 percentage points) achieved by HSH Nordbank is at a solid level.

The capital ratios, including the buffer resulting from the guarantee structure, disclosed as at the end of the first quarter show that HSH Nordbank has a robust starting point for upcoming developments such as the EBA/ECB stress test.

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

## EARNINGS SITUATION

### Income characterised by measurement effects and reduction in risk

In addition to the substantial, planned reduction in risk positions (by about one-quarter in the Restructuring Unit compared to the previous year), net interest income of € 60 million (previous year: € 262 million) was adversely impacted by a special effect relating to the calculation of net income from hybrid financial instruments. The planned adjustment to the effective interest rate applied to hybrid instruments had a negative effect of € – 102 million in the first quarter, whereby net income from hybrid financial instruments of € – 134 million remained significantly below the previous year level (€ – 28 million). This effect is fully offset over the next few years by lower interest expense. Net interest income is increased by € 16 million in 2014, € 24 million in 2015, € 26 million in 2016 and € 36 million in 2017. Furthermore, net interest income includes losses of € – 24 million arising on the reversal of hedging relationships in connection with a sale of securities held as financial investments. The offsetting positive effect arising on the securities sale (€ 41 million) is disclosed under net income from financial investments. New business disbursements and the good margin trend in recent quarters had a positive impact on net interest income.

Adjusted for both the above-mentioned one-off negative effects totalling € – 126 million planned net income of € 186 million would have resulted.

Net commission income recorded an increase to € 34 million compared to € 32 million in the same quarter of the previous year. Higher revenues from the cross-selling business, which the Bank was able to strengthen as part of the increase in new business, contributed to this positive trend. This was particularly evident in higher loan fees, whereas capital markets products were not yet able to make a significant contribution to cross-selling against the background of the low level of interest rates.

Net trading income of € 49 million fell short of the previous year's amount of € 62 million. Whereas the measurement of interest rate/currency swaps (EUR/USD basis swaps) as well as own liabilities measured at fair value had a negative impact, reduced counterparty risk in the derivatives area amongst other things made a positive contribution.

A positive performance by securities and gains on disposal against the backdrop of a decrease in tensions in the financial markets were reflected in net income from financial investments of € 99 million (previous year: € 68 million). Besides the sale of further government securities reversals of impairment losses in the credit investment portfolio managed by the Restructuring Unit in particular made a positive contribution to earnings, whereby the major part was attributable to securities linked to the US residential real estate market.

Measurement gains in the credit investment portfolio (CIP) in net trading income and net income from financial investments totalled a gross amount of € 42 million in the first quarter and were offset by charges of € – 28 million under the second loss guarantee. This left net income for the CIP of a total amount of € 14 million (allocated to the Restructuring Unit). The compensation effect under the guarantee is disclosed under loan loss provision expense.

The sale of government bonds had a positive gross effect of € 41 million on net income from financial investments. In this connection hedging relationships had to be reversed, which had an offsetting negative impact of € – 24 million on net interest income, resulting in a positive net effect of € 17 million from the sale of these securities.



### Loan loss provisions line item benefits from a decrease in loan loss provision expense and the capital protection clause

In the first quarter of 2014 HSH Nordbank recognised a comparatively low but planned loan loss provision requirement following 2013 that was marked by high loan loss provision expense for shipping loans. Net loan loss provisions before taking the compensation effect of the guarantee into account amounted to € – 59 million compared to € – 307 million for the first three months of the previous year. Loan loss provisions were increased by € – 5 million as a result of the foreign currency conversion (previous year: € – 42 million).

The major part of the loan loss provisions had to be created at the beginning of 2014 for shipping loans in the Restructuring Unit and the Shipping restructuring portfolio of the Core Bank, whereas partial net reversals could be made in other areas.

#### LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

(€ m)	January – March 2014	January – March 2013
<b>Loan loss provision expense before compensation (net), of which:</b>	<b>-59</b>	<b>-307</b>
<b>Core Bank</b>	<b>-31</b>	<b>-71</b>
Shipping	-37	-77
Real Estate Clients	2	5
Energy & Infrastructure	2	-1
Corporate Clients	1	4
Other	1	-2
<b>Restructuring Unit</b>	<b>-28</b>	<b>-236</b>
Shipping loans	-20	-132
Real estate loans	-18	-12
Corporate loans	3	-62
Other	7	-30
<b>Loan loss provisions after compensation (net), of which:</b>	<b>394</b>	<b>-133</b>
Core Bank	95	-40
Restructuring Unit	299	-93

The compensation effect of the guarantee amounted to € 453 million and is composed of income of € 487 million from guarantee expenses recognised in previous years, recurring additional premiums of € – 40 million for the first quarter and positive gross compensation of € 6 million due to reversals of impairment losses and lower loan loss provisions. In total, the loan loss provision expense disclosed amounted to a positive figure of € 394 million.

The hedging effect of the guarantee still did not result in a cash drawdown as at 31 March 2014. The amount retained by the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 954 million as at the end of the quarter (losses submitted for invoicing).

### Administrative expenses reduced

Administrative expenses continued to decline in the first quarter of the year to € – 166 million (previous year: € – 172 million). Personnel expenses, which the Bank was able to reduce from € – 84 million to € – 75 million, was mainly affected by the further reduction in the number of employees. Compared to the end of 2013, the number of employees within the Group declined by 72 to 2,762 (calculated on a full-time equivalent (FTE) basis).

Operating expenses (excluding depreciation/amortisation) increased slightly from € – 78 million to € – 80 million. This was caused, amongst other things, by higher project costs and significant additional costs in connection with regulatory requirements. Depreciation of property, plant and equipment and amortisation of intangible assets also increased slightly to € – 11 million (previous year: € – 10 million).

### Increase in the guarantee expense for the base premium

Expenses for government guarantees (base premium for past periods) increased in the first quarter to € – 129 million compared to € – 70 million in the previous year. The reasons underlying the increase are the higher on-going base premium payable resulting from the replenishment of the guarantee facility from € 7 to € 10 billion and the portion of about € – 29 million of the subsequent payment agreed for the base premium attributable to the first quarter 2014. The subsequent payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. The remaining expense relating to the subsequent payment totalling about € – 178 million is spread across the next three quarters of the current year as well as the years 2015 and 2016 on a scheduled basis.

Since 2009 HSH Nordbank has recognised as at 31 March 2014 a total premium expense of € 2.8 billion, including provisions for base and additional premiums in loan loss provision (excluding € 0.5 billion relating to a one-off payment required by the EU Commission, which was then subsequently returned to the Bank as part of a capital increase). The reduction of € – 0.3 billion compared to the premium expense accrued as at the 2013 year end (€ 3.1 billion) results from the reversal through profit or loss of premiums recognised in loan loss provisions due to the capital protection clause (€ – 0.4 billion) and the base premium for the first quarter including the subsequent payment (€ 0.1 billion).

The premiums paid by HSH Nordbank to date have increased to € 1.9 billion in the first quarter (31 December 2013: € 1.7 billion), of which € 1.6 billion is attributable to the recurring base premium and € 0.3 billion to the subsequent payment. HSH Nordbank is already making a significant contribution to compensating for the aid granted by the states of Hamburg and Schleswig-Holstein through the premiums of € 1.9 billion paid to the guarantors.

### Net income before taxes of € 354 million generated

In total, developments during the first three months resulted in net income before taxes of € 354 million compared to € 71 million for the same period in the previous year. After deducting income tax effects of € - 141 million (previous year: € 3 million), a positive Group net income of € 213 million (previous year: € 74 million) remains.

HSH Nordbank is well on track to achieve its target for the year of reporting a profit again in the 2014 Group financial statements.

### NET ASSETS AND FINANCIAL POSITION

#### Slight reduction in total assets

Total assets decreased slightly in the first quarter of 2014 to € 108,680 million as at 31 March 2014 (31 December 2013: € 109,061 million). The main factors influencing total assets continued to be the ongoing winding down of the portfolios in the Restructuring Unit and the new business in the Core Bank as well as a higher cash reserve as at 31 March 2014.

Loans and advances to customers declined slightly to € 67,816 million (31 December 2013: € 69,118 million). The substantial reduction in the non-strategic portfolios was partially offset by the higher new business volume. Loans and advances to banks remained virtually unchanged at the end of the first quarter and amounted to € 5,109 million (31 December 2013: € 5,156 million). Total loan loss provisions decreased to € - 3,173 million primarily as a result of utilisations and a higher compensation item (31 December 2013: € - 3,804 million). Trading assets of € 8,961 million, which comprise interest-bearing securities and derivative instruments, remained at about the year end level (31 December 2013: € 9,049 million). The cash reserve increased to € 6,389 million (31 December 2013: € 4,851 million). This is mainly attributable to the management of the liquidity position.

Liabilities to banks decreased to € 15,456 million (31 December 2013: € 18,212 million) mainly as a result of lower deposits from banks, whereas liabilities to customers increased to € 43,365 million as a result of higher call and time deposits (31 December 2013: € 40,697 million).

Securitised liabilities decreased slightly to € 27,632 million (31 December 2013: € 28,561 million). Equity capital increased moderately to € 4,728 million (31 December 2013: € 4,551 million). The reasons for this are the Group net income for the first quarter and the positive movement in the revaluation reserve, which was offset by retained earnings that were reduced by the net loss for 2013.

Compared to the end of the previous year the business volume decreased somewhat to € 118,022 million (31 December 2013: € 118,679 million). This is attributable to the slight reduction in total assets and also to a slight fall in off-balance-sheet transactions.

### Solid capital ratios in the first quarter 2014

#### REGULATORY CAPITAL RATIOS (TAKING THE QUARTERLY RESULTS INTO ACCOUNT)\*

(%)	31.03.2014 (preliminary)	31.12.2013 pro forma
Total ratio/regulatory capital ratio	19.6	19.7
Tier 1 capital ratio	16.0	15.5
Tier 1 capital ratio including market risk positions	14.4	14.3
Common equity Tier 1 capital ratio (plus buffer from additional premium)	10.0 (+3.0 PP)	10.0 (+3.0 PP)

\* According to the same period calculation under the CRR rules.

HSH Nordbank is also reporting solid capital ratios under the Basel III rules applicable since the beginning of 2014. The common equity Tier 1 capital ratio was 10.0% as at 31 March 2014. Furthermore, there is a buffer of 3.0 percentage points resulting from a possible further deferral of the guarantors' claim to the additional premium. The ratio is significantly above the banking supervisory minimum requirements and, including the buffer, is at the level of the pro forma Basel III ratio as at the end of the year 2013. The Tier 1 capital ratio (including market risk positions) was 14.4% (31 December 2013: 14.3%), the regulatory capital ratio reached 19.6% (31 December 2013: 19.7%). These figures take the interim result for the first quarter of 2014 into account.

Including the guarantee effect risk assets of the Bank decreased to € 37 billion (31 December 2013: € 38 billion pro forma). In this regard, the regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. Mathematically, the risk weight as at 31 March 2014 continues to be below 1% due to the guarantee increase, resulting in a substantial, additional risk buffer.

The leverage ratio (pro forma) of HSH Nordbank was 4.5% as at 31 March 2014 (preliminary figure). The leverage ratio is a non-risk-weighted measure of the relationship between Tier 1 capital and the regulatory adjusted business volume. Disclosure of this ratio will be mandatory from 2015 onwards.

### Funding activities during the first quarter

We have continued to implement our funding strategy in the first quarter as planned. The focus remained on the provision of bond products for the client business with savings banks. At the same time sales to other financial institutions and institutional investors were increased at a gratifying and significant rate. In doing so, the issue of debt instruments was further diversified. In total, we placed a volume of around € 1.3 billion of uncovered bond products in the first quarter.

Furthermore, we are pressing ahead with secured funding as part of “asset-based funding (ABF)” transactions. Following the conclusion of a transaction secured by a portfolio of shipping loans of HSH Nordbank (“Ocean Funding 2013”) at the end of 2013 in the amount of US\$ 661 million, an ABF transaction based on a portfolio of aircraft financings is planned for the second quarter 2014. The funding of HSH Nordbank will also focus during the further course of the year on ABF transactions based on different asset classes.

Besides the issuing activities the base of diversified customer deposits also continued to contribute to the solid liquidity position of HSH Nordbank at the end of the first quarter of 2014. Furthermore, the Bank holds liquidity reserves in the form of collateral eligible for refinancing at central banks and credit balances at central banks totalling € 22 billion, which it can access at any time. The liquidity ratio of the German Liquidity Regulation (LiqV) used as the central regulatory indicator for liquidity risk was 1.9 as at the quarter end. It was therefore significantly above the regulatory minimum.

Extensive information on the funding and liquidity situation of HSH Nordbank as well as on the significant opportunities and risks is set out in the 2013 Group Management Report.

### Effects of the initial application of IFRS 10 – Consolidated Financial Statements

This standard includes a new, comprehensive definition of the term “control”. If an entity controls another entity, the parent company must include the subsidiary in its consolidated financial statements. According to the new definition, control exists if the potential parent has decision-making authority with respect to the potential subsidiary by means of voting or other rights, it has exposure to positive or negative variable returns from the subsidiary, and it has the ability to use its power over the subsidiary (or the power delegated by the parent) to affect the amount of the returns. The new standard is to be applied by entities reporting under the IFRS for the first time in financial years starting on or after 1 January 2014. IFRS 10 is to be applied retrospectively with certain exceptions.

The scope of consolidation underlying the financial information as at 31 March 2014 was determined for the last time in accordance with the provisions of IAS 27 and SIC 12, i.e. based on the same regulations as for the scope of consolidation as at 31 December 2013.

If IFRS 10 had been applied to the scope of consolidation as at 31 March 2014, this would have had the following impact:

In addition to the existing 56 subsidiaries included in the scope of consolidation as at 31 March 2014, 16 other entities meet the requirements of a subsidiary in accordance with IFRS 10, because financial and legal relationships with these entities already existing as at 1 January 2014 have now to be classified as cases of control under the new IFRS 10 regulations. There are currently no entities to which full consolidation ceases to apply due to the initial application of IFRS 10.

The entities to be newly included in the consolidated financial statements are borrowers from the Aviation and Real Estate divisions, whose main business purpose is to hold aircraft or properties. These objects would be accounted for in the consolidated statement of financial position under property, plant and equipment or as investment property. The major effects expected for the Group income statement in 2014 relate to depreciation of property, plant and equipment and investment property, which is recorded under administrative expenses or other operating income, respectively. Furthermore, loans and advances to customers will decrease due to the consolidation as will loan loss provisions for the Group and interest income. The reason for this is that the entities to be consolidated for the first time under IFRS 10 are borrowers. We anticipate that Group equity will decrease by less than 1% on the initial consolidation of these entities. Net income before taxes for the quarter would increase by about 1% on the full consolidation of these new entities.

## SEGMENT RESULTS

## SEGMENT OVERVIEW JANUARY TO MARCH 2014

(€ m)		Shipping, Project & Real Estate Financing	Corporates & Markets	Corporate Center	Consoli- dation Core Bank	<b>Total Core Bank</b>	Restructuring Unit	Consoli- dation Restructuring Unit	<b>Total Restructur- ing Unit</b>
	<b>2014</b>	<b>144</b>	<b>83</b>	<b>-86</b>	<b>14</b>	<b>155</b>	<b>111</b>	<b>-28</b>	<b>83</b>
Total income	2013	167	95	5	2	269	165	-15	150
	<b>2014</b>	<b>-33</b>	<b>-</b>	<b>-2</b>	<b>130</b>	<b>95</b>	<b>-28</b>	<b>327</b>	<b>299</b>
Loan loss provisions	2013	-73	4	2	27	-40	-236	143	-93
<b>Net income before restructuring</b>	<b>2014</b>	<b>64</b>	<b>18</b>	<b>-69</b>	<b>141</b>	<b>154</b>	<b>35</b>	<b>299</b>	<b>334</b>
	2013	37	42	33	27	139	-119	128	9
	<b>2014</b>	<b>64</b>	<b>18</b>	<b>-69</b>	<b>96</b>	<b>109</b>	<b>35</b>	<b>210</b>	<b>245</b>
Net income before taxes	2013	37	42	33	3	115	-119	75	-44
	<b>31.03. 2014</b>	<b>29</b>	<b>24</b>	<b>17</b>	<b>1</b>	<b>71</b>	<b>35</b>	<b>3</b>	<b>38</b>
Segment assets	31.12. 2013	28	24	16	1	69	37	3	40

**Core Bank strengthened by growth in new business**

The Core Bank of HSH Nordbank was again profitable in the first quarter of 2014. Net income before taxes of the Core Bank amounted to € 109 million as at 31 March 2014 following € 115 million for the same quarter in the previous year. It has therefore continued its sequence of positive quarterly results since the third quarter 2012, which was only interrupted once in the fourth quarter 2013 due to a significant increase in loan loss provisions for restructuring commitments in the Shipping division. The reduction in net income compared to the previous year is attributable to a negative special effect relating to the measurement of hybrid instruments (Corporate Center segment). Furthermore, net income before taxes was adversely impacted by higher expenses for the second loss guarantee replenished in the previous year. Net income before restructuring (before restructuring expenses and expenses for government guarantees) increased from € 139 million in the previous year to € 154 million.

New business transacted with clients, which was further increased in the first quarter, had a positive impact on net income. The volume of new business concluded amounted to € 2.1 billion in the first quarter of 2014. This is approximately double the amount of the same quarter of the previous year (€ 1.1 billion). The further increase in margins also had an effect. Furthermore, net income was also supported by the positive effect from the capital protection clause, which is disclosed in the loan loss provision line item in the consolidation column.

In view of the strong start to the year and a well-filled deal pipeline we are confident that we will achieve our new business targets in 2014. With the continuing increase in high-margin new transactions we are laying the foundation as part of the defined risk strategy for an increase in the profitability of the Core Bank over the coming quarters.

The results of the individual segments are explained below.

New business transacted in the past quarters at increased margins had a positive impact on income generated in the Shipping, Project & Real Estate Financing segment. The Real Estate Clients division, which generated an attractive deal flow throughout Germany in recent quarters, made the largest contribution. In addition, selective new business in the Shipping International and Energy & Infrastructure divisions had a positive impact. However, reclassifications of interest-bearing transactions to the Restructuring Unit that were made in previous periods as well as loan repayments reduced the interest-bearing loans and advances compared to the previous year and therefore had a negative impact on income. Against this backdrop total income of the Shipping, Project & Real Estate Financing segment of € 144 million was just below the previous year level (€ 167 million).

The loan loss provisions of the Shipping, Project & Real Estate Financing segment reflected a decreased loan loss provision expense for shipping commitments in the first quarter of the year, after having significantly increased loan loss provisions in the 2013 annual financial statements in order to take account of the severe crisis in the shipping markets. No additional net loan loss provisions had to be recognised in the first quarter in the Real Estate Clients and Energy & Infrastructure divisions. Loan loss provision expense in the Shipping, Project & Real Estate Financing segment decreased in total to € – 33 million following € – 73 million in the same quarter of the previous year (before compensation). Overall, net income of the segment increased to € 64 million (previous year: € 37 million).

As in previous years, there was subdued client activity with corporates and sales of capital markets products at the beginning of the year in the Corporates & Markets segment. Segment income in the first quarter of 2014 amounted to € 83 million and was slightly below the previous year level of € 95 million. Loan loss provisions did not have to be recognised on a net basis in view of the stable developments in the targeted industry sectors.

The restrained credit demand in the Corporates business can also be attributed, in addition to the seasonal factor, to the solid internal financing capacity as well as the subdued investing activities of many enterprises. It is expected that new business will increase over the remainder of the year in line with the trend of previous years and assuming an increase in investing activities. Wealth Management made an increased contribution to earnings, although its business was still adversely affected by the low level of interest rates.

In the Capital Markets division the level of interest rates had a negative impact on the sale of interest rate derivatives and on the income generated by the liquidity position and interest-bearing securities portfolios. The Savings & Institutional Clients division was again able to make an important contribution to the funding of the Bank through providing tailored solutions for the proprietary investments of savings banks, insurance companies and public sector clients as well as their private and corporate business.

The Products division continued to support the client divisions with high-quality financing solutions and made an important contribution to the further development of client relationships. In the second quarter of 2014 the Products division will be merged with the subsidiary, HSH Corporate Finance GmbH, into the new Corporate Finance division. HSH Corporate Finance GmbH, which has been operating since 2002, is an established adviser in the M&A market for medium-sized enterprises and specialises in the Healthcare and Logistics/Transport/Shipping industry sectors. The merger will make M&A advice more available to clients and enable more comprehensive support to be provided.

Net income of the Corporates & Markets segment amounted to € 18 million in total (previous year: € 42 million).

Net income of the Corporate Center segment, which includes the positions of the Overall Bank as well as the administration and service divisions, declined in the first quarter of 2014 to € – 69 million compared to net income of € 33 million for the same quarter of the previous year. The negative special effect of € – 102 million arising on the calculation of the net income from hybrid financial instruments was crucial. The continued sale of European sovereign debt had a positive impact.

#### **Net income for the Core Bank takes consolidation effects into account**

Net income before restructuring of the consolidation position of the Core Bank increased significantly due to the positive compensation effect from the second loss guarantee including the impact of the capital protection clause. Core Bank net income before restructuring, including consolidation effects, increased to € 154 million (previous year: € 139 million). After deducting restructuring expenses and expenses for government guarantees net income before taxes of € 109 million was generated (previous year: € 115 million).

#### **Reduction of risk accelerated in the Restructuring Unit**

The winding down of high risk legacy portfolios in the loans and capital markets division in the Restructuring Unit was continued. Following the significant portfolio reduction of € 13 billion in 2013 segment assets of the Restructuring Unit (before consolidation) were reduced in the first quarter 2014 by a further € 2 billion to € 35 billion (excluding consolidation items of € 3 billion).

Total income for the segment decreased to € 111 million compared to € 165 million in the previous year as a result of the ongoing winding down of interest-bearing positions. Reversals of impairment losses and sales of securities held in the credit investment portfolio had a positive impact. Additions to loan loss provisions decreased to € – 28 million on a net basis (previous year: € – 236 million) and related primarily to loans in the Shipping and International Real Estate portfolios. In the previous year loan loss provisions had been significantly increased in order to take account of the severe crisis in the shipping industry. Overall, net income for the Restructuring Unit segment improved to € 35 million (previous year: € – 119 million).

Net income before restructuring for the Restructuring Unit, including the consolidation effects, amounted to € 334 million (previous year: € 9 million) in particular as a result of the significant positive effect from the capital protection clause compensation which had a particularly strong effect in the Restructuring Unit. After taking restructuring expenses and expenses for government guarantees into account net income before taxes amounted to € 245 million (previous year: € – 44 million).



Against the backdrop of the adoption of the Bank Recovery and Resolution Directive (BRRD) as well as the Single Resolution Mechanism (SRM) by the European Parliament in April 2014 the rating agencies Fitch (end of March) and Moody's (end of May) set the long-term ratings of numerous banks in Europe to a negative outlook – irrespective of their financial strength – as part of a Europe-wide action that had long been awaited by the market. The outlook for HSH Nordbank's rating changed as a result to Baa3 negative (Moody's) and A- negative (Fitch). The review of the ratings by the rating agencies is not likely to be completed before the end of 2014.

## OUTLOOK

The following section should be read in conjunction with the other chapters in this financial information and the 2013 Group Management Report of HSH Nordbank. The forward-looking statements contained in this financial information are based on assumptions and conclusions based on information available to us at the time of preparation of the report. The statements are based on a series of assumptions that relate to future events and are incorporated in our corporate plan. The occurrence of future events is subject to uncertainty, risks and other factors, a great many of which are outside our control. Therefore actual results may differ materially from the following forward-looking statements. There is still significant uncertainty particularly in relation to the estimate of loan loss provisions over the long-term.

### Focus remains on new business and reduction in risk

We will continue to press ahead with our strategy over the coming months on the basis of the successful start to the year in order to align the Bank on a sustained stable and profitable basis. The focus will be placed primarily on the risk-conscious expansion of the client business in the Core Bank. The trend in past quarters has shown that we are solidly positioned in our target markets and are able to successfully expand our business even in a difficult environment. We are therefore confident that we will be able to realise further potential in our markets. By focusing on attractive transactions with a favourable risk/return profile we are creating the basis for increasing profitability in the Core Bank and for the continuous improvement in the portfolio quality.

With our Tier 1 capital ratio at a solid level, also under Basel III, we have created a good foundation for the planned expansion in core areas. At the same time we have increased our resilience through the improved capital base and the extensive hedging of the high-risk

legacy portfolios by the increased guarantee. We recognised substantial loan loss provisions in the 2013 financial statements for existing risks in ship financings and thereby further contributed to the hedging of risks relating to troubled assets. In 2014 we will continue to quickly wind down the portfolios in the Restructuring Unit. In this regard, we will also continue to pursue structured solutions that can support a greater reduction in risk.

At the same time we will consistently implement the measures initiated at the end of 2013 for the purposes of generating additional cost savings and with regard to changes in the organisational structure in order to relieve administrative expenses to the extent possible despite the increasing cost pressure caused by regulatory requirements and to design the Bank's structures in a sustainable, efficient manner.

The ongoing shipping crisis, the outstanding EU decision in the current state aid proceedings regarding the replenishment of the guarantee as well as the ECB audit in the European banking sector (comprehensive assessment) are among the major challenges facing the Bank in the current year. The results of the comprehensive assessment with the asset quality review and stress test are expected in October 2014.

Nevertheless, we still expect that we will be able to disclose positive net income before and after taxes in the 2014 Group financial statements. The expected appreciable reduction in loan loss provisions compared to the previous year, including the positive effect of the capital protection clause, as well as the growth in new business and reduction in administrative expenses will make a key contribution. The net income will be mainly generated by the Core Bank, which will probably be able to close 2014 on a positive basis even without the special effect of the capital protection clause. The results for the first quarter and the operating progress made in recent months confirm our expectations for the whole of 2014.

Further details on our expectations for the current year as well as the material opportunities and risks are set out in the outlook, opportunities and risks report in the 2013 Group Management Report.

In the 2013 reporting year HSH Nordbank had analysed and proactively made adjustments to material tax risks of the past. This included the analysis of so-called cum-ex transactions and other complex tax transactions, for which substantial provisions had already been recognised in the 2013 annual financial statements. HSH Nordbank is currently being audited by the tax authorities for the years 2003 to 2011, for which further tax charges cannot be excluded.

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## NOTE

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

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

## FORWARD-LOOKING STATEMENTS

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

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

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