

FINANCIAL INFORMATION

AS AT 30 SEPTEMBER 2014

KEY FIGURES

INCOME STATEMENT

(€ m)	January - September 2014	January - September 2013 ¹⁾
Net income before restructuring	848	202
Net income before taxes	460	-95
Group net result	333	-66

BALANCE SHEET

(€ bn)	30.09.2014	31.12.2013 ¹⁾
Equity	4.9	4.6
Total assets	110.7	109.1
Business volume	120.5	118.7

CAPITAL RATIOS²⁾

(%)	30.09.2014	31.12.2013
CET1 ratio	10.0 ³⁾	10.0 ³⁾
Tier 1 capital ratio	14.3	14.3
Regulatory capital ratio	18.6	19.7

EMPLOYEES

(computed in full-time equivalent basis)

	30.09.2014	31.12.2013
Total	2,606	2,834
Germany	2,441	2,627
Abroad	165	207

LONG-TERM RATINGS

	Unguaranteed liabilities	Guaranteed liabilities ⁴⁾	Public-sector Pfandbriefe	Mortgage Pfandbriefe	Ship Pfandbriefe
Moody's	Baa3	Aa1	Aa2	Aa3	Baa2
Fitch	A-	AAA	-	-	-

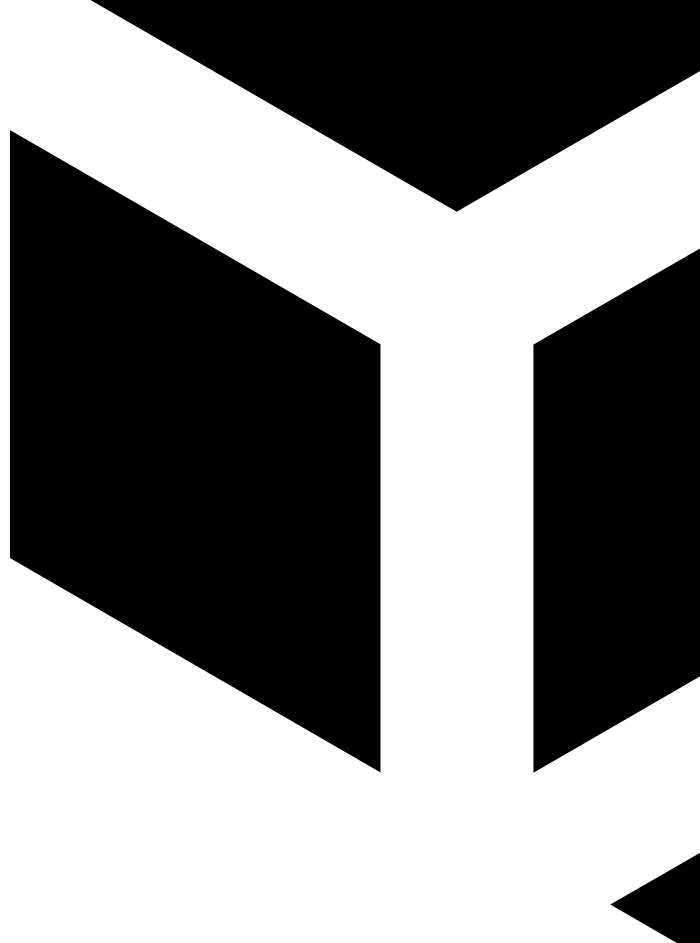
¹⁾ Following adjustment.

²⁾ According to the same period calculation under the CRR rules.

³⁾ Additionally, there is a buffer of 3.1 (31.12.2013) resp. 2.5 (30.09.2014) percentage points resulting from the effect of the guarantee structure.

⁴⁾ 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.



CONTENTS

2 HSH NORDBANK AT A GLANCE

4 BUSINESS DEVELOPMENTS

18 CONTACT/ IMPRINT

- 4 Overview of business performance
- 8 Net earnings
- 11 Net assets and financial position
- 13 Segment results
- 16 Outlook

Note:

This Financial Information of the HSH Nordbank Group as at 30 September 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 30 SEPTEMBER 2014

INCOME STATEMENT

(€ m)	January – September 2014	Following adjustment ¹⁾ January – September 2013	Change in %
Interest income	3,909	4,675	-16
Interest expense	-3,323	-3,868	14
Net income from hybrid financial instruments	-186	-106	-75
Net interest income	400	701	-43
Net commission income	103	73	41
Result from hedging	-24	11	>-100
Net trading income	131	138	-5
Net income from financial investments	267	247	8
Net income from financial investments accounted for under the equity method	2	-13	>100
Total income	879	1,157	-24
Loan loss provisions	387	-457	>100
Administrative expenses	-498	-560	11
Other operating income	80	62	29
Net income before restructuring	848	202	>100
Result from restructuring	2	-18	>100
Expenses for government guarantees	-390	-279	-40
Net income before taxes	460	-95	>100
Income tax expenses (-)/income (+)	-127	29	>-100
Group net result	333	-66	>100
Group net result attributable to non-controlling interests	1	-2	>100
Group net result attributable to HSH Nordbank shareholders	332	-64	>100

¹⁾ Adjusted in accordance with IAS 8.41 et seqq.

BALANCE SHEET
ASSETS

(€ m)	30.09.2014	Following adjustment ¹⁾ 31.12.2013	Change in %
Cash reserve	5,444	4,851	12
Loans and advances to banks	6,737	5,158	31
Loans and advances to customers	67,726	68,469	-1
Loan loss provisions	-2,469	-3,583	-31
Positive fair value of hedging derivatives	1,269	1,287	-1
Positive adjustment item from portfolio fair value hedges	449	151	> 100
Trading assets	9,485	9,045	5
Financial investments	19,773	21,256	-7
Intangible assets	31	45	-31
Property, plant and equipment	410	480	-15
Investment property	239	267	-10
Non-current assets held for sale and disposal groups	137	25	> 100
Current tax assets	49	59	-17
Deferred tax assets	1,178	1,226	-4
Other assets	268	375	-29
Total assets	110,726	109,111	1

¹⁾ Adjusted in accordance with IAS 8.41 et seqq.

LIABILITIES

(€ m)	30.09.2014	Following adjustment ¹⁾ 31.12.2013	Change in %
Liabilities to banks	15,555	18,212	-15
Liabilities to customers	43,211	40,662	6
Securitised liabilities	27,369	28,561	-4
Negative fair values of hedging derivatives	989	934	6
Negative adjustment item from portfolio fair value hedge	1,155	961	20
Trading liabilities	9,162	7,103	29
Provisions	1,518	1,394	9
Current tax liabilities	145	203	-29
Deferred tax liabilities	55	39	41
Other liabilities	1,133	1,175	-4
Subordinated capital	5,561	5,288	5
Equity	4,873	4,579	6
Share capital	3,018	3,018	-
Capital reserve	594	594	-
Retained earnings	884	1,775	-50
Revaluation reserve	86	27	> 100
Currency conversion reserve	-31	-61	-49
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	-100
Group net result	332	-767	> -100
Total before non-controlling interests	4,884	4,592	6
Non-controlling interests	-11	-13	-15
Total equity and liabilities	110,726	109,111	1

¹⁾ Adjusted in accordance with IAS 8.41 et seqq.

BUSINESS DEVELOPMENTS AS AT 30 SEPTEMBER 2014

OVERVIEW OF BUSINESS PERFORMANCE

Positive business developments

HSH Nordbank generated a Group net income for the first nine months of 2014 that was significantly above that for the same period of the previous year. The trend in the core business fields which overall developed as scheduled and substantial reduction in risk positions also reflect the further progress made in implementing the customer-oriented business model. The positive performance in the Comprehensive Assessment of the European Central Bank (ECB) consisting of an Asset Quality Review (AQR) and a Stress Test confirms as expected that HSH Nordbank is solidly capitalised and can also withstand an extreme crisis situation.

Net income before and after taxes significantly positive

Net income before taxes increased to € 460 million as at 30 September 2014, representing an increase of € 555 million compared to the result for the first nine months of the previous year (€ -95 million). The net income after taxes (Group net income) improved to € 333 million (previous year: € -66 million).

The successful increase in new business transacted with customers, the sale of securities and equity holdings in line with the strategy and the cost savings achieved had a positive effect on the nine months results of HSH Nordbank. The compensation of loan loss provisions under the second loss guarantee including the capital protection clause in accordance with the guarantee agreement had a significant impact on results in line with the plan. As planned, this resulted in a reversal through profit or loss of guarantee premiums in the amount of € 668 million recognised as expense in previous periods. This was offset by the continued high level of premium expenses for the guarantee. The base premium for the guarantee facility provided and the additional premium payable for the expected future drawdown of the guarantee had a negative impact of € -390 million and € -211 million, respectively, resulting in total in a positive net effect from the guarantee premiums of € 67 million for the first nine months of 2014.

The Core Bank, in which the forward-looking divisions of HSH Nordbank are combined, generated net income before taxes of € 138 million for the first nine months (same period of the previous year: € 146 million). Adjusted for the net loss of € -185 million of the Shipping restructuring area under the responsibility of the Core Bank, net income of € 323 million would have been generated by the Core Bank as at 30 September 2014. The positive net effect from the guarantee premiums amounted to € 22 million in the Core Bank, which comprised a reversal through profit or loss of premiums of € 227 million offset by base premium expense of € -133 million and additional premium expense of € -72 million.

The increase in new business over recent quarters contributed to the result. The good performance of the Real Estate Clients and Energy & Infrastructure divisions was offset by a market-related subdued business expansion in the Corporates division and decreased sales of capital markets products due to the very low level of interest rates. Loan principal repayments and high loan loss provisions for legacy portfolios in the Shipping restructuring unit had a significant negative impact. A negative special effect (€ -90 million) in the first quarter relating to the planned adjustment to the interest rate applied to certain hybrid instruments was recognised in the Core Bank, which will be fully offset by 2017 according to plan.

The Restructuring Unit, responsible for the winding down of the legacy portfolios, greatly benefited with net income before taxes of € 322 million (same period of the previous year: € -241 million) from the effect of the capital protection clause as well as measurement gains in the securities positions. A net effect of € 45 million was recognised with regard to the guarantee premiums, comprising € 441 million from the reversal through profit or loss of premiums offset by base premium expense and additional premium expense of € -257 million and € -139 million, respectively. The sharp reduction in the portfolio and further increase in impaired shipping loans had a negative effect in the Restructuring Unit. Both together resulted in a significant reduction in the interest-bearing loan volume, which was reflected in the decrease in net interest income.

Results of the Comprehensive Assessment confirm solid capital position

HSH Nordbank exceeded the minimum capital ratios required in the ECB's Comprehensive Assessment, both in the AQR and in both scenarios of the multi-annual stress test, thereby demonstrating its capital strength. In the AQR, which included inter alia a comprehensive individual review of the measurement of high risk assets as at the 31 December 2013 reporting date, the Bank's CET1 ratio (Common Equity Tier 1 ratio) was at a solid level of 10.0%, plus the buffer of 2.3 percentage points from the additional premium from the second loss guarantee, compared to the Bank's starting level of 10.0% plus the buffer of 3.1% as at the 2013 year end. The minimum ratio of 8% required for the AQR was therefore clearly exceeded.

This good AQR result was achieved, even though the ECB made significant adjustments which in part were not in accordance with the IFRS accounting standards, to the measurement of non-performing loans and collateral. In particular, so called prudential haircuts under supervisory law were applied to shipping loans (- 18%) measured in accordance with IFRS using the cash-flow-based approach and to collateral (- 10%) provided for international real estate loans. The measurement of customer derivatives (credit value adjustments, CVA) was also adjusted in the AQR. The resulting regulatory capital charges were mainly compensated for under the second loss guarantee. The CET1 ratio thus remained at 10.0% despite the adjustments made in the AQR. Only the buffer from the additional premium decreased by 0.8 percentage points. The great effectiveness of the guarantee was thereby underpinned.

The stress test subsequently performed using hypothetical assumptions regarding the economic environment was linked to the AQR. Starting from the adjusted CET1 ratio determined in the AQR the effect of the severe stress scenarios was analysed over a period of three years (2014 to 2016). These were based on a static balance sheet approach, as a result of which the winding down of troubled assets already achieved since the 2013 year end and planned up to 2016 as well as the increase in lower risk new business was not taken into account, with the effect that the actual and planned improvement in the risk/return profile was not reflected in this period.

Whereas the Bank achieved a CET1 ratio of 9.4% in the base scenario stress test as at the end of the period under review (2016) (minimum threshold: 8.0%), the ratio in the adverse scenario, in which an extremely unfavourable economic and financial environment was simulated, dropped to 6.1% (minimum ratio: 5.5%). The additional stress in the adverse scenario was further increased through the combination with the adjustments made in the AQR over and above those required under the applicable accounting standards (join-up). The guarantee premiums payable, which had to be included in the same amount as an expense over the three years of the period under review in the stress test and which caused increasing capital erosion, were an additional negative factor. Nevertheless, the exceeding of the minimum ratio shows that HSH Nordbank can withstand this hypothetical crisis scenario in the stress test despite the onerous requirements.

New business increased on plan

New business was successfully increased again in line with the business and risk strategy. The volume of new business transacted in the entire nine month period of 2014 increased by approximately 43% to € 7.0 billion (same period of the previous year: € 4.9 billion). It was therefore at the pro rata target level for 2014, which had again been increased compared to the previous year. It was also possible to noticeably increase the proportion of new loans disbursed compared to the same reporting period in the previous year. The risk-adjusted interest margin trend was encouragingly stable in a difficult competitive environment.

The customer divisions contributed to the performance in varying degrees. As the financing partner of choice throughout Germany, the Real Estate Clients business division recorded the sharpest increase in new business. The Energy & Infrastructure and Shipping International divisions also concluded more business than in the same period of the previous year. On the other hand, new business in the Corporates division remained below the level of the same period of the previous year due to the still generally subdued loan demand and the very intensive competition between banks for medium-sized companies, although business picked up markedly in the third quarter.

The increase in new business had a positive impact on the Core Bank's earnings base. In addition, we are able to gradually improve the quality of the Core Bank portfolio as a result of the significantly better risk structure of the new business. Given our well-filled transaction pipeline we also expect to be able to continue to expand our new business with clients during the last quarter of 2014.

Overall, the new business performance is underpinning the advanced implementation of the Core Bank's customer-based business model and the solid position of the customer divisions in their target markets.

Total assets of the Core Bank increased against the backdrop of the increase in new business to € 75 billion as at 30 September 2014 (31 December 2013: € 69 billion). The appreciation in the USD exchange rate also increased the size of the portfolio, whereas sales of securities and loan principal repayments had an offsetting effect on the increase in total assets.

Winding down of high risk legacy portfolios driven forward

The winding down of non-strategic legacy portfolios was continued according to plan in the first nine months. The total amount held in portfolios under the responsibility of the Restructuring Unit decreased to € 33 billion as at the end of the third quarter (excluding consolidation items) compared to € 37 billion as at 31 December 2013.

HSH Nordbank is continuing to pursue alternative portfolio solutions in the Shipping area in order to further reduce the risk positions in the Restructuring Unit. It is also actively supporting the consolidation that is underway in the shipping industry. A merger of several shipping lines has already been successfully initiated this year with the support of HSH Nordbank.

The extent of the portfolio reduction in the Restructuring Unit as agreed with the EU Commission in 2011 will be clearly exceeded by the end of 2014. The Bank's focus on the Core Bank activities is supported by the speedy reduction of the portfolio.

Total income affected by portfolio reductions and measurement effects

Against the backdrop of the ongoing reduction in risk, total income of € 879 million is as planned below the level for the same period of the previous year (€ 1,157 million). The reduction in the Restructuring Unit portfolio and increase in the impaired loan volume in the shipping portfolio resulted in a fall in interest-bearing loans and advances, which is reflected in the decrease in net interest income. In addition, individual special effects were recognised in net interest income, which had an added negative impact (see explanations regarding this in the "Net earnings" section). The Bank was able to increase net commission income in the first nine months. Higher loan fees made a significant contribution to this, whereas cross-selling with capital markets products remained below the level of the same period in the previous year.

The total of net trading income and net income from financial investments was above the level for the same period of the previous year. Measurement gains in the credit investment portfolio, sales of securities as part of liquidity management, as well as further sales of equity holdings made significant contributions. Negative effects arising on the valuation of own liabilities measured at fair value and on the currency translation were thereby more than offset.

Loan loss provisions increased according to plan

Loan loss provisions were increased as at 30 September 2014 according to plan and were again primarily concentrated on the legacy Shipping portfolios in order to take account of the continued difficult market conditions in the shipping industry. On the other hand, developments in the Bank's other asset classes were comparatively unremarkable in light of the very positive risk cycle of German industry. Net loan loss provision expense including currency translation effects amounted in total to € – 503 million before the compensation effect of the guarantee (same period of the previous year: € – 735 million).

The Loan loss provisions line item continued to benefit from the compensation effect of the second loss guarantee, including the capital protection clause. This resulted in the reversal through profit or loss as at 30 September 2014 of the additional guarantee premiums of € 668 million, which had been recognised as an expense under loan loss provisions in previous periods.

The basis for the capital protection clause is the temporary waiver by the guarantors of their claim to the additional premiums which ensures a supervisory core Tier I capital ratio (CET1 capital ratio) of 10% despite the more stringent requirements for calculating the capital ratios applied this year (conversion to Basel III and from HGB to IFRS for determining regulatory capital).

This relieving effect was offset by high additional premium expense for the previous reporting period (€ – 211 million), as a result of which the compensation effect under the guarantee was reduced. This gave rise to a total net compensation amount of € 890 million. After compensation under the guarantee HSH Nordbank reported loan loss provision income of € 387 million (same period of the previous year: € – 457 million).

Increasing cost pressure alleviated by cost savings

Administrative expenses were further reduced in the year to date to € – 498 million (same period of the previous year: € – 560 million). This was mainly attributable to a reduction in personnel costs as a result of the further decrease in the number of employees to 2,606 (calculated on a full-time equivalent basis, FTE; 31 December 2013: 2,834). The 2011 headcount reduction plan that has almost been fully implemented and the additional job cuts as part of our cost savings programme initiated at the end of 2013 are the contributory factors behind this downward trend. Changes to the scope of consolidation also had an impact on the number of employees. In particular, the deconsolidation of a non-strategic equity holding that was sold (DMS Semiconductor Equipment GmbH) contributed to this decrease.

We are continuously implementing our cost savings programme initiated at the end of the 2013. The first cost savings have already been achieved through the consistent management of operating costs and the partial non-filling of open headcount positions and positions that become vacant. These savings counteracted higher expenses incurred for continuously increasing regulatory requirements.

Expenses for government guarantees increased, which reflects the increase in the base premium to € – 390 million (same period of the previous year: € – 279 million) due to the replenishment of the second loss guarantee in the middle of 2013, which takes into account on a pro rata basis the agreed additional payment for the period of the reduced guarantee facility from 2011 to the middle of 2013.

Continued solid capital adequacy

The high resilience of the capital position under stress conditions was confirmed by the Bank's results in the ECB's Comprehensive Assessment. HSH Nordbank's capital ratios disclosed as at 30 September 2014 remained at a solid level. The classical Tier 1 capital ratio reached 14.3% as at 30 September 2014. The CET1 ratio (Basel III transition rules) amounted to 10.0% plus a buffer of 2.5 percentage points, which results from the structure of the second loss guarantee issued by the federal states (capital protection clause).

Even under the assumption of the full implementation of the Basel III rules the CET1 ratio of HSH Nordbank at the end of the first nine months of 2014 stood at a solid level of 10.0% (plus a buffer of 1.1 percentage points).

Further details on the causes underlying the business performance are discussed below in the "Net earnings", "Net assets and financial position" and "Segment results" sections.

NET EARNINGS

Reduction in risk and measurement effects continue to have a significant impact on net earnings

Net interest income amounted to € 400 million for the first nine months (same period of the previous year: € 701 million). As expected, the impact of the new business disbursed in the customer divisions was more than offset by the substantial portfolio reduction in the Restructuring Unit and the increase in impaired shipping loans in the Restructuring Unit and in the Core Bank.

Furthermore, the following special effects from the first half of the year were recognised in net interest income. The adjustment to the interest rate applied to certain hybrid instruments, which will be offset as planned in subsequent periods, had an adverse impact of € – 90 million in the first nine months of 2014. This resulted in net income from hybrid financial instruments of € – 186 million, thus remaining significantly below the level of the same period of the previous year (€ – 106 million). A further exceptional charge of € – 48 million resulted from the derecognition of hedge adjustments due to the sale of securities within the framework of liquidity management. The offsetting positive effect (€ 104 million) is disclosed under net income from financial investments. The adjustment to the interest rate curve used to determine the present value of obligations relating to guarantee fees expected to be payable in the future had a negative impact of € – 21 million on net interest income.

Net commission income increased clearly to € 103 million compared to € 73 million in the same period of the previous year. This positive development was reflected primarily in higher loan fees, whereas business with capital markets products was subdued also due to the low level of interest rates.

Net trading income amounted to € 131 million as at 30 September 2014 (same period of the previous year: € 138 million). It was positively affected by an improvement in the measurement result from interest rate/currency derivatives (EUR/USD basis swaps). The trading books in the Credit Investment Portfolio (CIP) also appreciated in value but to a lesser extent compared to the corresponding period of the previous year.

Own liabilities measured at fair value had an adverse impact – albeit to a lesser extent than in the previous year. Furthermore, the depreciation in the EUR/USD exchange rate resulted in a negative measurement effect of the currency translation in accordance with IFRS 21 within the context of equity holdings denominated in foreign currency.

The result from hedging, which amounted to € – 24 million as at 30 September 2014 (30 September 2013: € 11 million), includes measurement losses on hedging derivatives caused by volatile interest rate movements over the past months.

The Bank was able to increase net income from financial investments to € 267 million compared to € 247 million in the same period of the previous year. Sales of European government bonds and other securities within the context of the regular liquidity management as well as reversals of impairment losses on debt instruments held in the credit investment portfolio made a positive contribution to earnings. In addition, individual equity holdings were successfully sold and the Bank's equity holding portfolio was thereby reduced further in conformity with the strategy (in particular Railpool GmbH and Railpool Holding GmbH & Co. KG as well as DMS Semiconductor Equipment GmbH).

Measurement gains in the CIP disclosed under net trading income and net income from financial investments totalled a gross amount of € 96 million as at 30 September 2014 and were offset by charges of € – 58 million arising on the corresponding reduction in the hedging effect of the second loss guarantee. This left net income for the CIP of a total of € 38 million (allocated to the Restructuring Unit). The compensation effect is disclosed under the loan loss provisions line item and impacts the securities positions hedged under the guarantee that had been impaired in previous periods.

Securities sold as part of liquidity management had a positive gross effect of € 104 million on net income from financial investments. In this connection derecognition of hedge adjustments had an offsetting negative effect of € – 48 million on net interest income. In total, this left a positive net effect of € 56 million from the sale of these securities.

The combination of the effects described above resulted in total income at the planned level of € 879 million (same period of the previous year: € 1,157 million).

Other operating income increased to € 80 million (same period of the previous year: € 62 million). It benefited primarily from income from equity holdings and from the companies consolidated for the first time this year in accordance with IFRS 10. The consolidation of companies under IFRS 10 had a noticeable offsetting negative impact on administrative expenses.

Loan loss provisions reduced under the guarantee

We report an amount of € 387 million in the loan loss provisions item for the first nine months of 2014, compared to € – 457 million for the same period of the previous year.

Loan loss provisions recognised as at 30 September 2014 (excluding foreign exchange effects) amounted in total to € – 256 million and were therefore at approximately the plan level. These related predominantly to troubled assets in the shipping portfolios of the Restructuring Unit and the Core Bank (in the restructuring area of the Shipping division) that are shielded under the guarantee. The loan loss provision expense was comparatively lower in the other divisions. One of the reasons for this is the very favourable risk cycle of German industry.

Furthermore, successful restructurings in the Restructuring Unit had a positive effect. This enabled higher reversals to be recognised and thereby reduced net loan loss provisions, especially for shipping loans.

Against the backdrop of the movement of the US dollar over recent months the foreign exchange result to be recognised in loan loss provisions amounted to € – 247 million (same period of the previous year: € + 80 million). As far as the currency translation relates to guaranteed portfolios, it is fully compensated for by the guarantee. Foreign exchange positions held in portfolios not covered by the guarantee are managed using hedging instruments.

LOAN LOSS PROVISIONS BEFORE AND AFTER EFFECT OF THE GUARANTEE

(€ m)	January – September 2014	January – September 2013
Loan loss provisions before compensation (net), of which:	- 503	- 735
Core Bank	- 301	- 194
Shipping	- 282	- 128
Real Estate Clients	- 3	2
Energy & Infrastructure	- 33	- 54
Corporate Clients	- 21	4
Other	38	- 10
Restructuring Unit	- 202	- 541
Shipping loans	- 193	- 431
Real estate loans	- 9	- 5
Corporate loans	8	- 70
Other	- 8	- 35
Loan loss provisions after compensation (net), of which:	387	- 457
Core Bank	1	- 121
Restructuring Unit	386	- 336

Loan loss provisions recognised for the legacy portfolios were largely compensated under the guarantee. The compensation effect of the guarantee of € 890 million is broken down into gross compensation of € 433 million, which includes the compensation of the currency effects as well as the offsetting reversal of impairment losses in the CIP, additional premium expense of € – 211 million for the first nine months of 2014, and income of € 668 million from the reversal of guarantee expense as a result of the temporary receivable waiver. In total, this resulted in income of € 387 million being disclosed for loan loss provisions.

The compensation effect of the guarantee has still not given rise to a cash draw down. The first loss piece of the Bank (€ 3.2 billion) was utilised by actual payment defaults in the amount of € 1,083 billion as at the end of the quarter (losses submitted for invoicing). As at the reporting date we are still assuming in our long-term loan loss provision planning that payment defaults will exceed the first loss piece from 2019 and add up to a total of € 1.6 billion by 2025.

Administrative expenses reduced further

The reduction in administrative expenses to € – 498 million (same period of the previous year: € – 560 million) is mainly attributable to the further reduction in the number of employees, as a result of which personnel expenses decreased to € – 213 million (same period of the previous year: € – 247 million).

Operating expenses (excluding depreciation/amortisation) decreased slightly to € – 230 million compared to € – 233 million in the same period of the previous year. Savings achieved, for instance with regard to consultancy costs and buildings, were offset by the substantial costs incurred in relation to regulatory requirements. About € 14 million has been recognised solely for the special audit carried out in connection with the ECB's Asset Quality Review. Depreciation of property, plant and equipment and amortisation of intangible assets decreased to € – 55 million (same period of the previous year: € – 80 million).

In the first nine months of 2014 additional administrative expenses of about € – 27 million (mainly depreciation/amortisation) had to be recognised for companies newly included in the consolidated financial statements as a result of the initial application of IFRS 10 (same period of the previous year: € – 17 million).

Increase in guarantee expense for the base premium

Expenses for government guarantees (base premium for past periods) increased in the first nine months of 2014 to € – 390 million compared to € – 279 million in the same period of the previous year.

The reasons underlying the increase are the higher ongoing base premium payable resulting from the replenishment of the guarantee facility from € 7 billion to € 10 billion in 2013 and the portion of about € – 87 million of the subsequent payment agreed for the base premium attributable to the first nine months of the year 2014 resulting from the replenishment of the guarantee.

The subsequent payment will be amortised through profit or loss over the scheduled term of the increased partial amount of the guarantee. The residual expense relating to the subsequent payment totalling about € – 119 million will be amortised over the fourth quarter of the current year as well as 2015 and 2016 as scheduled.

Since 2009 HSH Nordbank has recognised total premium expense in its income statement, including base and additional premiums disclosed in the compensation line item in loan loss provisions (excluding € 0.5 billion relating to a one-off payment required by the EU Commission in 2011, which was then subsequently returned to the Bank as part of a capital increase) of € 3.0 billion up to 30 September 2014.

The reduction of € – 0.1 billion compared to the premium expense accrued as at the 2013 year end (€ 3.1 billion) results from the reversal through profit or loss under the capital protection clause of premiums recognised in loan loss provisions (€ – 0.7 billion), the additional premium for the previous period (€ + 0.2 billion) and the base premium for the first nine months of the year including the subsequent payment (€ + 0.4 billion).

The premiums paid by HSH Nordbank to the guarantor to date increased to € 2.1 billion in the first nine months of the year (31 December 2013: € 1.7 billion), of which € 1.8 billion is attributable to the recurring base premium and € 0.3 billion to the subsequent payment. With the premiums paid to the guarantors as at the reporting date, HSH Nordbank is already making a substantial contribution to compensating for the aid granted by the federal states of Hamburg and Schleswig-Holstein.

Group net income reaches € 333 million

The developments described resulted in net income before taxes of € 460 million for the first nine months of 2014 compared to € – 95 million for the same period of the previous year. After taking into account income taxes in the amount of € – 127 million (same period of the previous year: € 29 million), Group net income of € 333 million (same period of the previous year: € – 66 million) remains.

The return on equity for the Group calculated on the basis of net income before taxes is 13% (same period of the previous year: – 2%). The cost-income ratio (ratio of administrative expenses to total income, excluding other operating income) at the Group level was 57% (previous year: 48%).

The Bank already recognised a provision of € 55 million for potential additional tax payments resulting from the ongoing tax audit of previous years in the income taxes line item of the first half of 2014. Provision expense was offset by tax refunds of € 53 million. The associated interest effects are disclosed under Other operating income. Furthermore, deferred tax expense of € – 111 million had to be recognised as a result of the positive results of the first nine months. Total income tax expense thus amounted to € – 126 million including current income taxes. The effective tax rate was therefore 28% as at 30 September 2014.

During the 2013 reporting year HSH Nordbank had reappraised and proactively dealt with material tax risks from the past. This included the reappraisal of the 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 still being audited for the 2003 to 2011 tax years, and further tax charges cannot therefore be excluded. This applies both to offices in Germany and the New York branch. Adequate provisions were recognised as at 30 September 2014 for risks that have already been sufficiently identified during the ongoing tax audits. Further information on the tax risk topic is set out in the 2013 Annual Report.

NET ASSETS AND FINANCIAL POSITION

Slight increase in total assets

Total assets increased slightly in the first three quarters of 2014 to € 110,726 million (31 December 2013: € 109,111 million). The continued reduction of the Restructuring Unit portfolio was offset by the increase in new business. The appreciation in the US dollar exchange rate over the past months also had the effect of increasing the balance sheet.

Loans and advances to customers declined slightly to € 67,726 million (31 December 2013: € 68,469 million) – the largest balance sheet line item on the assets side. The reduction in the non-strategic portfolios and loan principal repayments were partially offset by higher new business. Loans and advances to banks recorded a sharp increase to € 6,737 million (31 December 2013: € 5,158 million) due to higher deposits with other banks. A repurchase agreement entered into for liquidity management purposes also had a positive impact. Total loan loss provisions decreased to € –2,469 million as a result of utilisations and a higher compensation item (31 December 2013: € –3,583 million). The decrease in financial investments to € 19,773 million is attributable to the reduction of the securities and equity holdings portfolios (31 December 2013: € 21,256 million).

On the liabilities side, liabilities to banks decreased to € 15,555 million due to lower bank deposits (31 December 2013: € 18,212 million), whereas liabilities to customers increased to € 43,211 million due to higher demand and time deposits from customers (31 December 2013: € 40,662 million).

Securitised liabilities reduced slightly to € 27,369 million (31 December 2013: € 28,561 million), as the volume of new issues was more than offset by maturities. Reported equity capital increased moderately to € 4,873 million (31 December 2013: € 4,579 million), mainly as a result of the Group net income.

Business volume increased after the first three quarters of 2014 in particular due to the increased total assets to € 120,512 million (31 December 2013: € 118,729 million). The off-balance-sheet business also increased slightly.

Solid capital ratios as at 30 September 2014

REGULATORY CAPITAL RATIOS

(TAKING THE QUARTERLY RESULTS INTO ACCOUNT)

(%)	30.09.2014	31.12.2013 ¹⁾	31.12.2013 Basel II
Total ratio/regulatory capital ratio	18.6	19.7	23.8
Tier 1 capital ratio (including market risk positions)	14.3	14.3	15.3
CET1 ratio plus buffer from additional premium	10.0 (+ 2.5 pp)	10.0 (+ 3.1 pp)	11.7 (+ 5.2 pp)
CET1 ratio plus buffer from additional premium (full implementation of Basel III)	10.0 (+ 1.1 pp)	10.0 (+ 1.8 pp)	–
Leverage ratio	4.9	4.6	5.0

ELIGIBLE CAPITAL

(TAKING THE QUARTERLY RESULTS INTO ACCOUNT)

(€ bn)	30.09.2014	31.12.2013 ¹⁾	31.12.2013 Basel II ²⁾
Eligible capital	7.5	7.5	8.6
of which Tier 1 capital (core capital)	5.8	5.4	5.6
of which CET1 capital	4.0	3.8	4.2
Risk assets (RWA)	40.5	37.9	35.6
of which risk assets counterparty default risk	31.5	31.1	28.4

¹⁾ According to the same period calculation under the Capital Requirements Regulation (CRR); CRR comparative figures calculated retrospectively (adjusted).

²⁾ Report pursuant to the German Solvency Regulation (SolvV)

The CET1 ratio was 10.0% as at 30 September 2014. Furthermore, there is a buffer of 2.5 percentage points resulting from an additional potential deferral of the claim of the guarantors relating to the additional premium. This results from the capital protection clause in the guarantee structure. The CET1 ratio is therefore significantly above the minimum banking supervision requirements as at the end of the third quarter. The buffer of the CET1 ratio decreased slightly by 0.6 percentage points compared to the comparative figure as at the 2013 year end (including buffer) that was calculated retrospectively.

The reduction is attributable to the change in risk assets (RWA), which increased to € 40.5 billion as at 30 September 2014 (31 December 2013: € 37.9 billion). Apart from the trend in the US dollar, the background to this is the continuing increase in new business in the Core Bank, which, as planned, had a greater impact on the RWA despite the better risk parameters than the further winding down of the legacy portfolios in the Restructuring Unit. The guarantee coverage reduced the RWA in the legacy portfolios.

The regulatory minimum risk weight of 20% is applied to the senior tranche of the second loss guarantee. Mathematically, the risk weight as at 30 September 2014 continues to be below 1% resulting in a substantial additional risk buffer.

The leverage ratio of HSH Nordbank was a solid 4.9% as at 30 September 2014 (31 December 2013: 4.6%). The leverage ratio is a capital ratio that is not weighted and compares the Tier 1 capital to regulatory adjusted business volume. Disclosure of this ratio will be mandatory from 2015 onwards.

Funding activities in the first nine months

We have successfully driven forward our funding strategy in the first nine months of the current year and thereby further strengthened our liquidity profile.

The Bank exploited the favourable conditions in the capital markets to issue two mortgage Pfandbriefs, each in the amount of € 500 million, in the third quarter. A Pfandbrief with a five-year term and a Pfandbrief with a term of seven years were issued in July and September, respectively. There was a wide demand for the issues, particularly among domestic and foreign institutional investors. The order books were heavily oversubscribed. In addition HSH Nordbank was able to privately place ship Pfandbriefs with a volume of just under € 400 million during the course of the year.

Secured funding using longer-term repo transactions, which contributed more than USD 1.5 billion to the primary funding of USD transactions, was also encouraging. Furthermore, other transactions based on loans in different asset classes are currently being implemented as part of the “asset-based funding (ABF)”.

Another focus was the sales and distribution of bond products for the savings banks client business and increasingly also for clients in other associations and financial institutions. The increased placement of bonds in the institutional business is resulting in the further diversification of the investor base. Total volume of uncovered bonds (senior unsecured) issued during the first nine months of the year amounted to almost € 3 billion.

Besides the issuing activities a stable level of deposits contributed to the refinancing of the business. Furthermore, the Bank holds liquidity reserves in the form of collateral eligible for refinancing at central banks and credit balances at central banks, with a total volume of about € 22 billion, which it can access at any time.

HSH Nordbank's solid liquidity position at the end of the third quarter of 2014 was also reflected in the key liquidity ratios. The liquidity ratio of the German Liquidity Regulation (LiqV) used as the central regulatory indicator for liquidity risk was 2.15 as at the end of the quarter and was therefore significantly above the regulatory minimum.

Against the backdrop of the adoption of the Bank Recovery and Resolution Directive (BRRD) and 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) downgraded the long-term rating of numerous banks in Europe – irrespective of their financial strength – to a negative outlook as part of a Europe-wide action, which had been expected by the market for some time. The outlook for the HSH Nordbank's rating was changed to Baa3 negative (Moody's) and A- negative (Fitch). The reviews of the ratings by the rating agencies are not likely to be completed before the end of 2014.

These rating actions have not had any material impact to date on the Bank's refinancing options and position. In July Fitch confirmed our rating of A- with negative outlook during its annual review.

Summary assessment of the Bank's position

The business performance and Group net profit as at 30 September 2014 show that HSH Nordbank is well on the way to successfully implement its customer-oriented business model despite the ongoing negative effects of the crisis in the shipping industry.

The expansion of new business is progressing according to plan and shows that the Bank is well positioned in its target markets. The expected reduction in income due to the sharp decrease in risk positions, the increase in impaired shipping loans and the increase in exceptions charges, was offset by new business disbursements, reversals of impairment losses and gains on disposals.

Loan loss provisions continue to be characterised by additions for non-performing shipping loans. The provision expense recognised for legacy portfolios was largely compensated for by the second loss guarantee. A positive amount was disclosed in the loan loss provisions line item, including the clearly positive effect of the capital protection clause pursuant to the guarantee agreement.

The high resilience of the capital position under stress conditions was confirmed by the Bank's results in the ECB's Comprehensive Assessment. The capital ratios disclosed as at 30 September 2014 remained at a solid level. The capital ratios are calculated on the basis that the replenished guarantee facility has been provisionally

approved. A final decision from the EU Commission is expected at the beginning of 2015 at the earliest.

The Bank's funding strategy is continuing to be implemented through, amongst other things, the issuing of Pfandbriefs on the capital markets. We still face longer-term challenges resulting from the expiry of the guarantee obligation (Gewährträgerhaftung). Further structural progress was made in order to cover the resulting refinancing requirements.

In addition, the basis for sustained successful development of HSH Nordbank has been strengthened further with the success of the Core Bank business, the continued winding down of troubled assets in the Restructuring Unit and the measures implemented to reduce costs. Furthermore, the satisfactory performance of the Bank in the ECB's Comprehensive Assessment improved the confidence in the Bank. The cost reduction programme and Group restructuring together with additional measures are being continued in order to further develop the Bank in a targeted manner in a challenging environment.

SEGMENT RESULTS

SEGMENT OVERVIEW JANUARY–SEPTEMBER 2014

(€ m)		Shipping, Project & Real Estate Financing	Corporates & Markets	Corporate Center	Consoli- dation Core Bank	Total Core Bank	Restruc- turing Unit	Consoli- dation Restruc- turing Unit	Total Restruc- turing Unit
Total income	2014	470	255	-90	-72	563	318	-2	316
	2013	535	287	-40	-125	657	524	-24	500
Loan loss provisions	2014	-318	-20	45	294	1	-202	588	386
	2013	-180	-4	-1	64	-121	-541	205	-336
Net income	2014	7	39	3	219	268	-6	586	580
before restructuring	2013	172	113	34	-76	243	-222	181	-41
Net income	2014	7	39	3	89	138	-6	328	322
before taxes	2013	172	113	34	-173	146	-222	-19	-241
Segment assets	30.09.2014	30	24	18	3	75	33	3	36
(€ bn)	31.12.2013	28	24	16	1	69	37	3	40

Core Bank strengthened by good new business performance

The Core Bank generated net income before taxes of € 138 million as at 30 September 2014 (January to September 2013: € 146 million). The new business performance over the past quarters significantly contributed to the positive results. New business concluded in the first nine months of the year increased significantly by 43% to € 7.0 billion (same period of the previous year: € 4.9 billion). About 54% of this was disbursed – also a significant increase compared to the previous year. The business development reflects the fact that the Core Bank divisions are firmly rooted in their target markets.

Adjusted for the net loss of € – 185 million of the Shipping restructuring division, net income of € 323 million would have been generated by the Core Bank as at 30 September 2014.

The positive income effect generated by new business was mainly offset by loan principal repayments in the Corporates division and loan loss provisions recognised on troubled assets in the Shipping restructuring division. Furthermore, an exceptional item relating to the measurement of hybrid financial instruments (Corporate Center segment) as well as other measurement effects disclosed in the consolidation column of the Core Bank had a negative effect. Net income before taxes also reflected higher premium expense for the second loss guarantee replenished in the previous year.

The positive effect from the capital protection clause continued to underpin the Core Bank's results. This is disclosed in the loan loss provisions line item in the consolidation column.

The Restructuring Unit benefited much more strongly from the capital protection clause than the Core Bank and, as a consequence, generated net income before taxes of € 322 million (January to September 2013: € – 241 million).

Segment results of the Core Bank

Net income of € 7 million was generated in the Shipping, Project & Real Estate Financing segment before compensation of the loan loss provisions by the guarantee (January to September 2013: € 172 million). Adjusted for the net loss of € – 185 million of the Shipping restructuring division net income of € 192 million would have been disclosed for the Shipping, Project & Real Estate Financing Segment as at 30 September 2014. Whereas the growth in new business together with stable margins had a positive effect, loan loss provisions for shipping loans in the restructuring area of the Shipping division still had an adverse impact on the net sales result.

Given the difficult market conditions income in the Shipping division remained below the level of the same period of the previous year. The focus of the new business in the Shipping division (volume: € 1.0 billion, + 55% compared to the same period of the previous year) was on international commitments in different ship segments, which contribute to the further diversification of the portfolio. Energy & Infrastructure (new business: € 1.2 billion, + 81%) contributed to segment income through the successful conclusion of various wind, solar and infrastructure projects in Germany and abroad and sale of an equity holding (Railpool). The Real Estate Clients division, which generated higher new business volume of € 3.2 billion (+ 128%) in the core region and throughout Germany as a result of market conditions, recorded the largest earnings contribution in this segment.

The increase in loan loss provisions before compensation under the guarantee to € – 318 million compared to € – 180 million for the first nine months of 2013 was attributable to further additions for troubled assets held in the Shipping restructuring division and the strong appreciation of the USD. Loan loss provision expense in the Energy & Infrastructure division was also moderately increased due to individual non-performing commitments. The loan loss provisions required for the core Real Estate Clients division were low in light of the positive developments in the German real estate markets.

Net income for the Corporates & Markets segment amounted to € 39 million for the first nine-months of 2014 (January to September 2013: € 113 million). Besides a subdued loan demand, principal repayments and the very low level of market interest rates had a noticeable impact on segment income.

The Corporates division made the largest contribution to segment total income; however, this was lower than the previous year. New business transacted with corporates picked up in the third quarter with stable margins. New transactions in the amount of € 1.6 billion were concluded for the entire nine-month period in a difficult market environment. This represents a reduction of 23% compared to the same period of the previous year, which is attributable to the generally subdued corporate demand for financing and the intense competition between banks in the German market. There was also a marked increase in loan principal repayments due to the good financial position of many corporate clients. However, the proportion of drawdowns increased significantly. Furthermore, the successful involvement in several corporate finance transactions was encouraging. The low level of interest rates, which affected both the client business and securities positions held in the Capital Markets division, had a marked negative impact in this segment.

In view of the solid business situation of many corporates we recognised lower additions to the loan loss provisions, which reflect the high quality of the corporates portfolio.

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 nine months of 2014 to € 3 million compared to net income of € 34 million for the same period of the previous year. This was mainly attributable to a negative special effect arising on the calculation of net income from hybrid financial instruments. However, the continued sale of European government securities and other securities positions had a positive impact.

Net income of the Core Bank includes consolidation effects

The compensation effect under the second loss guarantee including the effect of the capital protection clause had a positive impact on the consolidation items of the Core Bank. On the other hand, measurement effects in the trading and hedge line items had an adverse impact. The net income of the consolidation items amounted in total to € 89 million (January to September 2013: € – 173 million).

Net income before restructuring of the Core Bank, including consolidation effects, amounted to € 268 million (January to September 2013: € 243 million). After deducting restructuring expenses and expenses for government guarantees net income before taxes of € 138 million was generated (January to September 2013: € 146 million).

This gives a return on equity of 9% for the Core Bank (January to September 2013: 9%). The cost-income ratio of the Core Bank amounted to 56% (January to September 2013: 49%).

Net income of the Restructuring Unit

The reduction of the high-risk legacy portfolios was continued in the Restructuring Unit. Following the significant portfolio reduction of € 13 billion in 2013, segment assets of the Restructuring Unit were reduced in the first nine months of 2014 by a further € 4 billion to € 33 billion (excluding consolidation items of € 3 billion). The largest reductions in the year to date were achieved in the shipping and international real estate loan portfolios.

Total income for the segment decreased to € 318 million compared to € 524 million in the same period of the previous year as a result of the ongoing winding down of interest-bearing positions and the placing of loans on a non-accrual basis as a result of the recognition of loan loss provisions. However, reversals of impairment losses and sales of securities held in the CIP as well as the disposal of an equity holding (DMS Semiconductor) had a positive impact. Net commission income benefited from successful restructuring measures. Additions to loan loss provisions decreased to € – 202 million (same period of the previous year: € – 541 million).

The successful restructuring of individual commitments had a positive impact and resulted in the reversal of loan loss provisions. After taking the reduction in administrative expenses and an increase in other operating income into account segment net income for the Restructuring Unit improved to € – 6 million (same period of the previous year: € – 222 million).

Net income before restructuring for the Restructuring Unit, including consolidation effects, increased significantly to € 580 million (January to September 2013: € – 41 million), in particular as a result of the positive impact of the capital protection clause 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 for the Restructuring Unit amounted to € 322 million (January to September 2013: € – 241 million).

OUTLOOK

The following section should be read in conjunction with the other chapters in this Financial Information and the Group Management Report 2013 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, many of which are beyond our control. Therefore actual events may differ considerably from the following forward-looking statements below. There is still significant uncertainty particularly in relation to the estimate of loan loss provisions over the long-term.

Completion of the Comprehensive Assessment before the start of the European Banking Supervision

The ECB's Comprehensive Assessment together with the Asset Quality Review and stress test, which took about a year, was concluded on 26 October 2014, shortly before the start of the European Banking Supervision on 4 November 2014. With the publication of the results of the 130 banks involved, the objective of this comprehensive assessment of banks to increase the transparency of the balance sheet quality and the resilience of the banks and to identify any need for action was achieved.

The capital shortfalls identified at about a fifth of the European institutions are to be covered within a few months in accordance with the ECB guidelines – if they have not already been covered in the meantime. Based on the results German banks are solidly capitalised and are also able to withstand severe stress conditions. With their strong capital adequacy German institutions possess the key prerequisites needed to exist in an increasingly difficult banking market. Nevertheless, they are still required in view of the growing competitive pressure and more strict regulation to continually adjust their business models to the changing underlying conditions and improve efficiency.

Focus on new business, risk reduction and cost reduction

The solid business and earnings trend during the year to date and HSH Nordbank's pleasing performance in the ECB's Comprehensive Assessment form a good basis for the further implementation of the strategy over the coming months.

Focus will be placed on exploiting the growth and earnings potential in new business and on the ongoing winding down of the portfolio in order to reduce risk positions. Furthermore, the initiated cost

reduction programme and the Group restructuring will be rigorously continued with additional measures in order to develop the Bank further in a targeted manner in a challenging environment.

In view of the well-filled transaction pipeline we expect to be also able to sustain the growth in new business recorded for the Core Bank's client business in the year to date in the last quarter of 2014 and to achieve the Bank's volume and margin targets for 2014. All client divisions are making a significant contribution to the good performance, whereby Real Estate Clients will also generate the largest growth in volume for the year as a whole. The classical corporates business is picking up following a subdued start to the year, but should remain slightly below the targets set for the year due to market conditions.

As a result of the overall significant increase in new business disbursements the earnings base of the Core Bank will be strengthened on a sustained basis. At the Overall Bank level, this will counteract the elimination of income, in particular interest income, resulting from the accelerated winding down of risk positions and increase in impaired shipping loans in the Group. We expect the pressure on the income of banks, and therefore also HSH Nordbank, to persist beyond the 2014 financial year given the fiercer competition and low interest rate environment.

Administrative expenses will be further reduced this year. The 2011 headcount reduction plan that comes to an end in 2014 and the savings made under the cost reduction programme initiated at the end of 2013 will contribute to this decrease. Adjusted for the higher than planned costs (which are largely beyond our control) for the Comprehensive Assessment and consolidation of additional companies under IFRS 10, we expect to be able to disclose lower than planned administrative expenses as at the 2014 year end.

In November 2014 the Bank revised its medium-term cost objectives and initiated the development of a programme of measures to achieve these objectives in order to make it more sustainable in an environment that is not only challenging for the Bank but also for its competitors and to counter the increasing cost and earnings pressure.

The key benchmark used for this is a cost-income ratio (CIR) of 50%. We are aiming on this basis to further substantially reduce administrative expenses to € 500 million per year by 2018. The Bank will develop a package of measures on the basis of the agreed objectives to increase the efficiency and reduce operating and personnel expenses, which will be gradually implemented over the next few years.

Loan loss provisions are still largely shaped by the crisis in the shipping industry. The associated risks will also be taken into account in the 2014 annual financial statements. Loan loss provision expense will be recorded both in the Restructuring Unit and in the legacy portfolios of the Shipping restructuring division of the Core Bank.

The loan loss provisions to be recognised primarily for troubled assets will continue to be largely compensated under the guarantee. In particular, the reversal through income of additional premiums previously recognised as expense as the result of the temporary waiver of the receivable by the federal states will also have a positive impact in the fourth quarter. This is carried out in accordance with the terms and conditions of the guarantee in order to ensure a CET1 capital ratio of at least 10% plus the buffer of the additional premium in the context of the initial application of the more stringent regulatory requirements for the calculation of the capital ratios in 2014. The relief provided by the guarantee effect continues to be partly offset by high premium expenses for the guarantee.

In line with the currently valid planning for the guaranteed portfolio, as at the reporting date we are still assuming in our long-term loan loss provision planning that payment defaults will exceed the first loss piece from 2019 and add up to a total of € 1.6 billion by 2025. The current weakness of the euro against the US dollar has a currency exchange effect on the amount of the expected payment defaults, as the existing loan loss provisions for the guaranteed portfolio are partially held in US dollars.

The results of the ECB's Comprehensive Assessment showed that the Bank has a solid capital position and that the guarantee is achieving the intended compensation effect. We continue to expect a stable trend in the capital ratios. We remain confident that we will be able to disclose at the year-end a regulatory CET1 ratio of at least 10% plus a buffer under the guarantee – both under the applicable Basel III transition rules (phase-in) as well as under the assumption of the full implementation of the Basel III rules (full-loaded). RWA are also influenced by the movement in the US dollar in addition to the increase in new business. This is offset by the further downsizing of the portfolio.

Business developments and the winding down of the portfolios in the first nine months of 2014 show that HSH Nordbank is driving forward its realignment and restructuring on an ongoing basis and on plan. Nevertheless, the persistent difficult market environment in the shipping industry, increasing regulatory requirements and the competitive situation in the German banking market clearly show that further efforts are required to align the Bank on a sustainable profitable basis. Further structural adjustments may be required under the ongoing EU state aid proceedings.

Overall, the relief provided by the guarantee, income from new business as well as lower administrative expenses will have a positive impact on the 2014 consolidated financial statements. Additional expense will result from the recognition of extraordinary restructuring provisions in connection with the cost-cutting measures initiated in the fourth quarter of 2014. These cost-cutting measures will be determined in more detail by the end of the year 2014 based on the targets defined.

Mid-November 2014 the ECB publicly announced that it expects banks to apply more conservative accounting based on the AQR standards as part of the common supervisory mechanism. HSH Nordbank will only apply to its annual financial statements those adjustments that are in accordance with the IFRS accounting rules. Under this condition the Bank is still assuming that it will be able to disclose a positive result in the 2014 consolidated financial statements.

Conclusion of the EU proceedings in view

A final decision regarding the replenishment of the guarantee facility that was provisionally approved in the middle of 2013 is likely to be made at the earliest at the beginning of 2015 within a timeframe to be defined by the EU Commission. Following the conclusion of the ECB's Comprehensive Assessment discussions with the EU Commission will be pursued intensively. In view of the noticeable progress made in implementing the business model we are confident that these proceedings can be concluded with a positive outcome for the Bank.

The Bank is still facing significant challenges, particularly with regard to the continuing shipping crisis, the definitive approval of the replenishment of the guarantee facility within the EU state aid proceedings which is still pending, changing assessments of the rating agencies as well as structural challenges in the areas of capital and funding.

Significant opportunities are primarily linked to the definitive approval of the replenishment of the guarantee facility in the EU state aid proceedings. This would be a major support for the forward-looking future development of HSH Nordbank's business model. In addition, the basis for the sustained successful development of HSH Nordbank has been improved further by the success of the Core Bank business, the continued winding down of troubled assets in the Restructuring Unit and the necessary cost-cutting measures. Furthermore, the satisfactory performance of the Bank in the ECB's Comprehensive Assessment improved the confidence in the Bank.

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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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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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